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CONTENTS

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LEGISLATION OF ETHICS IN THE EARLY YEARS OF THE SECURITIES AND EXCHANGE COMMISSION

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ABSTRACT

Enforcement action by the Securities and Exchange Commission in the years following its formation and prior to the beginning of World War II created reporting sanctions viewed as symbolic by much of corporate America. That is, powerful chief executive officers of many of America's giant publicly held corporations believed these sanctions were instituted only to placate a worried investing public and would not be enforced with rigor. These managers, therefore, believed they could either ignore the Securities and Exchange Commission pronouncements or implement them only superficially. I submit the result has been many continual challenges of authority and corporate disregard of ethical behavior throughout the remainder of the 20th century. This paper will explore the history of the early part of the 20th century to determine reasons why these symbolic pronouncements may have been perceived by the Securities and Exchange Commission as a necessity for its continued existence.

JEL: M49

KEYWORDS: Symbolism, Power, Ethics, Fraud, Acquiescence, Conciliation

INTRODUCTION

Ethics may be generally thought of as actions that are in accord with right or moral conduct. The American Bar Association (ABA) equates ethical conduct in business with proper corporate responsibility and morality, which they define as "behavior by the executive officers and directors of the corporation that . . . results from the proper exercise of the fiduciary duties of care and loyalty to the corporation and its shareholders . . . [well] beyond that demanded by minimum legal standards" (ABA, 2003, p. 4).

The Securities and Exchange Commission (SEC) was formed as a result of the passage of the Securities Exchange Act of 1934 (SEC, 2011). It was a direct response by the newly elected American government to restore public confidence in the U.S. capitalistic system that had been severely eroded by the stock market crash of 1929 (the "Crash") and the subsequent Great Depression of the 1930s.

Determining how and why the SEC responded to corporate abuses of ethical behavior during its first six years of existence is the research topic of this paper. More specifically, this paper explains why the SEC functioned symbolically – enforcing the new securities laws by using symbolic pronouncements – in the face of extenuating circumstances over which it had only partial control.

I submit, however, such symbolic solution to fraudulent corporate activity not only emboldened those corporate managers bent on a disregard for ethical behavior, but also created an atmosphere of acceptable disregard throughout the remainder of the 20th century. Regulatory attempts to strengthen corporate governance, particularly in the last half of the prior millennium, finally culminated in the swift passage of the Public Company Accounting Reform and Investor Protection Act of 2002, better known as the Sarbanes-Oxley Act of 2002 (SOX).

Examination of the history of the SEC's early years and of the economic situation leading to its formation is important. It points out problems that continue to exist in our capitalistic system today. Examination

EMOTIONAL INTELLIGENCE OF FINANCIAL PLANNERS IN MEDIATION

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ABSTRACT

A commonality of the professions of mediation and financial planning is dealing with the emotional aspects of the client(s). It is surprising then that more formal training on management of the client's emotions has not been presented by either vocation. The four aspects of self awareness, self management, social awareness, and relationship management make up the components of Emotional Intelligence. This allows an individual to monitor his or her own emotions, the emotions of others, and to use this information to create a positive outcome. The professional Financial Planner who works in Mediation can benefit greatly from the study and mastery of Emotional Intelligence.

JEL: G11, Z00

KEYWORDS: Emotional Intelligence, Financial Planners, Mediation, Money

INTRODUCTION

Emotions are a control factor determining outcome in both Financial Planning and Mediation. The environment of a mediation where two conflicting parties meet to negotiate some form of agreement (with a neutral third-party to preside as a communications facilitator) fosters a setting in which a broad range of emotions are normally exhibited. An experienced financial planner must be prepared to answer the following questions: What happens when the two different mediums combine to create a volatile situation? How does the financial professional manage this and stay in control? How can the financial professional enhance the process to create greater opportunity for a more positive outcome?

