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

Spring 2002
Monday & Wednesday, 3:00 - 4:20, Schimmel Auditorium

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Office Hours: Mon. and Weds., 1:00-3:00

Description: Issues in corporate finance and corporate governance. Topics include choices of organizational form, mergers and acquisitions, spinoffs, highly leveraged transactions, takeover defenses, financial distress, executive compensation, institutional investors, boards of directors, 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 basic 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 (2nd ed., 1999)

Reading packets: In addition to readings assigned from the textbooks, I will distribute xeroxed packets every second or third class containing readings from academic journals and the popular media. Extra copies will be available on a special shelf in the Finance Department office on the 9th floor of Tisch Hall. I believe the readings are most helpful if done in advance of class.

Course requirements: Three different evaluation tools will determine course grades: a midterm exam, case study write-ups, and a take-home final exam. Each student may choose his or her preferred combination of these items, subject to the following constraints:

1. The midterm exam will be given on Wednesday, March 6. The exam will consist of a series of short essay questions. If you elect to take the exam, it will count as 50 percent of your grade.
2. Four case-study write-ups will be assigned at various points during the course. I will grade these assignments on a scale of 0 to 10 and count each student’s three highest scores. If you elect to complete the case study write-ups, they will count as 50 percent of your grade.

   Students who begin turning in case write-ups and wish to abandon this method of evaluation may do so by substituting one take-home exam essay for each subsequent remaining case (but not for an earlier case they may have skipped or done poorly on); for example, a student who turns in the first two cases may omit cases 3 and 4 and turn in two take-home questions instead, with the best three out of four assignment scores counting for 50 percent of the course grade. A skipped case receives a grade of zero (presumably to be dropped as the lowest of a student’s four case grades).

3. A take-home exam will be distributed in April and due during the May final exam period. The exam will have eight essay questions of 500 words length. Answers will be graded on a scale of 0 to 10. You may answer three of the eight essay questions and have the take-home count as 50 percent of your grade, or you may answer six of the questions and have the take-home count as 100 percent of your grade.

These choices are meant to provide students with flexibility and allow everyone to be evaluated in a mode that favors his or her academic strengths. However, students will not be permitted to do extra assignments to nullify scores they receive on the midterm exam or case studies.

**Collaboration on case assignments:** Cases may be done individually or in teams of two students. If you work with another student, hand in one copy of the case with both students’ names. You may not work on the case assignments with anyone other than your partner – collaboration, copying, or any other sharing of material between case authors is forbidden and will be treated as a violation of the school’s honor code.

**Lecture Topics and Readings**
Approximately one topic per class period, except where noted

**Course introduction**

   *Case Discussion:* Readings from the news media on acquisition of ITT.

**Agency costs; Evolution of modern corporations**

Monks and Minow, pp 5-13 and 80-97

Case Discussion: Armand Hammer and Occidental Petroleum, Monks and Minow, pp 373-376, plus additional readings from the news media.

Capital market efficiency and managers' behavior


"Free cash flow" and financial slack


Case Discussion: Readings from the news media on Chrysler Corp. and Kirk Kerkorian.

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

Gaughan, pp 61-84, 116-128, 144-168, 199-203, 243-267, 522-529, plus additional readings from the news media.

Takeover defenses


Downsizing and layoffs

Gaughan, pp 426-427, plus additional readings from the news media.


Case Discussion: Readings from the news media on "Chainsaw" Albert Dunlap.
Diversification and conglomerates

Gaughan, pp 30-38, 53-55, 128-144.

Malkiel, pp 61-69.


**Deconglomeration: spinoffs, carve-outs, tracking stock and split-offs** (2 classes)

Gaughan, pp 397-426, plus additional readings from the news media.


Leverage as a control mechanism

Gaughan, pp 217-224, 291-326, plus additional readings from the news media.


Financial distress: Costs, benefits and outcomes

Gaughan, pp 432-452.


Financial distress: Reform proposals


Perelman v. Ichan: Clash of the Titans

Gaughan, pp 452-456, plus additional readings from the news media.

Managing under an overhang of potential litigation liability

*Case Discussion:* readings from the news media on the U.S. tobacco industry

Executive compensation: Pay for performance?

Monks and Minow, pp 221-233, plus additional readings from the news media.


Stock options as an incentive and as a source of capital

Readings from the news media on executive stock options

Regulating executive compensation


Top management turnover and succession

*Case Discussion:* James Robinson and American Express, Monks and Minow, pp. 338-349, plus additional readings from the news media.
The voting system and managerial control

Gaughan, pp 195-198, plus additional readings from the news media.


Boards of directors: Who they are, what they do

Monks and Minow, pp 164-203, plus additional readings from the news media.

*Case Discussion:* In the matter of Cooper Companies, Inc. (SEC, 1994).

*Case Discussion:* H. Ross Perot and General Motors, Monks and Minow, pp 321-333.

Boards of directors reform proposals

Monks and Minow, pp 203-214, plus additional readings from the news media.

*Case Discussion:* Readings from the news media on Archer Daniels Midland.

Institutional investors

Monks and Minow, pp 110-135 and 151-157, plus additional readings from the news media.

Shareholder activism

Monks and Minow, pp 135-151, plus additional readings from the news media.

Gaughan, pp 268-282.

Value implications of regulatory change

*Case Discussion:* Readings from the news media on deregulation of the electric utility industry and the California power crisis.