

University of Southern California

Marshall School of Business

FBE 532

Corporate Financial Strategy

Fall, 2013

Note: this is the syllabus for Fall, 2013. The syllabus for Fall, 2014 will be similar.

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MW 5:00 – 6:20
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Office Hour: TBD

*For the ones who had a notion
A notion deep inside
That it ain't no sin
To be glad you're alive*

*Bruce Springsteen
Badlands*

TEXTS

[Required] Case and Readings Packet at HBSP website
<https://cb.hbsp.harvard.edu/cbmp/access/20228477>

Your textbook from your first-year corporate finance course. I assume you have all been through this, or a similar textbook before. Readings in this text are for background and to refresh your memory.

COURSE OBJECTIVES

This course will use cases to examine how the concepts and methods that you learned core can be applied to “real world” situations. We examine the linkages between the financing issues and the strategic objectives of the firm. It will be important to see what these linkages are and how the financial decisions reached must be consistent with the firm’s objectives.

By the end of the course, you should have become somewhat comfortable with taking raw financial data from the firm and applying different valuation approaches as a guide in decision-making. You should also have a deeper appreciation for the role of financial decisions in furthering corporate objectives and for the relations between the finance side of the firm and the operating side of the firm.

COURSE PROCEDURES:

In this class it is crucial that you spend time **PRIOR** to class going over the day's case. To the extent possible, I will not be lecturing. Thus, the only way the class works if the students have prepared the case. There are two mechanisms for ensuring this.

First, for each case I present a number of "study questions." I will highlight one or more of them in the syllabus [**in bold**]. I expect you to hand in your response to these highlighted questions each class session. For cases that go over more than a single day, I have indicated which questions are due on which day.

No written assignments are due until after the add/drop date, which is October 13, 2013. For class sessions after that date, I will proceed in the following manner: (1) I will simply check that you handed in an answer to the case (2) using a random device I will determine which assignments I will grade. Determining which assignment is graded is done on a case basis, not a student basis. Thus, I either grade all submissions for a given case, or none. The probability that an assignment will be graded is .3. For those assignments that are graded, grading will be on a 0,1,2 basis. These write-ups (graded and simply checked in) will count for 10% of the final grade.

The write-up should be written as a business memo directed to the decision maker in the case. Text is limited to at most two double spaced pages in a 12 point or larger font (this text is in 12 point type), with at most four pages of exhibits, graphs and figures. These must be easily readable and the entire document is to be on 8.5" x 11 inch paper with no cover page and margins of 1" at the top and bottom of the page and 1.25" at the left and right of the page. Penalties will be imposed for any violation of these rules (i.e., length, size of font, etc.)

Second, class participation will count for 25% of the final grade. In order to be sure that I know everyone in the class, I require (1) that you keep the same seat the entire semester [when enrollment stabilizes I will pass out a seating chart] and (2) that you have your name card in front of you at each class. I cold-call on a regular basis. Your attendance and participation are essential ingredients to a successful class. I expect you to inform me by email, prior to class, if you are going to miss class for any reason. **Note that I will cold-call and even if you were not required to hand in a write-up, you are still responsible for being able to discuss the case in a meaningful manner.**

Cell phones and laptops are to be turned OFF during class.

The nature of the course

This is a case course. As you know, cases provide a rather unstructured and open-ended experience and you will have fairly little guidance, and rather larger uncertainty, about

what the instructor wants and what the “right” answer is. This is intended, as this is the way the real world is.

This kind of teaching is often uncomfortable for students, as it requires you to learn by dealing with the inherent uncertainty of decision making with limited information. These are not simple textbook word problems. You will be tempted to look to the instructor in such a course for more guidance. However, it is inappropriate for me, or any other instructor in this kind of course, to give much detailed guidance. This would defeat the purpose and limit the learning that goes on. For this reason I will not discuss individual cases with any student prior to the class in which that case is discussed. As in the world outside the classroom, there is no single “right” analysis of a case. There are some approaches that are more “right” than others, and some that are clearly wrong in that they make unreasonable assumptions or proceed in an unreasonable manner. At some point in the discussion I will probably present my ideas of how one might analyze the situation, but mine is not the only valid approach and other reasonable approaches may be equally “right.”

