

Doctoral Seminar: Corporate Restructuring and Reorganization

Spring 2012

Mondays & Wednesdays, 1:30 - 2:50

K-MEC 5-90

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This course surveys leading academic research in areas of corporate restructuring, both inside and outside of financial distress. We will focus on the restructuring of assets, liabilities, and equity, examining a series of transactions that ultimately create or redistribute financial value for the claimholders of a firm. Many of the topics studied are in fast-changing areas of practice and regulation. The syllabus includes a number of recent working papers in order to introduce students to the latest developments in the field and to help identify possible dissertation topics. We will also investigate the strengths and weaknesses of leading on-line databases and other research tools. Course lectures will be held twice weekly, and the most important readings on each topic are starred (**). Evaluation will be based upon a set of data exercises and referee reports assigned periodically throughout the course.

Financial distress - introduction and regulatory framework

(**) Wruck, 1990, "Financial distress, reorganization, and organizational efficiency", *Journal of Financial Economics* 27, 419-444.

Hotchkiss, John, Mooradian and Thorburn, 2008, "Bankruptcy and the resolution of financial distress," in Eckbo ed., *Handbook of Corporate Finance: Empirical Corporate Finance, Vol. 2*.

Bharath, Panchapegesan, and Werner, 2010, "The changing nature of Chapter 11," working paper, ssrn.com/abstract=1102366.

Predicting financial distress

Altman, 1968, "Financial ratios, discriminant analysis, and the prediction of corporate bankruptcy," *Journal of Finance* 23, 589-609.

Eberhart, 2005, "A comparison of Merton's option pricing model of corporate debt valuation to the use of book values," *Journal of Corporate Finance* 11, 401-426.

(**) Bharath and Shumway, 2008, "Forecasting default with the Merton distance to default model," *Review of Financial Studies* 21, 1339-1369.

Databases: UCLA-LoPucki Bankruptcy Research Database, <http://lopucki.law.ucla.edu/BankruptcyData.com>

Costs of financial distress

Cutler and Summers, 1988, "The costs of conflict resolution and financial distress: Evidence from the Texaco-Pennzoil litigation," 19 *RAND Journal of Economics* 157-172.

(**) Andrade and Kaplan, 1998, "How costly is financial (not economic) distress? Evidence from highly leveraged transactions that became distressed," *Journal of Finance* 53, 1443-1493.

LoPucki and Doherty, 2004, "The determinants of professional fees in large bankruptcy reorganization cases," *Journal of Empirical Legal Studies* 1, 111-141.

Debt renegotiation and workouts

(**) Gilson, John and Lang, 1990, "Troubled debt restructurings: An empirical investigation of private reorganization of firms in default," *Journal of Financial Economics* 27, 315-354.

Franks and Torous, 1994, "A comparison of financial recontracting in distressed exchanges and Chapter 11 reorganizations," *Journal of Financial Economics* 35, 349-370.

Asquith, Gertner, and Scharfstein 1994, "Anatomy of financial distress: An evaluation of junk-bond issuers," *Quarterly Journal of Economics* 109, 625-658.

(**) Tashjian, Lease, and McConnell, 1996, "An empirical analysis of prepackaged bankruptcies," *Journal of Financial Economics* 40, 135-162.

Database: Reuters DealScan (formerly Loan Pricing Corp.)

Chapter 11

Franks and Torous, 1989, "An empirical investigation of U.S. firms in reorganization," *Journal of Finance* 44, 747-769.

(**) Hotchkiss, 1995, "Post-bankruptcy performance and management turnover," *Journal of Finance* 50, 3-22.

Weiss and Wruck, 1998, "Information problems, conflicts of interest, and asset stripping: Chapter 11's failure in the case of Eastern Airlines," *Journal of Financial Economics* 48, 55-97.

(**) Eberhart, Altman and Aggarwal, 1999, "The equity performance of firms emerging from bankruptcy," *Journal of Finance* 54, 1855-1868.

Dahiya, John, Puri and Ramirez, 2003, "Debtor-in-possession financing and bankruptcy resolution: Empirical evidence," *Journal of Financial Economics* 2003, 259-280.

