

Kellogg School of Management

Northwestern University

FINC 463 – 61, 62
Spring 2010

Monday, Thursday

10:30 am – 12 noon (G40)

1:30 pm – 3 pm (101)

Linda Vincent

Jacobs 6250

Tel: (847) 491-2659

E-mail: l-vincent@kellogg.northwestern.edu

Office hours: Thursday 3 – 4 pm

By appointment otherwise

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Securities Analysis

I. Course Description and Objectives

The goal of this course is to develop the student's ability to use financial statement information and related disclosures to evaluate the underlying economics of a firm. We study the company's past and current performance, its strategy, and its competitive environment. We collect, analyze, and interpret data from the firm's Forms 10-K, 10-Q, and proxy statements. A firm's financial statements are the best sources of financial information about the firm — financial statements tell a story and our goal is to learn how to understand and interpret that story.

We then develop a financial model of the firm, in the form of *pro forma* financial statements, in order to forecast the firms' future performance. These projections in turn become the inputs to the valuation techniques we study, which include discounted cash flow models, residual income (or abnormal earnings) models, and market multiple (or relative valuation) methods. The course emphasizes the discounted cash flow method of valuation and we use this approach to estimate the intrinsic value of the firm.

This approach to firm valuation is referred to as "bottoms-up" or "fundamental analysis". It is associated with investors such as Benjamin Graham (the father of fundamental analysis), Warren Buffett, and Peter Lynch.

The course is designed for students with little or no formal work experience as securities analysts. The course contains a substantial amount of financial accounting. This is not an accounting course ("debits and credits") *per se* but most of the data used to perform securities analysis are accounting data and it is impossible to prepare projections of a firm's performance, analyze the credit-worthiness of a firm, or prepare a valuation analysis of a firm without using and understanding accounting data. We study the actual financial statements of publicly-traded companies in the assignments that we discuss in class. Because it is not a "case course", I post the solutions to the assignments on the course website. Getting the assignment "correct" is less important than the learning that occurs in preparing the assignment.

In many other MBA programs (including the University of Chicago, Columbia, Cornell, Stanford, the University of Michigan) this course is called "Financial Statement Analysis" and often shortened to its acronym "FSA."

Who should take this course?

The course should be of interest to students who wish to pursue the following careers:

- Equity research: sell side, buy side, hedge funds
- Investment banking
- Private equity and venture capital
- Investment management
- Management consulting
- Credit analysis
- Senior executive (what senior executive is not concerned about the company's share price and investor perceptions?)
- CEO or CFO (Sarbanes Oxley requires that the CEO and CFO certify the periodic financial reports)
- Member, board/s of directors (increased pressure after Sarbanes Oxley for board members to be "financially literate")

Additional course information:

- As with most courses, the amount of benefit derived is proportionate to the amount of effort expended. It is not possible to do securities analysis (at least for most of us) from 30,000 feet. Securities analysis requires digging into the data and analyzing them. This requires hands-on effort and can involve significant detail. One might draw an analogy to learning a foreign language or studying calculus. It is not possible to learn to speak a foreign language by simply reading about it – one must practice it. Likewise, no one has yet determined a way to learn calculus without working through problems and exercises. With securities analysis, we have found no effective substitute for actually doing the work.
- The purpose of this course is NOT to train you in "how they do things on the street." Firms on the "Street" do not all do things the same way. More importantly, merely knowing how they do things on the street will not gain you a competitive advantage. The goal of this course is to encourage you to think about how valuation and analysis should be done in the context of a particular issue or question.
- Performance evaluation is both relative and absolute. The percentage of 'A's varies, on average, from 25% to 40%. The percentage of C's varies, on average, from 5% to 15%. Grades below C, when earned, are given.
- No auditors are permitted.
- Students must attend the section for which they are registered – this is a requirement of Student Affairs whom you should contact with any questions.