It is generally the case that students will ask for copies of my case notes and spreadsheets after we have discussed a given case in class. My policy, and that of ALL FBE instructors, is not to distribute these notes and spreadsheets. First, as stated earlier, given the inherent ambiguity of a case, there is no single “right” answer. There are, of course good and bad arguments and approaches. This course will help you distinguish between them. Handing out my solutions would reduce the ambiguity and defeat the purpose of the course. Moreover, it would render that case unusable in the future.

Because of the nature of this course (and the grading criteria), it is extremely important that you attend every class, arrive on time and be prepared to participate. To help me out, you should bring a name card and place it on the desk in front of you. I may not remember who said what without those cards. After the enrollment in the course has stabilized, I will pass around a seating chart. At that point, I ask that you remain in that seat for the entire term. This will help ensure that class participation is accurately recorded and rewarded. Note that good class participation does not mean simply speaking; it means participating and moving the discussion along in a productive manner.

FINAL EXAM:

There will be an in class final exam. It will be given during the examination period stated in the Official Class Schedule for this class, which is **Wednesday, December 11, 2013 from 4:30 to 6:30.**

GRADING

Grading will be based on: the case question write-ups (10%), class participation (25%) and the final exam (65%)

In evaluating class participation I will be considering the contributions that you have made to advancing the discussion of the topic at hand. Mere opening your mouth is not good

class participation. I am looking for comments that are thoughtful and lead the discussion forward, not astray.

Again, note that I will cold-call. Thus, I expect everyone in the class to be able to discuss each case.

ELECTRONIC RESOURCES

I will maintain a website for this course on Blackboard. The website will contain an electronic version of this course syllabus, with hypertext links to 1) Excel spreadsheets for each case, 2) every handout as a PDF file, 3) any lecture notes this I write up as PowerPoint presentations. Each spreadsheet contains most of the exhibits in the case. This will make it easier for you to spend time on the analysis rather than punching in numbers. I will also monitor discussion threads on Blackboard. I would like you to post any questions that you have to the discussion board. I will leave them open for a bit so that other students may respond, then I will reply. This way all questions are available to all students. I will consider posting and replying to questions as an element of class participation in determining your grade. Of course, if you have a private question please contact me directly by e-mail, or at my office.

ACADEMIC DISHONESTY

The use of unauthorized materials, communications with fellow students during an examination, attempting to benefit from the work of another student, and similar behavior that defeats the intent of an examination, or other class work is unacceptable to the University. It is often difficult to distinguish between a culpable act and inadvertent behavior resulting from the nervous tensions accompanying examinations. Where a clear violation has occurred, however, the instructor may disqualify the students work as unacceptable and assign a failing grade.

Class Notes Policy

Notes or recordings made by students based on a university class or lecture may only be made for purposes of individual or group study, or for other non-commercial purposes that reasonably arise from the student's membership in the class or attendance at the university. This restriction also applies to any information distributed, disseminated or in any way displayed for use in relationship to the class, whether obtained in class, via email or otherwise on the Internet, or via any other medium. Actions in violation of this policy constitute a violation of the Student Conduct Code, and may subject an individual or entity to university discipline and/or legal proceedings

Policy on electronics in the classroom

Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated by the respective professor and/or staff. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during academic or professional sessions. ANY e-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, I-pods) must be completely turned off during class time. Upon request, you must comply and put your device on the table in off mode and FACE DOWN. You might also be asked to deposit your devices in a designated area in the classroom. Videotaping or audiotaping of a class session is not permitted except by my arrangement. Use of any recorded or distributed material is reserved exclusively for the USC students registered in this class.

Class 1: 8/26/2013

Course Introduction

SECTION 1: CAPITAL STRUCTURE

Readings: Capital Structure Theory: A Current Perspective
Review the Capital Structure chapters in your Corp Fin text

Class 2: 8/28/2013

Advantages of Debt: Tax Shields

Case: California Pizza Kitchen

Reading: Is a Share Buyback Right for Your Company
“Leverage, Betas, and Taxes” (on Blackboard)

Study Questions:

1. In what ways can Susan Collyns facilitate the success of CPK?
2. Using the scenarios in case Exhibit 9, what role does leverage play in affecting the return on equity (ROE) for CPK? What about the cost of capital? In assessing the effect of leverage on the cost of capital, you should first assume that the dollar amount of debt in each scenario is fixed.
3. How would your answers to question 2 change if you assume that after the initial share repurchase, CPK will adjust the amount that it borrows to maintain a constant Leverage ratio?
4. Based on the analysis in case Exhibit 9, what is the anticipated CPK share price under each scenario? How many shares will CPK be likely to repurchase under each scenario? What role does the tax deductibility of interest play in encouraging debt financing at CPK? For this question you may assume a constant dollar amount of debt.
5. What capital structure policy would you recommend for CPK?

