

SYLLABUS FOR
Mgt. 231D - Sec. 1 - FQ 1998
J. F. Weston

TAKEOVERS, RESTRUCTURING, AND CORPORATE
GOVERNANCE

I. Purpose of the M&A Course

This course examines the process by which takeovers and other corporate control transactions take place, and the role of restructuring and shifts in resource allocation by corporations. Of particular interest will be the empirical evidence on economic and capital market reactions to control transactions and to defensive measures by management against takeover bids, buyout transactions, and the relation of takeovers to capital structure changes. A major focus will be the interaction of strategic planning, value planning, financial strategies, and investment decisions in the life cycle of growth of the firm.

Our experience has been that much of the learning comes from being exposed to a wide range of literature and cases on mergers and acquisitions, so it is useful to read the best articles on the subject. In addition, it is useful to do many cases. The combination of lectures, reading articles, and case discussions will develop knowledge and maturity of judgment with respect to M&A decisions.

II. Basic Texts

1. J. Fred Weston, Kwang S. Chung, and Juan A. Siu, Takeovers, Restructuring, and Corporate Governance, Upper Saddle River, NJ: Prentice Hall, 1998. (WCS)
2. J. Fred Weston, Study Guide to Takeovers, Restructuring, and Corporate Governance, Upper Saddle River, NJ: Prentice Hall, 1998. (SG)
3. Alexandra Reed Lajoux and J. Fred Weston, The Art of M&A Financing and Refinancing: Sources and Instruments for Growth, New York: McGraw-Hill, 1999. (LW)
4. Bruce Wasserstein, Big Deal, New York: Warner Books, 1998.

III. Recommended Books

1. Philippe C. Haspeslagh and David B. Jemison, Managing Acquisitions: Creating Value Through Corporate Renewal, New York: The Free Press, 1991.
2. Alexandra Reed Lajoux, The Art of M&A Integration: A Guide to Merging Resources, Processes, and Responsibilities, New York: McGraw-Hill, 1997.

IV. Procedural Matters

1. General Information: There will be a heavy emphasis on mastery of the fundamental concepts of valuation and other areas of corporate finance related to M&As. Drill on mastery of basic concepts in assignments and quizzes. Important to learn the theory early to apply it in cases and problems.
2. Seating will be alphabetical. Teams of 3 will be based on varied backgrounds. We usually have handout materials at each class. Please designate someone to pick up handout materials if you must miss the class.
3. Homework or cases will be assigned to be turned in or presented as designated. Some will be individual assignments; some will be team assignments. Written responses to assignments should be computer output. Neatness and clarity of presentation are important. If late, will lose points.
4. Quizzes are possible after the first week and will be closed book. Substitute assignments will be made for up to two misses.
5. Cases and other class presentations; see separate sheets.
6. The Wall Street Journal is a required text for this course. Either clip or keep your full copies for this quarter at least. When we give an assignment to a merger covered in depth in the Wall Street Journal, we will assume that you have access to the articles. We will provide the date and page numbers. This will conserve paper and help protect our forests.
7. Grading:
 - Class Participation and Presentations 20 - 30%
 - Quizzes/Examination 30 - 40%
 - Cases and Other Assignments 30 - 50%
8. Office Hours
 - Weston: C4.24, Tuesdays from 12-1 P.M., by appointment,
 - (310) 825-2200 or Ext. 52200
 - e-mail: jweston@anderson.ucla.edu
9. Please supply a copy of your resume at the first class meeting.

V. Course Outline and Schedule of Topics

<u>Weeks</u>	<u>Chapter</u>	<u>Topic</u>
1.1	1	Nature and Reasons for Mergers <ol style="list-style-type: none">Industry consolidationEconomies of scaleEconomies of distributionNegative market reaction

