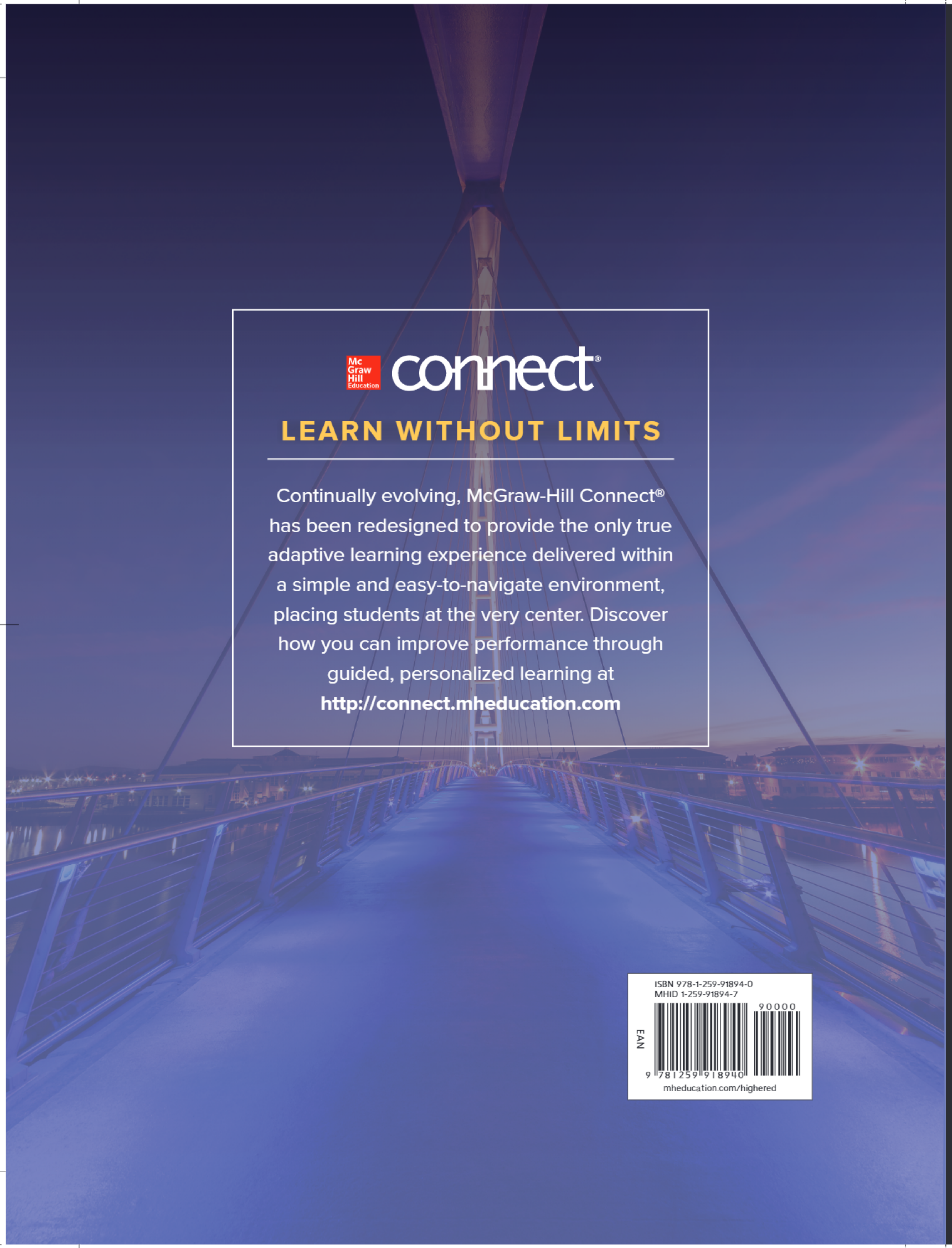

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To Stephen A. Ross and family

Our great friend, colleague, and coauthor Steve Ross passed away on March 3, 2017, while we were working on this edition of *Corporate Finance*. Steve's influence on our textbook is seminal, deep, and enduring, and we will miss him greatly. On the foundation of Steve's lasting and invaluable contributions, we pledge to continue our efforts to provide the best possible textbook for today—and tomorrow.

