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

Fall 2006
Monday & Wednesday, 3:00 - 4:20, KMEC 2-60

Prof. David Yermack
Office: KMEC 9-56, 998-0357
Office Hours: Mon. 1:30-3:00    E-mail: dyermack@stern.nyu.edu
Wed. 11:00 - 12:00 and 1:30 - 3:00

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 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, November 1. 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. 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 from the four cases (students who are satisfied with their scores on the first three cases do not need to complete case 4). If you hand in the case studies, they will count as 50 percent of your grade.

Two of the four case studies must be purchased on-line from www.bookstores.nyu.edu. Click on the "Book Inquiry & Ordering" link; select the "Search by ISBN" option and enter ISBN 0000469319; proceed to Checkout and complete your order.

3. A take-home exam will be distributed in mid-November and due Friday, December 15. 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.

Substitution of take-home essay questions for cases not completed: 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. However, only those students who hand in all four case studies will be eligible to have their lowest individual case grade dropped.

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.

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 Wednesday, September 6. There is no assignment to be done in advance of the first class. The final class is Monday, December 11. Holidays with no class occur on Monday, October 2, and Wednesday, November 22. Though the last class takes place on the first day of 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

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)

Gaughan, pp 57-97, 111-123, 136-161, 238-264, 522-530 plus additional readings from the news media.
Voting, ownership, and the value of control


Takeover defenses

Gaughan, pp 97-104, 167-211, 221-234 plus additional readings from the news media.

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.


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

Gaughan, pp 395-427, plus additional readings from the news media.


Private equity and highly leveraged transactions (2 classes)

Gaughan, pp 211-219 and 291-327, plus additional readings from the news media.


Financial distress: Costs, benefits and outcomes

Gaughan, pp 430-453.


Perelman v. Ichan: Clash of the titans

*Case Discussion:* Marvel Entertainment. Gaughan, pp 453-459, plus additional readings from the news media.

Executive compensation: Pay for performance?

Monks and Minow, pp 262-278, 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

Top management turnover and succession

*Case Discussion:* James Robinson and American Express, Monks and Minow, pp. 383-393, plus additional readings from the news media.
Boards of directors

Monks and Minow, pp 195-249, 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 366-371.

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

Activism by Institutional Investors and Small Shareholders

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