Financial issues are a main source of emotional stress. "Money evokes emotions such as stress, fantasy, irrationality, and fear" (Danford, 2012, p. 25). This financial stress is also one of the main drivers of the emotional outbursts experienced in both Financial Planning and Mediation meetings. Numerous Financial Planners are familiar with the adage of being the professional to assist in taking the emotion out of the investing process. Much research has been produced regarding the recognition and acknowledgement of an individual's emotional connection to his or her money or financial well-being (Britt, Huston, & Durband, 2010; Colfax, Rivera, & Perez. 2010). Mediation is also an environment where many times financial discussion or negotiation is the main focus, whether it be civil or family mediation, and if not, certainly an important secondary topic.

Being able to recognize and manage these emotions, from one's own viewpoint, and that of the other participants, is part of the basis of Emotional Intelligence. Emotional Intelligence is the ability to recognize, assess, and control one's own emotions and that of others (Mayer, Caruso, & Salovey, 1999; Mayer & Salovey, 1997). "Emotions can influence financial decisions in surprisingly predictable ways" (Sullivan, 2011, p. 4). Numerous studies have demonstrated how an individual with high emotional intelligence can enhance and increase the potential for positive outcomes (Cherniss, 1999).

The introduction of this paper provides an overview of the importance of including emotional intelligence in the fields of financial planning and mediation. The remainder of the paper includes a literature review,

A STUDY OF SUSTAINABLE BEHAVIORS AMONG CALIFORNIA HISPANICS REGARDING TRANSPORTATION

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Ramon Corona, National University
Richard Weaver, National University

ABSTRACT

Hispanics represent a significant and growing population segment in the United States (56% of all population growth, and California represents the largest percentage of Hispanics (37%). This research concentrated on learning more about Hispanics and their sustainable behaviors regarding transportation, both public and private. By studying Hispanic transportation behaviors, marketers can understand their future needs, supplying the products/services through effective promotional media channels. This project allowed researchers to identify behaviors of Hispanics in California regarding green transportation and the media that influences them. The use and purchase patterns of hybrid vehicles were analyzed, as well as the use of car pools and public transportation, current gas mileage (mpg) and media they prefer. It was found that Hispanics drive hybrids slightly less than non-Hispanics. There is a somewhat higher preference for the next purchased car to be a hybrid for Hispanics than for non-Hispanics. In addition, fewer Hispanics use public transportation or a car pool than non-Hispanics. The researchers believe that the conclusions from this exploratory study will help marketers of transportation services in the public and private sectors. Additional research and discussions on Hispanics and sustainable transportation are expected and welcome after this pilot study.

JEL: M-31

KEYWORDS: Sustainable Transportation, Hybrid Vehicles, Hispanic Marketing, Sustainable Behavior, Green Transportation, Marketing Strategies, Shared Transportation, Green Advertising, MPG, Eco-Friendly

INTRODUCTION

This paper examines the behaviors of Hispanics vs. non-Hispanics in California regarding some specific transportation issues related to environmental sustainability, to determine preferences and buying propensity for both groups. Given the importance of the Hispanics in terms of growth which accounted for 56% of the total growth in the US, and in population in California of 37%, this study can help marketers understand future needs of this segment and therefore provide crucial information for decision-making. Given the increasing trend in sustainability and environmental issues, the findings are very relevant. Hispanics vs. non-Hispanics personal use of hybrid vehicles, miles per gallon (mpg), and modes of transportation was researched.

Various related articles about this issue were analyzed, but there were mostly related to general behaviors and characteristics of the Hispanic Marketing, i.e., perceptions and cultural differences, influences and decision-making, etc., but nothing specific about the comparison between Hispanics and non-Hispanics regarding the transportation issues were found. This exploratory paper will provide valuable information to marketers and scholars related to the comparison between Hispanic and non-Hispanics about buying hybrid cars, using public transportation, mpg consumption, and media preferences.

THE SECURITY CRISIS IN MEXICO AND ITS IMPACT ON BUSINESS MANAGEMENT

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ABSTRACT

In Mexico, antisocial behavior affects and concerns the population. This behavior has produced a vicious circle involving a high rate of criminality. This, in turn discourages investment, and reduces economic growth, it causes unemployment and increases poverty and economic inequality. Official databases reveal that during the last five years, the number of people murdered by organized criminals has increase to more than sixty thousand. With a population of over 112 million residents, Mexico has 52 million people living in poverty conditions. Seven million young people called "ninis" (ni estudian, ni trabajan) don't work or study. Business executives have reduced production levels with the purpose of reducing losses and criminal acts. Companies have closed because of antisocial acts and because of a lack of funds. During 2011 over one hundred and sixty thousand companies shut down in Mexico because of organized crime, according to the Employers' Confederation of the Mexican Republic (Coparmex).

