

Restructuring Firms and Industries
NYU Stern School of Business and School of Law

Fall 2012
Tuesdays & Thursdays, 3:00 - 4:20, Paulson Auditorium

Prof. David Yermack
Office Hours: Tues., 1:30 - 3:00; Thurs. 12:30 - 3:00

Office: KMEC 9-56, 998-0357
E-mail: dyermack@stern.nyu.edu

Description: This course examines issues in corporate finance and corporate governance. Topics include choices of organizational form, mergers and acquisitions, spinoffs and other equity restructuring, private equity, takeover defenses, financial distress, institutional investors, shareholder activism, the value of corporate voting and control, and executive compensation. Many topics will be approached within an agency cost framework, focusing upon conflicts between stockholders, managers, and other constituencies. Readings will be drawn from textbooks, academic journals and the popular media, and many classes will involve case studies of prominent companies challenged by financial and governance problems.

Prerequisites: This is an advanced course that assumes students are familiar with the concepts of corporate law and/or corporate finance. Law students should have completed at least one semester of the basic Corporations course and done well. Stern students should have already taken Corporate Finance and done well. Further knowledge about capital markets would be helpful for all students, whether through work experience or courses such as Securities Regulation (Law School), Investment Banking, or Mergers and Acquisitions (Stern School).

Textbooks: P. Gaughan, *Mergers, Acquisitions and Corporate Restructurings* (5th ed., 2011)
R. Monks and N. Minow, *Corporate Governance* 5th ed., 2011).
B. Malkiel, *A Random Walk Down Wall Street* (10th ed., 2011) (recommended).

Additional readings: Along with readings assigned from the textbooks, I will assign articles from academic journals on corporate law and corporate finance issues relevant to the course. These readings may be downloaded from the course Blackboard website.

Lectures: I do *not* record class sessions for later on-line viewing.

Course requirements: The course will have an optional in-class exam and a mandatory take-home final exam. The *in-class exam* will be given Thursday, November 15 during the regular class period and will consist of a series of short essay questions. If you decide to take this exam, it will count as 50% of your grade. The *take-home exam* will be distributed by mid-November and will be due at the end of the December exam period. The exam will have eight essay questions of 500 words length. You may answer three of the eight essay questions and have the take-home count as 50% of your grade, or if you choose not to take the in-class exam, you would answer six of the eight questions and have the take-home count as 100% of your grade.

However, *students will not be permitted to do extra take-home exam questions to nullify scores received on the in-class exam.*

Academic calendar: We follow the Stern School academic calendar and have 26 class meetings (including the in-class exam date). The first day of class is Thursday, September 6. There is no assignment to be done in advance of the first class. The final class is Tuesday, December 11. There is no class on Tuesday, September 18 (Rosh Hashanah), nor on Thursday, November 22 (Thanksgiving). Though our last classes take place during the Law School exam period, past experience indicates that the inconvenience to most Law School students should be minimal.

Lecture Topics and Readings

Each lecture topic will take 1 to 2 classes to cover

Course introduction

Case Discussion: Restructuring and hostile takeover of ITT Corp.

Gaughan, pp 432-433.

Agency costs; Corporations and other business organizations

Gaughan, pp 478-492.

Monks and Minow, pp 6-11 and 101-129.

E. Fama and M. Jensen, "Separation of Ownership and Control," 26 Journal of Law and Economics 301 (1983).

Case Discussion: Armand Hammer and Occidental Petroleum.

Capital market efficiency and managers' behavior

Case Discussion: T. Lys and L. Vincent, "An Analysis of Value Destruction in AT&T's Acquisition of NCR," 39 Journal of Financial Economics 353 (1995).

Malkiel, pp 37-55, 138-191, 267-300, 389-402.

"Free cash flow" and financial slack

M. Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," 76 American Economic Review 323 (1986).

Case Discussion: Chrysler Corp. and Kirk Kerkorian.

Mergers and acquisitions: Motives and distribution of gains (2 classes)

Gaughan, pp 1-34, 125-145, 156-180, 243-271.

Private benefits of control; Family business groups

Gaughan, pp 202-204, 271-289.

D. Yermack, "Shareholder Value and Corporate Governance," 2 Annual Review of Financial Economics 103 (2010).

Corporate voting; Shareholder activism

Monks and Minow, pp 129-237.

Takeover defenses

Gaughan, pp 74-104, 183-202, 204-222, 229-242.

Diversification and conglomerates

Gaughan, pp 44-57, 145-155, 178-179, 509-510.

Malkiel, pp 60-66.

Case Discussion: G. Baker, "Beatrice: A Study in the Creation and Destruction of Value," 47 Journal of Finance 1081 (1992).

Spinoffs and other equity restructuring (2 classes)

Gaughan, pp 389-434.

P. Anslinger *et. al*, "Breaking Up Is Good To Do," *McKinsey Quarterly* 1999:1, 16-27.

Case Discussion: R. Parrino, "Spinoffs and Wealth Transfers: The Marriott Case," 43 *Journal of Financial Economics* 241 (1997).

Private equity and highly leveraged transactions

Gaughan, pp 20-21, 222-236, 293-365.

Case Discussion: D. Denis, "Organizational Form and the Consequences of Highly Leveraged Transactions: Kroger's Recapitalization and Safeway's LBO," 36 *Journal of Financial Economics* 193 (1994).

Financial distress: Costs, benefits and outcomes

Gaughan, pp 435-472.

Case Discussion: D. Cutler and L. Summers, "The Costs of Conflict Resolution and Financial Distress: Evidence from the Texaco-Pennzoil Litigation," 19 *Rand Journal of Economics* 157 (1988).

Labor issues in corporate restructuring

A. Shleifer and L. Summers, "Breach of Trust in Hostile Takeovers," in A. Auerbach, ed., *Corporate Takeovers: Causes and Consequences* (National Bureau of Economic Research, 1988).

Case Discussion: "Chainsaw" Albert Dunlap, Scott Paper, and Sunbeam

Executive compensation and shareholder value

Monks and Minow, pp 363-394.

Case Discussion: J. Dial and K. Murphy, "Incentives, Downsizing and Value Creation at General Dynamics," 37 *Journal of Financial Economics* 261 (1995).