II. Course Pre-requisites

The course is structured for students who have the following pre-requisites:

- Accounting 430
- Finance 430 and Finance 441 or Finance 440
- Decision Sciences 434

III. Course Requirements and Grading

A. Class Participation

5%

*Please bring your nameplate to **each** class* and display it clearly. Class participation is encouraged for purposes of asking questions, raising related issues, challenging any “received wisdom,” and offering personal anecdotes that enrich the classroom experience (as well as any other valid contribution to the class). I call on students who do not volunteer in order to expand the degree of participation in the class. The classroom experience is optimized when students are actively engaged and make comments in response to the instructor and to other students with the goal of advancing the class discussion. Class participation will be graded on the basis of contribution and quality, not on quantity.

I have borrowed the following concepts from Professor Furfine’s syllabus:

- ***Excellent** participation means that you have been on time to all classes, have routinely volunteered good comments indicating that you have prepared for the class, and have answered questions when the opportunity arises. You always display your nameplate and your fellow students appreciate your participation.*
- ***Good** participation means that you have mostly been on time to class or missed class infrequently. You have occasionally volunteered comments and have sometimes answered questions posed to the class.*
- ***Poor** participation means either that you have missed noticeable amounts of class time, and/or have had little or nothing to say, or you have made nonconstructive comments. You may also fail to display your nameplate or come in late, leave during the class, and generally disrupt the class.*

B. Written Assignments

20%

There are **5** written assignments due during the quarter. These assignments will serve as the basis for class discussion during a portion of the class session. The assignments vary in length and difficulty and are not all equally weighted. The assignments can be prepared individually or in groups of up to 5 students. Students form their own groups and the groups may include students from the both sections. The homework assignments are important as a learning tool - the magnitude of their importance exceeds the percentage of the total grade assigned to each one. Careful and thoughtful completion of the homework assignments will contribute to your understanding of the class material and to your performance on the examination and the final project. Please note that late assignments will not be accepted.

In addition to the assignments to be handed in, there are additional assignments that serve as the basis for class discussion and for self-study purposes. Working through the exercises is critical to gaining an understanding of the material. Regardless of whether the assignment is collected, I strongly urge you to prepare each one carefully.

Many of the assignments and exercises will be posted on the course website rather than included in the course packet. Financial statements and financial data in Excel spreadsheet format often accompany the assignment and will also be posted to the course website.

Why do I permit individual work or groups? I believe there is value in working in groups, as do most students and faculty. However, I have had many students comment to me on the “free rider” problem in groups. As a result, I leave the choice to you as to whether to do the assignment individually or in large (4-5 students) or small (2-3 students) groups.

C. Midterm Examination (**Thursday, May 13**) **30%**

There will be a **90 minute** midterm exam on Thursday, May 13. Please note that this is week 7 and somewhat later in the quarter than many midterm exams. The exam will be closed book and closed notes (no crib sheets). **No laptops will be permitted for the exam.** All calculations must be performed on a hand-held calculator (or without mechanical calculating device). The best preparation for the exam is to complete all of the assignments and to come to class prepared. There is a copy of a prior exam and solution in the course packet. Please note: the past exam is **not** a “practice exam” but rather an indication of the type of exam I give. I change the material and the order of coverage each quarter. No make-up exams will be given.

D. Attendance Required **Thursday, April 29**

There will be guest speakers on Thursday, April 29, and attendance at the class is required. Attendance will be taken.

E. Final Project (**Due Monday, June 7 – finals week – at 3 pm**) **45%**

The final valuation project will consist of the preparation of a financial analysis and valuation of a publicly traded U.S. company of your choice. I will be happy to discuss your choice of firm with you in advance. The project must be completed individually. The project will be graded on the basis of organization, presentation, grammar, style, effectiveness, and creativity. **Late projects will be penalized.**

The project **must** include the preparation in good form of a complete set of pro forma financial statements for the company and a complete valuation using the adjusted present value (APV) method. The project may not exceed **25 pages** including all exhibits. The project must have one inch margins on all sides and use a legible font size. You **must turn in supporting materials** (such as securities analysts’ reports) in either printed or electronic form and **a CD or DVD or flash drive** with both the narrative and the project exhibits (generally in spreadsheet form) together with the project. In other words, you will turn in two versions of the project – one printed and one on an electronic medium. The supporting documents need only be in one form (electronic or printed).

