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

Fall 2004  
Monday & Wednesday, 3:00 - 4:20, Schimmel Auditorium

Assoc. Prof. David Yermack  
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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, highly leveraged transactions, 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, October 27. 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.

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.

3. A take-home exam will be distributed in November and due during the December 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 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.

"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.


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

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


Leverage as a control mechanism

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.