(**) Baird & Rasmussen, 2003, "Chapter 11 at Twilight," 56 *Stanford Law Review* 673-699.

Acharya, Bharath, and Srinivasasan, 2007, "Does industry-wide distress affect default? Evidence from creditor recoveries," *Journal of Financial Economics* 85, 787-821.

Becker and Stromberg, 2011, "Fiduciary duties and equity-debtholder conflicts," NBER working paper 17661.

Li and Zhong, 2011, "Investing in Chapter 11 stocks: Trading, value and performance," working paper, available at ssrn.com/abstract=1343765.

Alternative reorganization proposals

Bebchuk, 2000, "Using options to divide value in corporate bankruptcy," *European Economic Review* 44, 829-843.

(**) Baird and Rasmussen, 2010, "Antibankruptcy," *Yale Law Journal* 119, 648-699.

Asset sales in financial distress

(**) Shleifer and Vishny, 1992, "Liquidation values and debt capacity: A market equilibrium approach," *Journal of Finance* 47, 1343-1366.

Pulvino, 1998, "Do asset fire sales exist? An empirical investigation of commercial aircraft sale transactions," *Journal of Finance* 53, 939-978.

Stromberg, 2000, "Conflicts of interest and illiquidity in bankruptcy auctions: Theory and tests," *Journal of Finance* 55, 2641-2692.

Bris, Welch and Zhu, 2006, "The costs of bankruptcy: Chapter 7 liquidation versus Chapter 11 reorganization," *Journal of Finance* 61, 1253-1303.

Convertible debt

Stein, 1992, "Convertible bonds as backdoor equity financing," *Journal of Financial Economics* 32, 3-21.

Asquith, 1995, "Convertible bonds are not called late," *Journal of Finance* 50, 1275-1289.

Database: Mergent Fixed Income Securities

Leasing

Sharpe and Nguyen, 1995, "Capital market imperfections and the incentive to lease," *Journal of Financial Economics* 39, 271-294.

Graham, Lemmon and Schallheim, 1998, "Debt, leases, taxes, and the endogeneity of corporate tax status," *Journal of Finance* 53, 131-162.

Mehran, Taggart, and Yermack, 1999, "CEO ownership, leasing, and debt financing," *Financial Management* 28:2, 5-14.

Robicheaux, Fu, and Ligon, 2008, "Lease financing and corporate governance," *Financial Review* 43, 403-437.

Pensions

Pontiff, Shleifer and Weisbach, 1990, "Reversions of excess pension assets after takeovers," *RAND Journal of Economics* 21, 600-613.

Petersen, Mitchell, 1992, "Pension reversions and worker-stockholder wealth transfers," *Quarterly Journal of Economics* 107, 1033-1056.

Bergstresser, Desai and Rauh, 2006 "Earnings manipulation, pension assumptions and managerial investment decisions," *Quarterly Journal of Economics* 121, 157-195.

Franzoni and Marin, 2006, "Pension plan funding and stock market efficiency," *Journal of Finance* 61, 921-956.

(**) Rauh, 2006, "Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans," *Journal of Finance* 61, 33-72.

Rauh, 2009, "Risk shifting vs. risk management: Investment policy in corporate pension plans," *Review of Financial Studies* 22, 2687-2733.

(**) Shivdasani and Stefanescu, 2010, "How do pensions affect corporate capital structure decisions?" *Review of Financial Studies* 23, 1287-1323.

Empirical research with corporate bonds

Masulis, 1980, "The effect of capital structure changes on security prices," *Journal of Financial Economics* 9, 139-178.

Maxwell and Stephens, 2003, "The wealth effects of repurchases on bond-holders," *Journal of Finance* 58, 895-919.

Billett, King and Mauer, 2004, "Bondholder wealth effects in mergers and acquisitions: New evidence from the 1980s and 1990s," *Journal of Finance* 59, 107-135.

(**) Bessembinder, Kahle, Maxwell and Xu, 2009, "Measuring abnormal bond performance," *Review of Financial Studies* 22, 4219-4258.