<u>Weeks</u>	<u>Chapter</u>	<u>Topic</u>
		e. Add to product line
		f. Industry major player
		g. Catch up technologically
		h. Leader in key technology
1.1	1A	Planning Checklist
1.1	1B	Due Diligence
1.2	2	Legal and Regulatory Framework
2.1	3	Accounting
2.1	4	Tax Planning
2.2	5	Theories
2.2	5A	Measurement of Abnormal Returns
2.2	5B	Hostile Takeovers
2.2	5C	Multiple Bidders
2.2	6	Merger Movements
3.1	7	Are Mergers Successful (Empirical)
3.1	8	Strategy and Implementation
3.2	9	Valuation
3.2	9A	Valuation Models
3.2	9B	Calculating Growth Rates
4.1	10	Increasing Organization Value
4.2	10A	Structuring the Deal
4.2	10B	Negotiating the Deal
5.1	11	Restructuring and Divestitures
5.1	12	Restructuring Ownership
5.1	12A	Spin-offs
5.1	12B	Split-ups
5.2	12C	Carve-outs
5.2	12D	Tracking Stock
6.1	13	Financial Engineering
6.1	13A	Dual Class
6.1	13B	Exchange Offers
6.2	13C	Leveraged Recaps
6.2	13D	Reorganization
6.2	13E	Liquidation
7.1	14	Joint Ventures
7.2	15	ESOPs and MLPs
8.1	16	Leveraged Buyouts (LBOs)
8.2	17	Cross-Border Transactions
9.1	18	Share Repurchases
9.2	19	Corporate Governance
10.1	20	Takeover Defenses
10.2	21	Merging Corporate Cultures
10.2	22	Acquisition Integration
Examination:		Handed out at Session 8.2 - due on the following Monday by noon.

VI. Case Studies at the End of Each Chapter for Class Discussion on Indicated Sessions

Chapter 2 The Legal and Regulatory Framework

- Van Gorkom
- Revlon Inc. v. Pantry Pride
- Maxwell v. Macmillan
- Paramount v. Time
- Paramount v. QVC Network
- Sandoz-Gerber

Chapter 3 Pooling Versus Purchase Accounting

- AT&T's Acquisition of NCR
- Wells Fargo Acquisition of First Interstate Bancorporation

Chapter 5 Theories of Mergers and Tender Offers

- Boeing's Acquisition of McDonnell Douglas

Chapter 8 Strategy, Diversification, and Takeovers

- Merck Acquisition of Medco
- Acquisition of Lotus Development Corp. by IBM

Chapter 11 Restructuring and Divestitures

- Dillingham
- Entenmann's Bakery
- Hospital Affiliate International

Chapter 12 Restructuring Ownership Relationships

- Sears, Roebuck and Co. Restructuring
- GM Spin-Off of EDS

Chapter 13 Financial Restructuring

- Management Assistance, Inc.

Chapter 14 Joint Ventures

- GM-Toyota Joint Venture

Chapter 15 ESOPs and MLPs

- Pan Petroleum MLP

Chapter 16 Going Private and Leveraged Buyouts

- Sources of Value in LBOs
- RJR Nabisco LBO

Chapter 17 International Takeovers and Restructuring

- The Saga of Gerber Products
- Ciba-Geigy Merger With Sandoz

Chapter 18 Share Repurchase

- Florida Power and Light (FPL)

Chapter 19 Corporate Governance and Performance

- Chrysler Corporation versus Tracinda Corporation - A Struggle for Control

Chapter 20 Takeover Defenses

- Carter Hawley Hale versus Marshall Field & Co.
- Mattel-Hasbro

Chapter 21 Case Studies of M&A Activity

- Time-Warner
- Paramount versus QVC Network
- SBC and Pac Tel
- Bell Atlantic and Nynex
- Disney-Capital Cities/ABC
- Time Warner-Turner Broadcasting
- Westinghouse Acquisition of CBS
- Conoco
- Cities Service