R.W.W. J.F.J B.D.J.

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Preface

The teaching and the practice of corporate finance are more challenging and exciting than ever before. The last decade has seen fundamental changes in financial markets and financial instruments. In the early years of the 21st century, we still see announcements in the financial press about takeovers, junk bonds, financial restructuring, initial public offerings, bankruptcies, and derivatives. In addition, there are the new recognitions of "real" options, private equity and venture capital, subprime mortgages, bailouts, and credit spreads. As we have learned in the recent global credit crisis and stock market collapse, the world's financial markets are more integrated than ever before. Both the theory and practice of corporate finance have been moving ahead with uncommon speed, and our teaching must keep pace.

These developments have placed new burdens on the teaching of corporate finance. On one hand, the changing world of finance makes it more difficult to keep materials up to date. On the other hand, the teacher must distinguish the permanent from the temporary and avoid the temptation to follow fads. Our solution to this problem is to emphasize the modern fundamentals of the theory of finance and make the theory come to life with contemporary examples. Increasingly, many of these examples are outside the United States.

All too often, the beginning student views corporate finance as a collection of unrelated topics that are unified largely because they are bound together between the covers of one book. We want our book to embody and reflect the main principle of finance: Namely, good financial decisions will add value to the firm and to shareholders and bad financial decisions will destroy value. The key to understanding how value is added or destroyed is cash flows. To add value, firms must generate more cash than they use. We hope this simple principle is manifest in all parts of this book.

The Intended Audience of This Book

This book has been written for the introductory courses in corporate finance at the MBA level and for the intermediate courses in many undergraduate programs. Some instructors will find our text appropriate for the introductory course at the undergraduate level as well.

We assume that most students either will have taken, or will be concurrently enrolled in, courses in accounting, statistics, and economics. This exposure will help students understand some of the more difficult material. However, the book is self-contained, and a prior knowledge of these areas is not essential. The only mathematics prerequisite is basic algebra.

New to 12th Edition

THE TAX CUTS AND JOBS ACT (TCJA) IS INCORPORATED THROUGHOUT

There are six primary areas of change and they will be reflected in the 12th edition:

1. Corporate tax. The new, flat-rate 21 percent corporate rate is discussed and compared to the old progressive system. The new rate is used throughout the text in examples and problems. Entities other than C corporations still face progressive taxation, so the discussion of marginal versus average tax rates remains relevant and is retained.

2. Bonus depreciation. For a limited time, businesses can take a 100 percent depreciation charge the first year for most non-real estate, MACRS-qualified investments. This "bonus depreciation" ends in a few years and MACRS returns, so the MACRS material remains relevant and is retained. The impact of bonus depreciation is illustrated in various problems.
3. Limitations on interest deductions. The amount of interest that may be deducted for tax purposes is limited. Interest that cannot be deducted can be carried forward to future tax years (but not carried back; see next).
4. Carrybacks. Net operating loss (NOL) carrybacks have been eliminated and NOL carryforward deductions are limited in any one tax year.
5. Dividends-received tax break. The tax break on dividends received by a corporation has been reduced, meaning that the portion subject to taxation has increased.
6. Repatriation. The distinction between U.S. and non-U.S. profits essentially has been eliminated. All "overseas" assets, both liquid and illiquid, are subject to a one-time "deemed" tax.

With the 12th edition, we've also included coverage of

- Inversions.
- Negative interest rates.
- NYSE market operations.
- Direct listings and cryptocurrency initial coin offerings (ICOs).
- Regulation CF.
- Brexit.
- Repatriation.
- Changes in lease accounting.

In addition, each chapter has been updated and, where relevant, "internationalized." We try to capture the excitement of corporate finance with current examples, chapter vignettes, and openers. Spreadsheet applications are spread throughout.