NOTE: CLASS WILL NOT MEET ON 9/4/2013

Your assignment for 9/4 is to reflect upon your behavior toward your fellow man during the past year, and consider how your behavior can improve during the next year.

Class 3: 9/9/2013

Disadvantages of Debt: Debt Overhang

Case: The Loewen Group, Inc. (Abridged)

Study Questions:

1. How was the Loewen Group able to grow explosively in the first half of the 1990s? What were the advantages of debt financing enjoyed the fire firm in this phase?
2. How did Loewen get to the position in which it found itself in 1999?
3. Some might describe Loewen as “financially distressed.” Is this a fair description of its problem? What are the manifestations and apparent costs of this so-called financial distress?
- 4. What are Loewen’s alternatives? What would you recommend to John Lacey?**

Class 4: 9/11/2013

Capital Structure and Business Strategy

Case: Sealed Air Leveraged Recapitalization (A)

Reading Jensen “Free Cash Flow” (on Blackboard)

Study Questions

- 1. What if free cash flow? How can it create organizational problems?**

2. In their introductory textbook, Brealy and Myers define *financial slack* as having funds “so that financing is quickly available when good investment opportunities arise.” What is the difference between free cash flow and financial slack?
3. What are the organizational advantages and disadvantages of leverage?

SECTION 2: DCF VALUATION METHODS

Class 5: 9/16/2013

Introduction

Readings: Note on Cash Flow Valuation Methods
Valuation Methods and Discount Rate Issues

Class 6: 9/18/2013

WACC-Based DCF and Market Multiples

Case: Mercury Athletic: Valuing the Opportunity

Study Questions:

1. Is Mercury and appropriate target for AGI? Why or why not?
2. Review the projections formulated by Liedtke. Are they appropriate? How would you recommend modifying them?
3. **Estimate the value of Mercury using a discounted cash flow approach and Liedtke’s base case projections. [Assume a market risk premium of 5%]**
4. Do you regard the value you obtained as conservative or aggressive? Why?
5. How would you analyze possible synergies or other sources of value not reflected in Liedtke’s base case assumptions?

Class 7: 9/23/2013

Class 8: 9/25/2013

Adjusted Present Value

Case: Valuation of Airthread Connections

Reading Using APV: A Better Tool for Valuing Operations

Study Questions:

- 1. (for 9/23/2013) Please describe the methodological approach that should be used to value AirThread (should Ms. Zhang use WACC, APV, CCF, or some combination thereof). How should the cash flows be valued for 2008 – 2012? How should the terminal or going concern value be estimated? How should the nonoperating investments in equity affiliates be accounted for in the valuation? [Hint: it may be possible to use more than one technique simultaneously.]**
2. What discount rate should Ms. Zhang use for the un-levered FCF for 2008 through 2012? Is this the same discount rate that should be used to value the terminal value? Why or why not?
3. Develop an estimate of the long-term growth rate that should be used to estimate AirThread's terminal value. Using your estimate of long-term growth, what is the present value of AirThread's going concern value?
- 4. (for 9/25/2013) What is the total value of AirThread before considering any synergies? What is the value of AirThread, assuming Ms. Zhang's estimates for synergies are accurate? Should the value of the tax shields reflect that personal tax disadvantage of interest income to ordinary debt holders? If so, what is the personal income tax disadvantage of debt?**

Class 9: 9/30/2013

Capital Cash Flow

Case: Berkshire Partners

Reading Note on Capital Cash Flow Valuation
Gompers & Lerner, “Money Chasing Deals” (opt, Blackboard)

Study Questions:

1. How does Berkshire Partners create value?
2. Does Carters fit with the Berkshire investment philosophy? Why is Investcorp selling?
3. How much cash flow will Carters generate in the next five years (2002 – 2006) based on management estimates?
4. How realistic are the management forecasts in light of Carters’ historical performance?
- 5. What should the Berkshire team bid?**

SECTION 3: M & A

Class 10: 10/2/2013

Introduction

Reading Company Sale Process
Note on Valuing a Business Acquisition Opportunity

Class 11: 10/7/2013

Growth and Value Creation

Case: Stanley Black & Decker, Inc.