JEL: F52, H56, L25, N6, N86

KEYWORDS: Legal Economic

INTRODUCTION

The federal government has postponed many subsided programs such as education and health, to reallocate funds to combat antisocial behavior. Antisocial behavior has a negative effect on companies, which must spend funds on security guards and alarms. Funds are used to pay for kidnappings, stolen electrical equipment, clothes, groceries, equipment, and seeds. The underground cost of paying extortion has become a taxing load for enterprises. Criminal behavior has caused companies to reduce their production standards. This leaves less for reinvention and other employment.

The purpose of this research is to identify methods to invest more public funds on education and create more employment solutions. We wish to encourage creation of a true democracy with active participation within an organize society. We hope to include citizens isolated and individually idle. We encourage passage of an article of the democratic constitution. We hope to improve the way of living based on social, economic and cultural betterment.

The organization of this paper is as follows: The literature review section discusses ideas, arguments, facts, figures and statistics, supporting the use of prediction models for the failure of the government's security policy. Information given to official sources and to the organization of business owners comes from business and economic sectors including. offices for mediation and rating markets. International experts and specialists, and accounting firms also contributed. Next, we present the methodology used. We highlight key areas of the problem. We also develop an analysis that allows us to identify mechanisms and procedures for proposals. We hope to support further research that offers companies a way to confront and resolve this dispute. Finally, we present the results of the investigation, proposals, conclusions and future research.

LESSONS FROM EASTERN EUROPE POLITICAL TRANSITIONS FOR REUNIFICATION OF THE KOREAN PENINSULA

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ABSTRACT

The political circumstances of Korean reunification will significantly determine the political environment for future public administration. This paper argues this context will create parameters for governments to implement the exercise of sovereignty over the united Korean peninsula. Pan-Korean nationalism will be exploited as a political mobilization resource for creating the foundations for reintegrating a pan-Korean state and society. A reunited national community will be upon shared historical commonalities. They will serve to mobilize political cooperation after nearly 70 years of separate development under radically opposed political and economic regimes. The North's vestiges will likely remain in the form of organized crime networks in a post-reunification state. Peace strategists should prepare to respond to the political tendency to manipulate and exploit anti-Japanese symbolic appeals by Korean political entrepreneurs. The latter will do so to mobilize prospective supporters both in North and South Korea. Some relevant comparisons with East European cases of transition from Communism provide insights into what to expect.

JEL: F50

KEYWORDS: Bulgaria, Communism, Crime, Germany, Imperialism, Japan, Korea, Nationalism, Reunification, Stereotype

INTRODUCTION

A strong political attitudinal legacy from the historical experience of Communism will remain in northern Korea in a post-reunification context. North Korea's regime is closer in terms of its general domestic public support to Communist-era Bulgaria than to East Germany. The economic and political disparities between North and South will result in the latter being the nucleus for a pan-Korean nation state. North Korean security services will likely be the nuclei of influential organized crime/illicit economic networks. The processes by which reunification will occur will affect how North-based organized crime structures will evolve including their relationship to political elite factional and party configurations. The level of efficacy that the authorities in a reunited Korea will demonstrate in suppressing corruption will not be as great as it has been in the reunited German nation state.