- IC Industries
- ARA Services
- Merrill Lynch

Chapter 22 Management Guides for M&As and Strategies

- Dean Witter Discover's Merger With Morgan Stanley

VII. Related Books

1. Fischel, Daniel, Payback, New York: HarperBusiness, 1995.
2. Yago, Glenn, Junk Bonds: How High Yield Securities Restructured Corporate America, New York: Oxford University Press, 1991.
3. Rock, Milton L., Robert H. Rock, and Martin Sikora, eds., The Mergers and Acquisitions Handbook, 2nd Ed., New York: McGraw-Hill Book Company, 1994.
4. Chew, Donald H., Jr., The New Corporate Finance: Where Theory Meets Practice, New York: McGraw-Hill, Inc., 1993.
5. Chew, Donald H., ed., Studies in International Corporate Finance and Governance Systems, New York: Oxford University Press, 1997.
6. Donaldson, Gordon, Corporate Restructuring, Boston, MA: Harvard Business School Press, 1994.
7. Gray, S. J., and M. C. McDermott, Mega-Merger Mayhem, London: Paul Chapman Publishing Ltd., 1989.
8. Monks, Robert A. G., and Nell Minow, Corporate Governance, Cambridge, MA: Blackwell Publishers, 1995.
9. Stewart, G. Bennett, III, The Quest for Value, New York: HarperBusiness, 1991.

VIII. Reference Books

1. Altman, E. I., Corporate Financial Distress and Bankruptcy, 2nd Ed., New York: John Wiley & Sons, 1993.
2. Auerbach, Alan, ed., Corporate Takeovers, Chicago, IL: University of Chicago Press, 1988.
3. Blair, Margaret M., ed., The Deal Decade, Washington, D. C., The Brookings Institution, 1993.
4. Bruner, R. F., The Poison Pill Anti-takeover Defense: The Price of Strategic Deterrence, Charlottesville, Virginia: The Research Foundation of The Institute of Chartered Financial Analysts, 1991.

5. Coffee, J. C., L. Lowenstein, and Susan Rose-Ackerman, eds., Knights, Raiders and Targets, New York: Oxford University Press, 1988.
6. Copeland, Thomas E., Modern Finance & Industrial Economics, New York: Basil Blackwell, 1987.
7. Copeland, T., T. Koller, and J. Murrin, Valuation: Measuring and Managing the Value of Companies, 2nd Ed., New York: John Wiley & Sons, 1994.
8. DiNapoli, Dominic, Sanford C. Sigoloff, and Robert F. Cushman, eds., Workouts and Turnarounds: The Handbook of Restructuring and Investing in Distressed Companies, GE Capital, Corporate Finance Group, Homewood, IL: Business One Irwin, 1991.
9. Ehrhardt, Michael C., The Search for Value, Boston, MA: Harvard Business School Press, 1994.
10. Gilson, R. J., and B. S. Black, The Law and Finance of Corporate Acquisitions, Westbury, NY: The Foundation Press, Inc., 1986 plus update supplements.
11. Jensen, M. C., and R. S. Ruback, eds., Symposium on The Structure and Governance of Enterprise, Journal of Financial Economics, September/October 1990, Vol. 27, No. 1/2.
12. Jensen, M. C., and J. B. Warner, eds., Symposium on The Distribution of Power Among Corporate Managers, Shareholders, and Directors, Journal of Financial Economics, January/March 1988, Vol. 20, No. 1/2.
13. O'Donoghue, J., and D. Grunewald, eds., How to Resist Hostile Takeovers, New York: International University Press, 1991.
14. Porter, Michael E., ed., Competition in Global Industries, Boston, MA: Harvard Business School Press, 1986.
15. Rappaport, Alfred, Creating Shareholder Value, New York: The Free Press, Macmillan Inc., 1986.
16. Ravenscraft, D., and F. Scherer, Mergers, Sell-Offs, and Economic Efficiency, Brookings Institution, 1987.
17. Sametz, Arnold W., ed., The Battle for Corporate Control, Homewood, IL: Business One Irwin, 1991.
18. Smith, Clifford, Charles Smithson, and Wilford Sykes, Managing Financial Risk, Harper & Row/Ballinger Division, 1990.
19. Yip, George S., Total Global Strategy, Englewood Cliffs, NJ: Prentice Hall, 1992.
20. Zukin, J. H., and J. G. Mavredakis, eds., Financial Valuation: Businesses and Business Interests, New York: Maxwell Macmillan, 1990.

IX. Selected References on Takeovers, Restructuring, and Corporate Governance

The items with an asterisk (*) may be discussed in connection with the class session at which the chapter material is scheduled.

