

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

Spring 2012
Mondays & Wednesdays, 3:00 - 4:20, KMEC 2-60

Prof. David Yermack
Office Hours: Mon., 10:30 - 1:30; Weds. 11:00 - 12:00

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Description: This course examines issues in corporate finance and corporate governance. Topics include choices of organizational form, mergers and acquisitions, spinoffs, private equity, takeover defenses, financial distress, executive compensation, institutional investors, boards of directors, corporate governance reform, and shareholder activism. 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 that have recently experienced major organizational transitions.

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* 4th ed., 2008).
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 midterm exam and a mandatory take-home final exam. The *midterm exam* will be given Wednesday, March 21 during the regular class period and will consist of a series of short essay questions. If you 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 midterm, you may answer six of the 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 midterm.

Academic calendar: We follow the Stern School academic calendar and have 26 class meetings (including the midterm exam date). The first day of class is Monday, January 30. There is no assignment to be done in advance of the first class. The final class is Monday, May 7. There is no class on Monday, February 20 (Presidents Day), nor on Monday & Wednesday, March 12 & 14 (Spring break). We do not observe “legislative Mondays” when held at the Law School. 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

Approximately one topic per class period, except where noted

Course introduction

Case Discussion: acquisition of ITT Corp.

Gaughan, pp 432-433.

Agency costs; Evolution of modern corporations

Gaughan, pp 478-492.

Monks and Minow, pp 9-14 and 94-118.

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, Monks and Minow, pp 488-491.

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.

Downsizing and layoffs

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.

Voting, ownership, and the value of control

Gaughan, pp 202-204, 271-289.

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

Activism by Institutional Investors and Small Shareholders

Monks and Minow, pp 118-213.

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).

Deconglomeration: spinoffs, carve-outs, tracking stock and split-offs (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: Pay for performance?

Monks and Minow, pp 306-331.

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