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

Fall 2008
Tuesday & Thursday, 3:00 - 4:20, Schimmel Auditorium

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Description: 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 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).


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 near my office. 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. These choices are meant to provide students with flexibility and allow everyone to be evaluated in a mode that favors their academic strengths. Each student may choose his or her preferred combination of these items, subject to the following constraints:

1. **A midterm exam** will be given on Thursday, October 23. The exam will consist of a series of short essay questions. If you take this exam, it will count as 50 percent of your grade.

2. Three **case study write-ups** will be assigned at various points during the course. Cases may be done individually or in teams of two students (please hand in only one paper). I will grade these assignments on a scale of 0 to 10 and take the sum of each student’s three scores. If you hand in these case studies, they will count as 50 percent of your grade.
   - The second and third case studies must be purchased on-line; details will be provided. The first case study will be distributed free of charge in class.
   - Students may choose to complete only one or two cases and substitute extra take-home essay questions (see below) for each case not handed in, up to a total of three.
   - *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 an honor code violation.

3. **A take-home exam** will be distributed by mid November and due Friday, December 19. 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. Additional questions may be used as substitutes for case study assignments not completed (see above). However, *students will not be permitted to do extra take-home exam questions o nullify scores they receive on the midterm exam or case studies.*

**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 Tuesday, September 2. There is no assignment to be done in advance of the first class. The final class is Tuesday, December 9. Due to holidays there is no class on September 30, October 9, or November 27. 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:* Readings from the news media on acquisition of ITT.

Agency costs; Evolution of modern corporations

Gaughan, pp 483-485.

Monks and Minow, pp 8-16 and 98-118.


*Case Discussion:* Armand Hammer and Occidental Petroleum, Monks and Minow, pp 418-421, plus additional readings from the news media.

Capital market efficiency and managers' behavior


Malkiel, pp 34-51, 125-170, 242-274, 355-367, plus additional readings from the news media.

"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)

Voting, ownership, and the value of control

Gaughan, pp 189-191, 263-279, plus additional readings from the news media.

Takeover defenses


Downsizing and layoffs

Readings from the news media.


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

Diversification and conglomerates


Malkiel, pp 57-64.


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

Gaughan, pp 401-442, plus additional readings from the news media.


Private equity and highly leveraged transactions (2 classes)


Financial distress: Costs, benefits and outcomes

Gaughan, pp 443-478.


Perelman v. Ichan: Clash of the titans

Case Discussion: Marvel Entertainment. Readings from the news media.

Executive compensation: Pay for performance?

Monks and Minow, pp 262-278, plus additional readings from the news media.


Activism by Institutional Investors and Small Shareholders

Monks and Minow, pp 119-187, plus additional readings from the news media.