Chapter 1 The Takeover Process

- Donaldson, Gordon, "Voluntary Restructuring: The Case of General Mills," Journal of Financial Economics, 27, 1990, pp. 117-141.
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Chapter 2 The Legal and Regulatory Framework

- Baker, George P., "Beatrice: A Study in the Creation and Destruction of Value," Journal of Finance, 47, July 1992, pp. 1081-1119.
- DeAngelo, Harry, and Linda DeAngelo, "Ancient Redwoods, Junk Bonds, and the Politics of Finance: A Study of the Hostile Takeover of the Pacific Lumber Company," ms., University of Southern California, April 1996.
- Ellert, J. C., "Mergers, Antitrust Law Enforcement and Stockholder Returns," Journal of Finance, 31, 1976, pp. 715-732.
- Weston, J. Fred, The Role of Mergers in the Growth of Large Firms, Berkeley: University of California Press, 1953.
- _____, "Trends in Anti-Trust Policy," Chase Financial Quarterly, 1, Spring 1982, pp. 66-87.

Chapter 3 Pooling Versus Purchase Accounting

- Davis, Michael L., "The Purchase vs. Pooling Controversy: How the Stock Market Responds to Goodwill," Journal of Applied Corporate Finance, 9, Spring 1996, pp. 50-59.
- Hong, Hai, Robert S. Kaplan, and Gershon Mandelker, "Pooling vs. Purchase: The Effects of Accounting for Mergers on Stock Prices," The Accounting Review, 53, January 1978, pp. 31-47.
- *Lys, Thomas, and Linda Vincent, "An Analysis of Value Destruction in AT&T's Acquisition of NCR," Journal of Financial Economics, 39, 1995, pp. 353-378.
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Chapter 4 Tax Planning Options

- Ginsburg, M. D., "Taxing Corporate Acquisitions," Tax Law Review, 38, 1983, pp. 177-319.
- Hayn, C., " Tax Attributes as Determinants of Shareholder Gains in Corporate Acquisitions," Journal of Financial Economics, 23, 1989, pp. 121-153.
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Chapter 5 Theories of Mergers and Tender Offers

- *Berkovitch, Elazar, and M. P. Narayanan, "Motives for Takeovers: An Empirical Investigation," Journal of Financial and Quantitative Analysis, 28, September 1993, pp. 347-362.
- Jensen, Michael C., "Takeovers: Folklore and Science," Harvard Business Review, 62, November-December 1984, pp. 109-120.
- _____, "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers," American Economic Review, 76, May 1986, pp. 323-329.
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- Roll, Richard, "The Hubris Hypothesis of Corporate Takeover," Journal of Business, 59, April 1986, pp. 197-216.
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- Schleifer, Andrei, and Robert W. Vishny, "Large Shareholders and Corporate Control," Journal of Political Economy, 94, June 1986, pp. 461-488.

Chapter 6 The Timing of Merger Activity

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Chapter 7 Empirical Tests of M&A Performance

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Chapter 8 Strategy, Diversification, and Takeovers

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- Comment, Robert, and Gregg A. Jarrell, "Corporate Focus and Stock Returns," Journal of Financial Economics, 37, January 1995, pp. 67-87.
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Chapter 9 Alternative Approaches to Valuation

- Kaplan, Steven N., and Richard S. Ruback, "The Valuation of Cash Flow Forecasts: An Empirical Analysis," Journal of Finance, 50, September 1995, pp. 1059-1093.
- Miller, Merton H., and Franco Modigliani, "Dividend Policy, Growth, and the Valuation of Shares," Journal of Business, 34, October 1961, pp. 411-433.
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Chapter 10 Increasing the Value of the Organization

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- *Kaplan, Steven N., and Michael S. Weisbach, "The Success of Acquisitions: Evidence from Divestitures," Journal of Finance, 47(1), March 1992, pp. 107-138.

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Chapter 15 ESOPs and MLPs

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Chapter 17 International Takeovers and Restructuring

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Chapter 20 Takeover Defenses

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