Please note: The printed version of the project must stand alone. That is, the printed version cannot refer to analysis that must be done electronically using the spreadsheet program. Any analysis that you want considered for a grade must be in the printed document. I use the spreadsheets on the CD as backup if I have questions; they are not substitutes for the printed document.

The purpose of this project is to bring together everything we discussed this quarter and therefore it is comprehensive. I strongly suggest that you choose the company that you wish to analyze early in the quarter and work on the pertinent portion of the final project concurrently with the class discussion. This approach will help solidify what we discuss in class and will result in a better final project. As noted above, I will be happy to discuss your choice of company or any other aspect of your final project at any time.

Plagiarism. Northwestern's "Principles Regarding Academic Integrity" defines plagiarism as "submitting material that in part or whole is not entirely one's own work without attributing those same portions to their correct source." The same document continues: "A conscientious writer always distinguishes clearly between what has been learned from others and what he or she is personally contributing to the reader's understanding." Please be careful to provide appropriate cites for both direct quotations as well as paraphrases of others' work. Direct quotes must be enclosed in quotation marks. Deliberate or "accidental" plagiarism will not be tolerated.

IV. Required Materials

- Course Packet
- Access to a copy of Brealey, Myers, and Allen, Principles of Corporate Finance
- I frequently distribute materials in class. ***If you are unable to attend class, please arrange for a classmate to pick up copies of the materials for you.***
- Many of the assignments are available for download from the course web page rather than included in the course packet.
- The course web page can be reached by going to:

http://www.kellogg.northwestern.edu/faculty/vincentl/htm/courses_page.html

- Spreadsheets for several of the homework assignments will be available on the course web page.
- Several course readings are posted on the course web page.

Please note: The materials used in this class, including but not limited to handouts, exercises, cases, and discussion questions, are copyrighted and may not be used for purposes other than the educational experience of this class.

V. References

There is not a required or a recommended textbook for this course. The following list contains books on the subjects of securities analysis and equity valuation that students have found helpful as references (in alphabetical order):

Benninga, Simon Z., and Oded H. Sarig. Corporate Finance: A Valuation Approach. © 1997, The McGraw-Hill Companies.

Damodaran, Aswath. Investment Valuation. 2nd ed., © 2002, John Wiley & Sons, Inc.

Fridson, Martin, and Fernando Alvarez. Financial Statement Analysis: A Practitioner's Guide. 3rd Ed., © 2002, John Wiley & Sons, Inc.

Koller, Tim, Marc Goedhard, and David Wessels. Valuation: Measuring and Managing the Value of Companies. 4th ed., © 2005, McKinsey & Company, Inc.

Palepu, Krishna G., Paul M. Healy, and Victor L. Bernard. Business Analysis and Valuation Using Financial Statements. 2nd ed., © 2000, South-Western College Publishing.

Penman, Stephen. Financial Statement Analysis and Security Valuation. 3rd Ed., © 2006, The McGraw Hill Companies.

Soffer, Leonard C., and Robin J. Soffer. Financial Statement Analysis: A Valuation Approach. © 2003, Prentice Hall (Pearson Education, Inc.).

Stickney, Clyde P., Paul R. Brown, and James M. Wahlen. Financial Reporting and Statement Analysis: A Strategic Perspective. 6th ed., © 2006, Harcourt Brace & Company.

White, Gerald I., Ashwinpaul C. Sondhi, and Dov Fried. The Analysis and Use of Financial Statements, 3rd ed., © 2003, John Wiley & Sons, Inc.

VI. Honor Code

Compliance with the Kellogg honor code is assumed at all times and under all circumstances. The Kellogg Honor Code and The Honor Code Philosophy Statement are attached at the end of this syllabus. The complete Kellogg Honor Code is available in the Student Handbook.