This analysis first presents a typological outline for comprehending the polarizing intra-community legacy of external imperial intervention applicable to Eastern European polities as well as to Korea. It then presents a political psychology-based theoretical framework for relating nationalism to collective patterns of political perception and consequent behavior. This approach to nationalism is used to infer the prevailing trends in Korean political perceptions and behavioral attitudes towards internal and external actors and constituencies that have dominated the Korean nation. The following section briefly compares these prevailing trends in Korean political perceptions and behavioral attitudes with selected national cases in Eastern Europe. It highlights the differential consequences of diverse historical development paths within the shared international context of deep Soviet, Chinese or US postwar internal political intervention. The likelihood of the transformation of North Korean police and security organizations into persistent organized crime formations in a future, reunified Korea is highlighted. The final section infers

PRESIDENTIAL ELECTIONS AND STOCK RETURNS IN EGYPT

Yvan Nezerwe, University of Phoenix

ABSTRACT

This paper examines the relationship between two Presidential elections and Stock returns in Egypt. The available literature showed mixed results on the relationship between Presidential Elections and Stock Returns. The author examined daily data and used an OLS regression. Each Event Window covered 90 days around the Presidential Election. The results showed that both elections had positive impact on the stock returns in Egypt.

JEL: F30, G14, G17

KEYWORDS: Egypt, Event Studies, Presidential Elections

INTRODUCTION

This paper examines the relationship between two Presidential Elections and the Stock Returns in Egypt. The Egyptian Exchange (EGX), one of the oldest and largest stock exchanges in Africa, lists 145 member firms. It touts itself with a vision to be a world-class and premier stock market in Africa and the Middle East. The listed firms are divided into several industries (Financial Services, Chemicals, Construction, Real Estate, Telecommunication, Food/Beverage, Healthcare, Retail, Media and Utilities). From 2005 until 2010, fifteen companies had their initial public offerings on the EGX. Table 1 shows the market indicators of the EGX for the last 3 years. The Market Capitalization is the number of listed shares multiplied by the Market Price at End of Year.

Table 1: Market Indicators of the EGX

Indicator	Year 2010	Year 2011	Year 2012
Number of listed companies	212	212	212
Market Capitalization End of Year (Billion LE)	488.2	293.6	375.6
Turnover Ratio (%)	42.89	34	34.12
Number of Trading Days	247	207	245
Number of Transactions	9,793,720	5,516,916	6,160,985
Volume	27,955.10	16,896.20	32,804.10
Value Traded	272,904.20	130,536.40	166,459

This table shows the market indicators of the EGX. The Market Capitalization is the number of listed shares multiplied by the Market Price at End of Year. The Turnover Ratio is the Value Traded of listed shares divided by the Market Capitalization. The Number of Trading days is lower for 2011 as the EGX closed during the "Revolution" (January 2011). This historical data was pulled from the EGX website www.egx.com.eg.

The first presidential elections were held on September 7th 2005. The incumbent President Hosni Mubarak won 88% of the final votes. Several other candidates such as Ayman Noor and Fawzi Ghazi contested the elections. These elections were the first multi party elections in Egypt. Before the 2005 elections, the Egyptian voters were subjected to a referendum on the ruling party`s candidate. With this referendum, President Mubarak won several presidential terms and stayed in office from 1981 until 2011.

A popular uprising removed President Mubarak from office in February 2011. During the three week "Revolution", millions of Egyptians demonstrated and asked that President Mubarak resigns as Head of State. The "Revolution" was mainly due to high unemployment, low wages, corruption and lack of free speech in Egypt. The demonstrations and strikes negatively affected the Egyptian economy. The tourism sector, an important revenue generator for Egypt, was affected as tourists feared for their safety. The civil

TRACING THE TRAJECTORY OF INDUSTRY LEADER'S DRUG INNOVATION CAPABILITY: THE AMGEN CORPORATION CASE

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Godwin Onyeaso, Shorter University, USA

ABSTRACT

The origin of organizational capabilities remains elusive to strategy managers and scholars. Because of this elusiveness, a scholar has questioned: "where [do] capabilities come from [and] what kinds of investment in money, time, and managerial efforts is required in building them" [Ethiraj, et al. 2005, Strategic Management Journal, 26, 25-45]. Using the lens of the upper echelon theory, this case provides evidence that Amgen's President hired "stair-scientists" who then developed the first drugs that launched Amgen as the global biopharmaceutical industry leader. This way, this case study contributes answers to the questions raised by Ethiraj and colleagues (2005). In sum, this real-world case discussion has practical significance to managers and academics alike.