Databases: Trace OTC Corporate Bond Transactions

Credit default swap event studies

Jorion and Zhang, 2007, "Good and bad credit contagion: Evidence from credit default swaps," *Journal of Financial Economics* 84, 860-883.

Norden and Weber, 2004, "Informational efficiency of credit default swap and stock markets: The impact of credit rating announcements," *Journal of Banking and Finance* 28, 2813-2843.

Wei and Yermack, 2011, "Investors' reactions to CEOs' Inside Debt Incentives," *Review of Financial Studies* 24, 3813-3840.

Database: Markit

Private equity - introduction

Jensen, 1989, "Eclipse of the public corporation," *Harvard Business Review* (September-October).

Kaplan and Stromberg, 2009, "Leveraged buyouts and private equity," *Journal of Economic Perspectives* 22, 121-146.

Bharath & Dittmar, 2010, "Why do firms use private equity to opt out of public markets," *Review of Financial Studies* 23, 1771-1818.

Private equity - impact on operating performance

(**) Kaplan, 1989, "The effects of management buyouts on operating performance and value," *Journal of Financial Economics* 24, 217-254.

Denis, 1994, "Organizational form and the consequences of highly leveraged transactions: Kroger's recapitalization and Safeway's LBO," *Journal of Financial Economics* 36, 193-224.

Edgerton, 2011, "Agency problems in public firms: Evidence from corporate jets in leveraged buyouts," *Journal of Finance*, forthcoming.

Cressy, Munari and Malipiero, 2011, "Creative destruction: Evidence that buyouts shed jobs to raise returns," *Venture Capital* 13, 1-22.

Private equity - valuation and returns

Bargeron, Schlingemann, Stulz and Zutter, 2008, "Why do private acquirers pay so little compared to public acquirers?" *Journal of Financial Economics* 89, 375-390.

Axelson, Jenkinson, Stromberg and Weisbach, 2010, "Borrow cheap, buy high? The determinants of leverage and pricing in buyouts," working paper.

Guo, Hotchkiss and Song, 2011, "Do buyouts (still) create value?" *Journal of Finance* 66, 479-517.

(**) Harris, Jenkinson, and Kaplan, 2012, "Private equity performance: What do we know?" NBER working paper 17874, available at nber.org/papers/w17874.

Private equity - agency issues

Warga and Welch, 1993, "Bondholder losses in leveraged buyouts," *Review of Financial Studies* 6, 959-982.

Ljungqvist, Richardson and Wolfenzon, 2007, "The investment behavior of buyout funds: Theory and evidence," working paper, available at ssrn.com/abstract=972640.

(**) Metrick and Yasuda, 2010, "The economics of private equity funds," *Review of Financial Studies* 23, 2303-2341.

Officer, Ozbas and Sensoy, 2010, "Club deals in leveraged buyouts," *Journal of Financial Economics* 98, 214-240.

Boone and Mulherin, 2011, "Do private equity consortiums facilitate collusion in takeover bidding?" *Journal of Corporate Finance* 17, 1475-1495.

The diversification discount

Amihud and Lev, 1981, "Risk reduction as a managerial motive for conglomerate mergers," *Bell Journal of Economics* 12, 605-617.

Lang and Stulz, 1994, "Tobin's q, corporate diversification, and firm performance," *Journal of Political Economy* 102, 1248-1280.

(**) Berger and Ofek, 1995, "Diversification's effect on firm value," *Journal of Financial Economics* 37, 39-65.

Lins and Servaes, 1999, "International evidence on the value of corporate diversification," *Journal of Finance* 54, 2215-2239.

Campa and Kedia, 2002, "Explaining the diversification discount," *Journal of Finance* 57, 1731-1762.

Graham, Lemmon, and Wolf, 2002, "Does corporate diversification destroy value?" *Journal of Finance* 57, 695-720.

(**) Mansi and Reeb, 2002, "Corporate diversification: What gets discounted?" *Journal of Finance* 57, 2167-2183.

Villalonga, 2004, "Diversification discount or premium? New evidence from the Business Information Tracking Series," *Journal of Finance* 59, 479-506.