Although I cannot cover all the details of the application of the Honor Code to FINC 463, I will mention a few of the areas in which the Honor Code will apply and the others are straight-forward extrapolations. The homework assignments must represent the original work of only the students in the group, the names of whom appear on the assignment. Some of the weekly assignments have been used in prior quarters but you may not use any materials containing solutions, partial solutions, or notes prepared by current or former students or professors, nor may you discuss the assignment with anyone other than members of your group. I expect that each group member will contribute substantially to completion of each assignment. The act of placing your name on an assignment signifies that you have substantively participated in the preparation of that assignment.

If you have questions about how the Honor Code applies to this class, please do not hesitate to ask.

VII. Classroom Etiquette:

The Statement of Classroom Etiquette from the Student Handbook is attached. This statement was developed by students to facilitate the learning process at Kellogg. I expect you to reread and to comply with the statement at all times. The required behaviors embody common courtesy to fellow students and the professor.

In particular, I expect you to be ready to **start** class on time (not just arrive on time) and to remain in the classroom for the duration of the class. Leaving and re-entering the classroom is inappropriate except in extreme circumstances as this is distracting to the rest of the class. If you must come late to class due to extenuating circumstances, enter as quietly as possible and **DO NOT** come to the front of the room in search of handouts. You may pick up any handouts after class. If you must leave early, please notify me before class begins and choose a seat so that you may exit as unobtrusively as possible.

The Statement of Classroom Etiquette is specific about **laptop usage**:

Students should demonstrate respect for the professor and fellow students during the class period. Students, therefore, **should refrain from distracting behavior such as using laptops to surf the Web or check e-mail**, disruptive eating, and holding side conversations.

I have adopted Kellogg's suggested classroom laptop policy: 1. All laptop usage in class can only be for the direct academic purposes of this class, and email and general internet usage is not permitted. 2. Only students sitting in the back row are allowed to use laptops during class for note taking purposes. This policy allows students to use laptops without distracting others and is aimed at enhancing classroom discussion. **Thus, unless I specify otherwise during a particular class session or exercise, I expect all laptops to be closed during class unless you are seated in the back row and using the laptop exclusively as a note taking device.**

If laptop usage during class becomes a problem, I will ban laptops from the classroom for the remainder of the quarter, as many professors have done.

VIII. Office Hours

Thursday, 3 – 4 pm and by appointment.

The best way to communicate with me is via email: l-vincent@kellogg.northwestern.edu. Because of the control for junk mail, be sure to put **FINC 463** in the subject line.

SUMMARY OF ASSIGNMENT DUE DATES AND GRADING

	<u>Date</u>	<u>% of Grade</u>
1. The Gap	April 15 (Th)	5 %
2. Timberland	April 22 (Th)	5 %
Guest speakers – required attendance	April 29 (Th)	
3. Case TBA	May 3 (M)	5 %
4. Comparative Valuation Models	May 10 (M)	2 %
Midterm Exam	May 13 (Th)	30 %
5. Relative valuation case	May 20 (Th)	3 %
Valuation project	June 7 (3 pm) (M)	45 %
Class Participation	ALL	5 %

COURSE OUTLINE

Readings and assignments from the course packet are marked **(CP)**. Readings and assignments to be downloaded from the course website are marked **(WS)**. **The assignments to be handed in are numbered and printed in boldface.**

1) March 29 (M) Introduction to Securities Analysis

Readings: Vincent: *“Note on Fundamental Analysis” (CP and WS)*

Prepare: Read the two sell side analyst reports on Lennar Corporation (NYSE: LEN) on the course website, both dated February 12, 2010. The Credit Suisse analyst has an “outperform” rating on LEN whereas the Wells Fargo analyst has a “market perform” rating on LEN. Assume you are considering making a major investment in Lennar. What information would you like to have in order to decide whether to make such an investment and how much of that information is included in the analysts’ reports? This assignment will be discussed in class.