JEL: MOO, M1, M2

KEYWORDS: Upper Echelon, Drug Innovation, Capabilities, Network Capabilities

INTRODUCTION

On one hand, copious literature suggests that non-imitable and non-substitutable organizational capabilities are the bedrock of inter-firm sustainable competitive advantage and performance (see, e.g., Barney, 1991; Wernerfelt, 1984; Rumelt, 1984; Dosi, Nelson & Winter, 2000; Nelson & Winter, 1982; Henderson & Cockburn, 1994). On the other hand, research suggests that the extant strategy literature is not clear where in the organization the answers to the following practical questions---can be found (Ethiraj, et al 2005): (1) Within the organization, where is the starting point of organizational capability? (2) Within the organization, what types of asset and resources are necessary to build organizational capabilities? (3) Outside the organizational boundary, what role does social capital (Granovetter, 1985;Coleman, 1988; Uslaner, 2003) play in organizational capability building strategy? (4) Are external ties and networks of top managers critical to the development of organizational capabilities? Our paper makes contributions by providing answers to the above questions in the framework of archival data on Amgen.

The reminder of this paper is organized as follows. The literature review section discusses works on the fusion of theory and managerial practice---pertinent to the research questions examined in this discussion case. Following this, data and methodology section presents the data sources and methodology used in the study. Next, the results of the study are articulated. Finally, a concluding section wraps up the discussion case study as it underscores the academic and managerial significance of the study.

LITERATURE REVIEW

To address the questions posed in this case discussion, a fusion of theory and managerial practice was used especially answers the questions posed by Ethiraj and colleagues (2005). Answers to these critical questions are important for a number of reasons. First, because the extant strategy literature is at best silent on the answers to these questions, they represent gaps in scholarly knowledge on the development of organizational capabilities. Second, it has been established that the development of theories that

FINANCIAL CONTRACTS IN CONVENTIONAL AND ISLAMIC FINANCIAL INSTITUTIONS: AN AGENCY THEORY PERSPECTIVE

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Sunil Kumar Khandelwal, Wolters Kluwer Financial Services

ABSTRACT

This study examines the differences in the relationships between different stakeholders in conventional and Islamic financial institutions. The accounting and finance literature identifies the major contractual relationships as being those between managers and shareholders (employment contracts) and between shareholders and debt-holders (lending contracts). Both these types of contracts are usually considered to be financial-based contracts, because they rely, among other things, on the firm's reported earnings. This paper applies agency theory to examine these contractual relationships in the two different financial system. The agency problem can have various forms in Islamic institutions. The agency problem has an additional dimension when managers deviate from the Islamic principles of Shariah. This study is intended to fill a gap which exists in the current literature, relating to the implications of Shariah rules for agency relationships. It also provides an analysis of how agency relationships are different as compared to conventional counterparts and the implications that this has for optimizing the agency relationships by reducing inherent frictions. In this way, this study extends and develops the literature on agency relationships in Islamic finance, thus paving the way for future studies in the direction of corporate governance, contractual relationships, and better disclosure in Islamic financial institutions. The study concludes that Islamic financial institutions have fewer agency problems than their conventional counterparts.

JEL: G2, G3, M4

KEYWORDS: Accounting Contracts, Islamic Finance, Agency Problems, Compensation Schemes, Conventional Finance, Corporate Governance

INTRODUCTION

This paper adopts a theoretical approach to examine the difference between agency relationships in the conventional and Islamic financial systems. It focuses, in particular, on those relationships affected by financial contracts. In the accounting and finance literature, the majority of contractual relationships that have been identified are those between managers and shareholders (employment contracts) and those between shareholders and debt-holders (lending contracts). Both of these contracts are usually considered to be financial-based contracts because they rely, inter alia, on the firm's reported earnings. For instance, management compensation schemes are frequently tied to the firm's performance, which is measured using accounting measures (e.g. net income). Another example relates to lending contracts, which may include some financial covenants such as restrictions on minimum tangible net worth, a certain level of interest cover ratio, and a certain level of gearing. These contracts may be used to reduce agency problems between principals and agents. The contractual relationships in Islamic financial institutions (IFIs) are based on financial contracts and on Shariah principles. "This is to ensure the establishment of justice in contracts and the avoidance of unjust exploitative elements such as riba, elements of gharar (uncertainty), maysir (gambling) and speculation", Manan & Kamaluddin (2010) state. The additional element of relationships based on Shariah law has specific implications for the agency problem and can take different forms. The agency relationships are carefully specified in the Islamic principles of Shariah. Therefore, the agency problem has an additional dimension when managers