Readings: Evaluating M&A Deals—Equity Consideration
Evaluating M&A Deals—Introduction to the Deal NPV
Evaluating M&A Deals—Accretion vs. Dilution of EPS

Study Questions

1. **What is the incremental value to shareholders of the cost savings (synergies) projected in this merger? How will the value of the synergies be shared in the proposed transaction?**
2. After failing to complete a merger following the three prior attempts noted in the case, why should the proposed transaction be successful this time?
3. How much of the incremental value created in this transaction will go to the CEO's of the two firms involved?
4. How do you think the leadership team at Black& Decker (other than the CEO) will view this transaction? How about the governor of Maryland (Black & Decker's headquarters state)?
5. What issues of corporate governance and social policy are raised by the Stanley Black & Decker merger?
6. If you were a shareholder of Stanley would you vote in favor of this transaction? Would you vote in favor of the compensation arrangements? Would you vote to re-elect the directors at the next annual meeting?

Class 12: 10/9/2013

Hostile Takeovers and Defensive Tactics

Case: Roche's Acquisition of Genentech

Readings: M&A Legal Context: Basic Framework for Corporate Governance
M&A Legal Context: Hostile Takeovers

Study Questions

In preparing this case, you can assume that Genentech has 1,052 million shares outstanding

1. Why is Roche seeking to acquire the 44% of Genentech it does not own? From Roche's point of view, what are the advantages of owning 100% of Genentech? What are the risks?
2. As a majority shareholder in Genentech, what responsibilities does Roche have to the minority shareholders?

3. As of June, 2008, what is the value of the synergies Roche anticipates from a merger with Genentech? Assess the value of synergies per share of Genentech. Please use a 9% weighted average cost of capital in your analysis.
4. **Based on DCF valuation techniques, what range of values is reasonable for Genentech as a stand-alone company in June 2008? Please exclude synergies from your valuation and use a 9% weighted average cost of capital. You can assume that as of the end of June 2008, Genentech held approximately \$7 Billion in cash, which included investments and securities that were not needed in its daily operations. (Note: Exhibit 10 is a good starting point for this analysis).**
5. What does the analysis of comparable companies (Exhibits 12, 13 and 14) indicate about Genentech's value within the range established in question 4 above?
6. How has the financial crisis affected Genentech's value? What changes in valuation assumptions occurred between June 2008 and January 2009?
7. How did Genentech's board and management respond to Roche's offer of \$89 per share?
8. What should Franz Humer do? Specifically, should he launch a tender offer to Genentech's shares? What are the risks of this move? What price should he offer? Should he be prepared to go higher? How much new financing will Roche need to complete the tender offer?

Class 13: 10/14/2013

Bidding Strategies

Case: MCI Takeover Battle: Verizon Versus Qwest

Readings: M&A Legal Context: Standards Related to the Sale or Purchase of a Company

Study Questions

1. What are the strengths and weaknesses of Verizon, MCI and Qwest? Where are the synergies in the proposed combinations?
2. **Evaluate the two offers in Exhibit 5. What explains the two structures? In each case, what is the value to MCI shareholders?**
3. Merger arbitrage (or risk arbitrage) funds speculate on the completion of stock and cash mergers, typically buying the target and hedging the risk of the acquirer's shares according to the exchange ratio in stock mergers. What positions would risk arbs take in this deal? How would their positions change if the board appeared to favor the Qwest offer?

4. Consider the WorldCom-MCI merger and the Qwest US West merger? Trying to avoid hindsight bias, should the boards of MCI and US West have accepted these offers? What is the obligation to shareholders? Was that obligation fulfilled? What about WorldCom and Qwest? Did their shareholders benefit?
5. Which offer should MCI accept?
6. What approach should Verizon take to win the takeover contest? Qwest?