2) April 1 (Th) Forecasting Financial Data

Readings: Vincent: *“Note on Tools Used in Fundamental Analysis” (CP)*

Selling and Stickney: *“The Effects of Business Environment and Strategy on a Firm’s Rate of Return on Assets” (CP)*

Vincent: *“Note on Operating Leverage” (CP)*

Stickney/Brown: Chapter 10 - *“Pro Forma Financial Statements” (pp 687-721, 839-843) (CP)*

Blumenthal: *“’Tis the Gift to be Simple” (CP)*

Burns, et al. *“A Better Way to Gauge Profitability” (WS)*

Prepare: **Krannert** for self-study purposes **(WS)**

3) April 5 (M) Cash and Free Cash Flow

Readings: Fridson: *Chapter 4 - “The Statement of Cash Flows” (CP)*

Opler, et al: *“Corporate Cash Holdings” (CP)*

4) April 8 (Th) Cash and Free Cash Flow (Cont.)

Reading: Zion: “10-K Checklist” (WS)

Prepare: Compute the free cash flow for Krannert for 2007 (WS)

5) April 12 (M) Pro Forma Financial Statements and Forecasting Financial Data – The Gap (A)

Prepare: The Gap (Part A). This assignment will be discussed in class. The case can be downloaded from the course website. The questions are with the case and require that you prepare the first three steps of a fundamental analysis and provide some projections, together with the underlying assumptions for the Gap’s performance for the next fiscal year. The focus of the class discussion will be the source and justification for your assumptions for the one year ahead projections. The Gap’s financial statements in Excel spreadsheet format can be downloaded from the course website. (WS)

6) April 15 (Th) Pro Forma Financial Statements and Forecasting Financial Data – The Gap (B)

Prepare:

(1) Assignment The Gap (Part B). This assignment is to be handed in as well as discussed in class. The questions are with the case and require preparing a complete set of pro forma financial statements for one year for the Gap based on information provided in the case. The financial statements in Excel spreadsheet format can be downloaded from the course website. (WS)

7) April 19 (M) Valuation – Adjusted Present Value (APV)

Readings: Luehrman: “Using APV: A Better Tool for Valuing Operations” (WS)

Luehrman: “Note on Adjusted Present Value” (CP)

Luehrman: “What’s It Worth: A General Manager’s Guide to Valuation” (WS)

Review: Brealey & Myers: *Principles of Corporate Finance – 8th ed. (not in packet):*

Chapter 18 - “How Much Should a Firm Borrow?”

Chapter 19 - “Financing and Valuation”

8) April 22 (Th) Pro Forma Financial Statements and Forecasting Financial Data

Valuation – Adjusted Present Value (APV)

Prepare:

- (2) Assignment: Timberland.** The case is in the course packet. The instructions for the case are on the course website. The case requires you to prepare a set of pro forma (projected) financial statements for five years with the assumptions provided. This assignment is to be turned in and discussed in class. The financial statements from the case, in excel spreadsheet form, may be downloaded from the course website. **(WS)**

9) April 26 (M) Valuation – Taxes

Readings:

Graham: *“Estimating the Tax Benefits of Debt” (CP)*

Prepare: Case TBA **(A)**. This case can be downloaded from the course website. The financial statements are in excel worksheet format and are also on the course website.

The case consists of two parts (see below for Part B).

Part A. requires that you prepare five years of pro forma financial statements using the assumptions given in the case. This provides additional practice in preparing pro formas and I encourage all students to take advantage of this opportunity. **(WS)**

10) April 29 (Th) Guest Speakers – Class Attendance Required

Neil Rudolph, former COO of Symphony Asset Management (a hedge fund group now owned by Madison Dearborn Partners), and Rich Carson, former PriceWaterhouseCoopers partner, will give a talk entitled “Reality Check” describing how recent events (e.g., Enron, Worldcom, Arthur Andersen, PCAOB, Fannie and Freddie, and Lehman Brothers) have changed the relationship between the firm’s CFO and its outside auditor.

Speaker biographies are posted on the course website.

11) May 3 (M) Valuation – Adjusted Present Value (APV) (Cont.)