A NEW KIND OF SOCIAL ENTREPRENEURSHIP IN PUERTO RICO: "MUJERES AYUDANDO A MADRES"

Elizabeth Robles, University of Puerto Rico

ABSTRACT

How can a "doula", be the originator of such a creative business that combines a nonprofit organization with three profitable micro businesses and in addition, be a socially responsible organization? "Mujeres Ayudando a Madres" (women helping mothers) is a Puerto Rican nonprofit organization whose goal is to support women in the childbearing stage and promote a constructive culture based on the physical and psychological health of families. Vanessa Caldari, a midwife and a certified "doula" (a trained labor support person), created it. The mission of "Mujeres Ayudando a Madres" is to promote the rights, education and wellbeing of women during their pregnancy. Its integrated hybrid model produces both social value and commercial revenue through a single, unified strategy. The purpose of this case study is to present a nonprofit organization with a social responsibility mission and describe its hybrid model. This model is an alternative for nonprofit organizations to be self-sustainable. During this era of increasing cutbacks government funding, the hybrid model helps organizations to survive and grow.

JEL: M1, M14

KEYWORDS: Social Entrepreneurship, Hybrid Model, Social Enterprise, Social Responsibility

INTRODUCTION

How can a "doula" be the originator of such a creative business that combines a nonprofit organization with three profitable micro businesses and in addition, be a socially responsible organization? "Mujeres Ayudando a Madres" (women helping mothers) is a Puerto Rican nonprofit organization whose goal is to support women in the childbearing stage and to promote a constructive culture based on the physical and psychological health of families. Vanessa Caldari, a midwife and a certified "doula" (a trained child labor support person) is the founder of "Mujeres Ayudando a Madres" (MAM). The mission of MAM is to promote the rights, education and wellbeing of women during their pregnancy. Its integrated hybrid model produces both social value and commercial revenue through a single, unified strategy.

The purpose of this case study is to present a nonprofit organization with a social responsibility mission and describe its hybrid model. This model is an alternative for nonprofit organizations to be self-sustainable. During this era of increasing cutbacks in government funding, the hybrid model helps organizations to survive and grow. In the global marketplace, non-profit organizations play new, emergent and influential roles. They act as policy advisers to governments, strategy advisers to corporations, thought leaders for public opinion, and catalysts for action by bankers, investors, suppliers, customers, and even religious organizations.

There is a concurrent evolution in the form, purpose and role of the for-profit and non-profit sectors (Alexander, 2000). This evolution creates a blurring of boundaries between them such that a new vocabulary becomes necessary to recognize a hybrid form. These hybrid forms defy traditional categorizations employed by organizational theorists. On one section, there are some non-profit organizations adopting the practices of a for-profit firm. On another section, there are some for-profit companies operating according to social and environmental sustainability agendas (Hoffman et al., 2010).

GAAP VS. IFRS TREATMENT OF LEASES AND THE IMPACT ON FINANCIAL RATIOS

Peter Harris, New York Institute of Technology
William Stahlin, Stevens Institute of Technology
Liz Washington Arnold, The Citadel, The Military College of South Carolina
Katherine Kinkela, New York Institute of Technology

CASE DESCRIPTION

As of January 1, 2011, most of the world financial market economies are using International Reporting Standards (IFRS) as the required framework for financial statements. A non-comprehensive listing includes the European Union Countries, Canada, Australia and New Zealand. In the United States, US Generally Accepted Accounting Principles (GAAP) is still required but adoption of IFRS has support of many accounting firms and professional organizations and is under consideration by the SEC. This case study focuses on differences in the treatment of leases and the impact of these differences on financial statements and selected financial ratios. Students take GAAP financial statements and prepare an IFRS based balance sheet and income statement. It is necessary to understand both GAAP and IFRS rules regarding leases to address this case study. This case study is suitable for use at both the undergraduate and graduate levels. It may be used in an Intermediate Accounting II, Accounting Theory, Financial Statement Analysis or an International Accounting class, as well as an Investment Finance course. The case can be offered as an individual case study or as a group project.