SECTION 4: EQUITY CLAIMS INCLUDING GOING PUBLIC

Class 14: 10/16/2013

Introduction: lecture on ownership structures and going public

Readings: Nanda & Pruisner: Ownership Structure in Professional Service Firms:
Partnership vs. Public Corporation
Paine & Hayes: Dual Class Share Companies
Lerner: Note on the Initial Public Offering Process
Short readings on Blackboard

Class 15 10/21/2013

What kind of business should be public?

Case: Slater & Gordon

Study Questions

1. Analyze S&G's —No Win—No Fee business model. How much is a successful personal injury lawsuit worth? (Hint: Use the financial model included as part of the courseware).
1. Does S&G's consolidation strategy create value? Will it continue to create value as it grows?
2. How much is S&G worth as a company? (Hint: Use the financial model included as part of the courseware and assume the appropriate discount rate—the weighted average cost of capital—is 11%).
3. Should Rosen invest in the S&G IPO? If so, how much should she invest?

4. Should law firms be publicly-owned? Should other kinds of service companies such as accounting firms, credit ratings agencies, investment banks, or hospitals be publicly-owned?
5. **How much leverage should a law firm have? Is S&G moving towards or away from its optimal capital structure? Is it moving towards an optimal ownership structure?**

Class 16: 10/23/2013

When should we go public, and where?

Case: L'Occitane de Provence

Study Questions

1. **Should L'Occitane do an initial public offering (IPO)? What are the benefits and to the firm of doing so? Costs and disadvantages?**
2. What is the value of L'Occitane en Provence's equity? Use DCF and multiples to assign a price to L'Occitane's shares.
3. In case of an IPO, which stock market would you recommend? Why? What considerations should determine the location choice?

Class 17: 10/28/2013

Equity Restructuring I: an LBO

Case: Hertz Corporation (A)

Readings: Note on Valuing Equity Cash Flows

Study Questions

1. How much value to you expect to be created by the operating improvements and capital structure change envisioned by CD&R?
2. **How would you explain the proposed transaction structure developed by CD&R and its partners? Specifically, how does it help or hinder the realization of anticipated sources of value in the deal?**
3. Compare your anticipated sources of value to the illustrative projections contained in the file on Blackboard that will be made available 9:00 PM on 10/28/2013. Use these projections, or your own, to value the sponsor's equity in the proposed Hertz buyout.
4. How much should CCM bid on September 5?

Class 18: 10/30/2013

Equity Restructuring II: Dual Class and Pyramid Ownership

Case: Magna International (A)

Study Questions

1. In general, what advantages and disadvantages do you attribute to a dual-class ownership structure? When and for what types of firms is such a structure most appropriate? Least appropriate?
2. From the perspective of a Magna Class A shareholder, what are the primary costs and benefits of Magna's dual-class ownership structure in 2010?
3. **How much value do you believe would be created if Magna successfully unwinds its dual-class structure? How would you propose to divide this value between Magna's Class A and B shareholders?**
4. Specifically, what initial proposal should the Magna board make to Mr. Stronach? As a Class A shareholder, what do you believe is the maximum consideration that should be offered per Class B share? What is the minimum value you expect Mr. Stronach to consider.

Class 19: 11/4/2013
Class 20: 11/6/2013

Equity Restructuring III: Spinoffs and Targeted Stock

Case: Kerr-McGee

Reading: Leveraging the Incumbent's Advantage

Study Questions (for 11/4/2013)

1. At \$57.79 per share at year-end 2004, and based on an analysis of the multiples of comparable firms, does Kerr-McGee's stock price appear to have been undervalued?
2. **What are Icahn and Rosenstein thinking? How will their proposal work? Does it make sense?**
3. Why is Corbett opposed to restructuring the firm? How should he respond?

Study Question (for 11/6/2013)

1. Calculate the net present value of Kerr-McGee's oil and gas business if the firm were to immediately cease all exploration.

SECTION 5: USING OPTIONS IN CORPORATE STRUCTURE AND SECURITY DESIGN

Class 21: 11/11/2013

Review of Put-Call Parity and Option Theoretic View of Securities

Readings: Note on Basic Option Properties
Options and Put-Call Parity

Class 22: 11/13/2013

Class 23: 11/18/2013

Using Options in Corporate Structure: What is a Debt? What is Equity?