Prepare:

- (3) Assignment: Case TBA (Part B)** Part B. requires that you prepare a valuation analysis using the adjusted present value (APV) method. I have provided pro formas, based on the information in Part A., for you to use in completing the valuation analysis. Regardless of whether you prepared your own set of pro formas (which I strongly recommend), please use the pro formas I provide so all students are working from the same data. These pro formas are also on the course website. This part of the assignment will be handed in and also discussed in class. **(WS)**

12) May 6 (Th) Alternative Valuation Models - Residual Income/Abnormal Earnings Model

- Readings: Vincent: *“Note on Alternative Valuation Models” (CP)*
Penman: *“An Accrual Accounting Valuation Model” (CP)*
Vincent: *“Note on Cost of Equity Capital” (CP)*

13) May 10 (M) Alternative Valuation Models (Cont.)

Prepare: **(4) Assignment: Comparative Valuation Models Exercise.** This assignment is on the course website and will be handed in as well as discussed in class. **(WS)**

- Readings: Koller, Goedhart, Wessels Do Fundamentals Really Drive the Stock Market? (Ch. 4) **(CP)**
Mauboussin *“See for Yourself – The Importance of Checking Claims” (WS)*
Mauboussin *“Show Me the Money” (WS)*
Mauboussin *“Common Errors in DCF Models” (WS)*

14) May 12 (WEDNESDAY) Memorial Day Make-Up Class - Midterm review

Midterm review

15) May 13 (Th) Midterm Examination

The midterm exam will be on Thursday, May 13, during regular class time. The exam will cover all material through Monday, May 10, and will be **90 minutes** in length.

The exam will be closed book and closed notes (no crib sheets). **No laptops will be permitted for the exam.** All calculations must be performed on a hand-held calculator (or without mechanical calculating device). The best preparation for the exam is to complete all of the assignments and to come to class prepared each week. There is a copy of a previous year's midterm exam and solution in the course packet. This is not a "practice exam" but rather indicative of the type of exam I give.

16) May 17 (M) Earnings per Share and Alternative Valuation Models - Multiples (Relative Valuation)

Readings: Hawkins: *"Earnings Per Share"* (CP)
Harris: *"A Diluted Debate"* (CP)
Baldwin: *"Evaluating M&A Deals: Accretion vs Dilution of Earnings per Share"* (CP)
Graham, et al: *"Value Destruction and Financial Reporting Decisions"* (CP)
Vincent: *"Note on Multiples Analysis"* (CP)

17) May 20 (Th) Alternative Valuation Models - Multiples (Relative Valuation)

Prepare: **(5) Assignment: Relative Valuation.** This assignment is on the course website and will be handed in as well as discussed in class. (WS)

18) May 24 (M) Credit Analysis

Readings: Shivdasani: *"How to Choose a Capital Structure: Navigating the Debt-Equity Decision"* (CP)
Kisgen: *"The Influence of Credit Ratings on Corporate Capital Structure Decisions"* (CP)

Prepare: **Credit Analysis.** Please complete the credit analysis exercise which can be found on the course website. This assignment will be discussed in class. (WS)

19) May 27 (Th) Compensatory Stock Options

Readings: Zion: “*The Cost of Employee Stock Options – Part II*” (WS)

Prepare: **Stock Options.** Please complete the stock options exercise which can be found on the course website. This assignment will be discussed in class. (WS)

20) June 3 (Th) Special Topics and Course Wrap-Up

June 7 (M) Valuation Projects Due by 3 pm in the AIM Department

The final valuation project will consist of the preparation of a financial analysis and valuation of a publicly traded U.S. company of your choice. The project must be completed individually. The project will be graded on the basis of organization, presentation, grammar, style, effectiveness, and creativity.

Late projects will be penalized.

The project **must** include the preparation in good form of a complete set of pro forma financial statements for the company and a complete valuation using the adjusted present value (APV) method. The project may not exceed **25 pages** including all exhibits. The project must have one inch margins on all sides and use a legible font size. You **must turn in supporting materials** (such as securities analysts’ reports) in either printed or electronic form and **a CD or DVD or flash drive** with both the narrative and the project exhibits (in spreadsheet form) together with the project. In other words, you will turn in two versions of the project – one printed and one on an electronic medium. The supporting documents need only be in one form (electronic or printed).

