

Restructuring Firms and Industries
NYU Stern School of Business and NYU School of Law
Spring 2014
Mondays & Wednesdays, 10:30 - 11:50
KMEC 2-60

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Office Hours:
Monday 9:30 - 10:30
Monday 12:00 - 2:00
Wednesday 9:30 - 10:30

Description: This course examines business problems that arise from conflicts between shareholders, managers, and occasionally other groups such as bondholders, labor, and government regulators. Most of these conflicts lead to either a market-based or regulation-based response that changes the shape of the company involved. Topics include choices of organizational form, mergers and acquisitions, spinoffs and other equity restructuring, private equity, takeover defenses, liability restructuring under financial distress, institutional investors, shareholder activism, and the value of corporate voting and control. Many topics are studied within an agency cost framework, which has become the standard paradigm for analyzing financial contracting and regulation. Readings will be drawn from textbooks and academic journals, 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) (recommended).
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 NYU Classes website.

Lectures: I do *not* record class sessions for later on-line viewing, except for special cases such as religious holidays when large numbers of students may be absent.

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 Wednesday, March 12, 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-April and will be due at the end of the May 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 disappointing 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 midterm exam date). The Stern calendar generally tracks the university calendar more closely than does the Law School's calendar. Our first day of class is Monday, February 3. There is no assignment to be done in advance of the first class. The final class is Monday, May 12. There is no class on Monday, February 17 (Presidents' Day) nor Monday & Wednesday, March 17 & 19 (Spring break), and there is no "Legislative Monday" on February 18. Though our last class takes 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.

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

Private benefits of control; Family business groups

Gaughan, pp 202-204, 271-289.

Corporate voting; Shareholder activism

Monks and Minow, pp 129-237.

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

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).

Executive compensation and shareholder value (time permitting)

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).