Akbulut and Matsusaka, 2010, "50+ years of diversification announcements," *Financial Review* 45, 231-262.

Hoechle, Schmid, Walter, and Yermack, 2012, "How much of the diversification discount

can be explained by poor corporate governance?” *Journal of Financial Economics* 103, 41-60.

Database: Compustat Segments

Internal capital markets

(**) Lamont, 1997, “Cash flow and investment: evidence from internal capital markets,” *Journal of Finance* 52, 83-109.

Shin and Stulz, 1998, “Are internal capital markets efficient?” *Quarterly Journal of Economics* 113, 531-552.

Maksimovic and Phillips, 2002, “Do conglomerate firms allocate resources inefficiently across industries?” *Journal of Finance* 57, 721-767.

Ozbas and Scharfstein, 2010, “Evidence on the dark side of internal capital markets,” *Review of Financial Studies* 23, 581-599.

Spinoffs

Schipper and Smith, 1983, “Effects of recontracting on shareholder wealth: The case of voluntary spin-offs,” *Journal of Financial Economics* 12, 437-467.

Parrino, 1997, “Spinoffs and wealth transfers: The Marriott case,” *Journal of Financial Economics* 43, 241-274.

(**) Maxwell and Rao, 2003, “Do spinoffs expropriate wealth from bondholders?” *Journal of Finance* 58, 2087-2108.

Ahn and Denis, 2004, “Internal capital markets and investment policy: Evidence from corporate spinoffs,” *Journal of Financial Economics* 71, 489-516.

Database: SDC

Equity carve-outs

Schipper and Smith, 1986, “A comparison of equity carve-outs and season equity offerings: Share price effects and corporate restructuring,” *Journal of Financial Economics* 15, 153-186.

Allen and McConnell, 1998, "Equity carve-outs and managerial discretion," *Journal of Finance* 53, 163-186.

Vijh, 1999, "Long-term returns from equity carve-outs," *Journal of Financial Economics* 51, 273-308.

(**) Lamont and Thaler, 2003, "Can the market add and subtract? Mispricing in tech stock carve-outs," *Journal of Political Economy* 111, 227-268.

Tracking stock

Billett and Mauer, 2000, "Diversification and the value of internal capital markets: The case of tracking stock," *Journal of Banking and Finance* 24, 1457-1490.

Billett and Vijh, 2004, "The wealth effects of tracking stock restructurings," *Journal of Financial Research* 27, 559-583.

M&A agency issues

(**) Bodnaruk, Massa and Simonov, 2009, "Investment banks as insiders and the market for corporate control," *Review of Financial Studies* 22, 4989-5026.

Krishnan and Masulis, 2011, "Law firm expertise and mergers and acquisitions," working paper, ssrn.com/abstract=1443384.

Golubov, Petmezas and Travlos, 2011, "When it pays to be your investment banker: New evidence on the role of financial advisors in M&As," *Journal of Finance*, forthcoming.

M&A negotiation tactics

Boone and Mulherin, 2008, "Do auctions induce a winner's curse? New evidence from the corporate takeover market," *Journal of Financial Economics* 89, 1-19.

Betton, Eckbo and Thorburn, 2009, "Merger negotiations and the toehold puzzle," *Journal of Financial Economics* 91, 158-178.

Ahern, Daminelli and Fracassi, 2011, "Lost in translation? The effect of cultural values on mergers around the world," working paper, ssrn.com/abstract=1545514.

(**) Ahern and Sosyura, 2011, "Who writes the news? Corporate press releases during merger

negotiations,” working paper, ssrn.com/abstract=1570530.

M&A termination fees

Officer, 2003, “Termination fees in mergers and acquisitions,” *Journal of Financial Economics* 69, 431-467.

Bates and Lemmon, 2003, “Breaking up is hard to do? An analysis of termination fee provisions and merger outcomes,” *Journal of Financial Economics* 69, 469-504.

(**) Boone and Mulherin, 2007, “Do termination provisions truncate the takeover bidding process?” *Review of Financial Studies* 20, 461-489.