Please note: The printed version of the project must stand alone. That is, the printed version cannot refer to analysis that must be done electronically using the spreadsheet program. Any analysis that you want considered for a grade must be in the printed document. I use the spreadsheets on the CD as backup if I have questions; they are not substitutes for the printed document.

The purpose of this project is to bring together everything we discussed this quarter and therefore it is comprehensive. An appropriately comprehensive project will include, for example, credit analysis and appropriate treatment of compensatory stock options.

Plagiarism. Northwestern's "Principles Regarding Academic Integrity" defines plagiarism as "submitting material that in part or whole is not entirely one's own work without attributing those same portions to their correct source." The same document continues: "A conscientious writer always distinguishes clearly between what has been learned from others and what he or she is personally contributing to the reader's understanding." Please be careful to provide appropriate cites for both direct quotations as well as for paraphrases of others’ work. Direct quotes must be enclosed in quotation marks. Deliberate or “accidental” plagiarism will not be tolerated.

The Kellogg School Honor Code

All students enrolled in a course offered by the Kellogg School of Management agree to abide by the Kellogg Honor Code.

The Kellogg Honor Code governs student conduct pertaining to all academic, placement, and extracurricular activities associated with the Kellogg School of Management.

Each student agrees:

1. Not to seek an unfair advantage over other students, including but not limited to giving or receiving unauthorized aid during completion of academic requirements.
2. To truthfully represent fact and self at all times.
3. To respect the property and personal rights of all members of the Kellogg community.
4. To uphold the Kellogg Honor Code by reporting all material violations and by fully cooperating with any Honor Code proceedings.

All Kellogg students are also expected to adhere to all policies and requirements of Northwestern University and to abide by all applicable laws and regulations.

The students of the Kellogg School of Management regard honesty and integrity as qualities essential to the practice and profession of management. The purpose of the Kellogg Honor Code is to promote these qualities so that each student can fully develop his or her individual potential. Upon admission, each student makes an agreement with his or her fellow students to abide by the Kellogg Honor Code. Students who violate the Kellogg Honor Code violate this agreement and must accept the sanction imposed by the Kellogg community.

The Kellogg Honor Code is administered by students and is based on the concept of self-government. The efficacy of such a student-administered honor code is dependent upon a high degree of dedication to the ideals of honesty, integrity and equal opportunity reflected by the code. The Kellogg Honor Code requires that each student act with integrity in all Kellogg activities and that each student hold his or her peers to the same standard. In agreeing to abide by the code, Kellogg students also agree to report suspected violations. By not tolerating lapses in honesty and integrity, the Kellogg community affirms the importance of these values.

The intent of the Kellogg Honor Code is to express the ethical standards of the Kellogg community. It does not attempt to be a list of rules and sanctions.

Kellogg Classroom Etiquette

The Kellogg Code of Classroom Etiquette has been established to assist students and faculty alike to foster appreciation for a classroom environment that enhances the learning experience for all students. Attention to the Code will add value to the course by creating a more meaningful and constructive discussion.

Students, therefore, are expected to demonstrate classroom etiquette based on the following principles:

Attendance

Students are expected to attend every class throughout the term. When unable to attend, the student should notify the professor in advance.

Punctuality

Students are expected to arrive for class on time so that the professor may start and end the class according to schedule. Students more than five minutes late are subject to guidelines established by a class vote during the first session.

Exiting and Entering

Students are expected to remain in the classroom for the duration of the class. If a student must depart early due to unavoidable circumstances, the student should inform the instructor before class. Leaving and re-entering the class is not permitted except in the event of an emergency.

Disruptive Behavior

Students should demonstrate respect for the professor and fellow students during the class period. Students, therefore, should refrain from distracting behavior such as disruptive eating, using laptops to surf the Web or check e-mail, and holding side conversations.

Respect for Facilities

Students are expected to help maintain the appearance of the classroom. After class students should discard all trash.

In essence, the Code emphasizes respectful behavior in the classroom that contributes to the enhancement of the learning experience at Kellogg.