Case: ALZA end Bio-Electro Systems A (11/13/2013)

Study Questions

1. How does the competitive environment and ALZA's strategy affect its need and ability to finance the new drug delivery technologies?
2. **Carefully read the proposal to create BES and to finance it by the issuance of the callable common plus warrant package. Try to break apart the units into simpler pieces that we can understand. How does the unit work? Does it solve Gerstel's problems? Will it appeal to investors? Why or why not?**
3. How much is a unit worth? Is \$11 a fair price?

Cases: ALZA end Bio-Electro Systems B-1 and C (11/18/2013)

Study Questions

1. Why is Gerstel offering the units at \$11?
2. As an ALZA shareholder, what can you do with your rights to subscribe to the BES (Bio-Electro Systems) units? As an ALZA shareholder, how can you obtain additional units beyond those to which your common shares enable you to purchase for \$11? Assuming that you want to own the units, does your guess about the likely success or failure of the offering affect how you will attempt to obtain additional units?
3. Critique Gerstel's strategy to offer the security as described in the (B-1) case. Does his offering strategy make sense? What are its pros and cons? What would you have done differently? Why?
4. **In the (C) case, we see the subsequent performance of ALZA, the BES units, and the plies of the units that traded after the instrument separated into callable common and warrants. How should the callable common shares have been valued by the market in early 1991? On August 14, 1991? On November 12, 1991? On January 10, 1992? How were they valued by the market?**

Class 24: 11/20/2013

Class 25: 11/25/2013

Understanding a Complex Security. Demand Considerations in Securities Issue

Case: Corning Convertible Preferred Stock

Study Questions (11/20/2013)

1. Describe Corning's Business. How has the firm performed? What accounts for the changes in the value of Corning stock in Exhibit 2? Trying to avoid hindsight bias—and this is very hard to do—could one have forecasted Corning's troubles before 2001?
2. Evaluate Corning's financing strategy. How has the firm raised capital in the past?
3. **Why does Corning need to raise capital? Why might it be difficult or undesirable to raise equity, given its financial leverage and credit rating? Working through the exercise below will help you understand the “debt overhang” problem. Why might it be difficult or undesirable to raise equity even if its financial leverage were lower?**

Debt and Incentives Exercise: Suppose that the face value of Corning debt is \$4 billion and that the value of its assets will either be \$10 billion (to creditors and shareowners) or \$3 billion (to creditors in bankruptcy), with equal probability. Compute the market value of debt and the market value of equity per share, ignoring discounting. What happens to the market value of equity per share if Corning raises \$400 million and invests in projects that deliver \$500 in value for sure i.e., regardless of the value of Corning's assets?

4. Why is JP Morgan proposing this particular security? Who are the likely buyers?

Study Questions (11/25/2013)

1. **Draw a payoff diagram for the convertible security in Exhibit 10. Value the security as the sum of its parts. Would you buy the Corning preferred shares at par? If your answer is “yes” what other investments, if any, would you make concurrently?**
2. What are the risks of this offering for Corning?
3. What should Flaws do?

Class 26: 12/2/2013
Class 27: 12/4/2013

Empty Voting and Corporate Takeovers

Case: AXA MONY

Study Questions (12/2/2013)

1. Why is AXA bidding for MONY? Does the deal make sense: (a) for AXA; (b) for MONY shareholders; (c) for management? AS a MONY shareholder, what concerns would you have about the deal?
2. How did AXA finance the takeover bid? Explain the structure that they used. Why did they use this structure? What effects, if any, do you think this method of financing has on the likelihood of the deal succeeding?
3. **How would you price the ORAN at issue? Is it fairly priced? What does the price of the ORAN on February 9, 2003, imply about the probability of the deal succeeding? What is the fair price for MONY stock?**
4. Suppose that you hold a position in the ORAN on February 9. Would you want to buy or sell MONY stock (a) at the “fair” price calculated in question 3 above or (b) at the market price of \$31.55? How do you explain the price of MONY stock on February 9?

Study Question (12/4/2013)

1. **Suppose that you are the manager of a \$2bn hedge fund with a significant stake in MONY and that on February 10 you receive a phone call asking to buy your stock at above the market price if you sign over the voting rights with the shares. What considerations would enter into you decision about whether to sell your MONY stock at \$31.55 on February 9?**