JEL: M4, M41, M42, M48, M49

KEYWORDS: US GAAP, IFRS, Capital Lease, Operating Lease, Financing Lease, Ratios.

CASE INFORMATION

ACE Corp, a publically traded NASDAQ company (symbol ACE), is a manufacturer of electrical automobiles. It is based in Detroit, Michigan and the company has been operating since 1996. The company sells their electrical automobiles to auto manufacturers as well as the retail market on a worldwide basis. Its major clients are Ford, General Motors and Toyota. Ace has captured about 10 percent of the world market of the electrical automobile sales. Its stock sells at 25 US Dollars per share, and its 52-week price range is between 19.75 and 27.15 US Dollars, with a market cap of 10.6 billion dollars.

Their financial statements presented below for the year ending December 31, 2011 has been prepared using GAAP (Tables 1 and Table 2). The controller would like to see the effect of IFRS treatment of leases on the financial statements, and you have been assigned this task. In particular, the controller would like to see the impact GAAP and IFRS differences have on balance sheet, income statement and selected financial ratios. The company would like to adapt IFRS by as early as next year as it is considering a new stock issue in the Tokyo Stock Exchange, which requires IFRS compliance.

PAC.NW TRAVEL ONLINE

Lynda S. Livingston, University of Puget Sound

CASE DESCRIPTION

Michael Powers licensed a series of domain names that he thought would allow him to create a profitable set of online tourism marketing sites. The case asks students to evaluate the feasibility of the business, given Michael's projections. Given what they find, students are then asked to assess how reasonable are two of his current arrangements with stakeholders. The case allows students to practice fundamental valuation techniques on a cutting-edge business model. It is targeted toward MBA and advanced undergraduate corporate finance courses.

JEL: G10, G11

KEYWORDS: SEO, SEM, Internet Marketing, Private Firm Valuation

CASE DESCRIPTION

A*fter* fees?!" Michael Powers could not believe was he had just heard. ViewIT—the company he was hiring to do the actual *work* on his supposedly "passive-income" internet venture—was now demanding that it receive half of whatever was left after Michael paid their costs. As if half of revenues *before* costs was not bad enough! This 11th-hour demand could send 60% of Michael's revenues straight to ViewIT. How was he supposed to make any money? If could not figure out a way to counter this demand from ViewIT, maybe he could renegotiate the perpetual 10% of revenues he had promised his dad (his "venture capitalist"). He would have to think of something fast, or give up on the ticket to his future—his internet start-up, Pac.NW Travel Online.

MICHAEL POWERS

Michael Powers was a risk-taker, but not a fool. He was a black-diamond freestyle skier ("chutes, cliffs, and trees"), competitive downhill mountain biker, and avid longboarder. Whatever the game was, he wanted to win—assuming he liked the odds.

Michael graduated in 2006 from a small, liberal-arts college in Washington state, where he was a standout in his honors business program. In his junior year, he decided to give up varsity soccer for an internship, where he was fortunate enough to meet an experienced real-estate entrepreneur. Michael realized he loved real estate, and immediately started lobbying his father to help him buy a house close to campus (a house he still kept as a rental).

After graduating (and after a year as a ski instructor—fun, but not professionally challenging), he applied for a job as marketing coordinator for which he was not remotely qualified. Surprisingly, he got it; perhaps not surprisingly, he succeeded brilliantly.

The job was to market a town and manage its rental business. The town, Neweston, Washington, was the brainchild of fellow college alum and new-urbanist visionary Kelvin C. Rolf. Kelvin was a developer whose dream had always been to found a new town along the Washington coast. He started Neweston in 2002 on an unplatted pile of sand. The town would eventually be a walkable blend of retail and residential areas, with 1,000 homes all carefully designed to ensure a consistent New England-style look. Homeowners could rent their homes to vacationers, and one of Neweston Land Company's jobs was to manage those rentals. That is where Michael came in.

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