
CONTENTS

Case Study		xi
Preface		xv
Part 1 Background		1
1 Introduction		3
Recent M&A Trends		3
Definitions		12
Valuing a Transaction		13
Types of Mergers		13
Reasons for Mergers and Acquisitions		14
Merger Consideration		15
Merger Professionals		16
Merger Arbitrage		19
Leveraged Buyouts and the Private Equity Market		20
Corporate Restructuring		21
Merger Negotiations		21
Structuring the Deal		24
Merger Agreement		24
Merger Approval Procedures		25
Deal Closing		26
Short-Form Merger		26
Freezeouts and the Treatment of Minority Shareholders		27
Purchase of Assets Compared with Purchase of Stock		27
Assumption of the Seller's Liabilities		28
Advantages of Asset Acquisitions		28
Asset Selloffs		28
Reverse Mergers		29
Holding Companies		33
2 History of Mergers		35
Merger Waves		35
What Causes Merger Waves?		36
First Wave, 1897–1904		36
Second Wave, 1916–1929		42
The 1940s		44

Third Wave, 1965–1969	44
Trendsetting Mergers of the 1970s	51
Fourth Wave, 1984–1989	57
Fifth Wave	63
Sixth Merger Wave	71
Summary	73
3 Legal Framework	74
Laws Governing Mergers, Acquisitions, and Tender Offers	75
Other Specific Takeover Rules in the United States	86
International Securities Laws Relating to Takeovers	88
Business Judgment Rule	95
State Antitakeover Laws	97
Regulation of Insider Trading	104
Antitrust Laws	107
Recent Trends in Antitrust Enforcement in the United States	114
Measuring Concentration and Defining Market Share	116
European Competition Policy	120
Antitrust Remedies	122
Summary	123
4 Merger Strategy	125
Growth	125
Synergy	132
Operating Synergy	134
Diversification	146
Other Economic Motives	156
Hubris Hypothesis of Takeovers	168
Other Motives	174
Summary	179
Part 2 Hostile Takeovers	181
5 Antitakeover Measures	183
Management Entrenchment Hypothesis versus Stockholder Interests Hypothesis	184
Preventative Antitakeover Measures	185
Changing the State of Incorporation	206
Active Antitakeover Defenses	206
Information Content of Takeover Resistance	240
Summary	241

CONTENTS

vii

6	Takeover Tactics	243
	Preliminary Takeover Steps	245
	Tender Offers	250
	Open Market Purchases and Street Sweeps	267
	Advantages of Tender Offers Over Open Market Purchases	269
	Arbitrage and the Downward Price Pressures around M&A Announcements	271
	Proxy Fights	271
	Hedge Funds as Activist Investors	286
	Summary	288
Part 3	Going-Private Transactions and Leveraged Buyouts	291
7	Leveraged Buyouts	293
	Terminology	293
	Historical Trends in LBOs	293
	Costs of Being a Public Company	302
	Management Buyouts	304
	Conflicts of Interest in Management Buyouts	307
	U.S. Courts' Position on Leveraged Buyouts Conflicts	307
	Financing for Leveraged Buyouts	316
	Returns to Stockholders From LBOs	321
	Returns to Stockholders From Divisional Buyouts	322
	Empirical Research on Wealth Transfer Effects	329
	Protection for Creditors	329
	Summary	333
8	Topics in Going-Private Transactions	335
	Private Equity Market	335
	Junk Bonds' Financing of Takeovers	344
	Stapled Financing	361
	Securitization and M&A Financing	362
	Summary	364
9	Employee Stock Ownership Plans	366
	Historical Growth of ESOPs	366
	Types of Plans	367
	Characteristics of ESOPs	368
	Leveraged versus Unleveraged ESOPs	369
	Corporate Finance Uses of ESOPs	369
	Voting of ESOP Shares	371
	Cash Flow Implications	371
	Valuation of Stock Contributed into an ESOP	372

Eligibility of ESOPs	372
Put Options of ESOPs	372
Dividends Paid	373
ESOPs versus a Public Offering of Stock	373
Employee Risk and ESOPs	375
Securities Laws and ESOPs	376
Tax Benefits of LESOPs	376
Balance Sheet Effects of ESOPs	377
Drawbacks of LESOPs	377
ESOPs and Corporate Performance	378
ESOPs as an Antitakeover Defense	381
ESOPs and Shareholder Wealth	382
ESOPs and LBOs	383
Summary	386
Part 4 Corporate Restructuring	387
10 Corporate Restructuring	389
Divestitures	391
Divestiture and Spinoff Process	402
Wealth Effects of Selloffs	410
Equity Carve-Outs	424
Voluntary Liquidations or Bustups	428
Tracking Stocks	430
Master Limited Partnerships and Selloffs	431
Summary	433
11 Restructuring in Bankruptcy	435
Types of Business Failure	435
Causes of Business Failure	437
Bankruptcy Trends	440
U.S. Bankruptcy Laws	446
Reorganization Versus Liquidation	447
Reorganization Process	448
Benefits of the Chapter 11 Process for the Debtor	454
Prepackaged Bankruptcy	457
Workouts	460
Corporate Control and Default	465
Liquidation	465
Bankruptcy Fire Sales	466
Investing in the Securities of Distressed Companies	467
Summary	471

CONTENTS

ix

12	Corporate Governance	473
	Failed Corporate Governance: Accounting Scandals	473
	Sarbanes-Oxley Act	475
	Other Regulatory Changes	477
	Corporate Governance	477
	Golden Parachutes	487
	Managerial Compensation, Mergers, and Takeovers	490
	CEO Compensation and Power	492
	Compensation Characteristics of Boards That Are More Likely to Keep Agency Costs in Check	494
	Role of the Board of Directors	495
	Interlocking Boards	496
	Independence of Directors	497
	Regulatory Standards for Directors	503
	Antitakeover Measures and Board Characteristics	504
	Disciplinary Takeovers, Company Performance, CEOs, and Boards	506
	Merger Strategy and Corporate Governance	507
	Do Boards Reward CEOs for Initiating Acquisitions and Mergers?	507
	CEO Compensation and Diversification Strategies	509
	Agency Costs and Diversification Strategies	509
	Interests of Directors and M&As	510
	Managerial Compensation and Firm Size	511
	Corporate Control Decisions and Their Shareholder Wealth Effects	512
	Does Better Corporate Governance Increase Firm Value?	513
	Corporate Governance and Competition	514
	Executive Compensation and Postacquisition Performance	514
	Mergers of Equals and Corporate Governance	515
	Summary	522
13	Joint Ventures and Strategic Alliances	523
	Contractual Agreements	523
	Comparing Strategic Alliances and Joint Ventures with Mergers and Acquisitions	524
	Joint Ventures	524
	Strategic Alliances	530
	Summary	537
14	Valuation	538
	Valuation Methods: Science or Art?	540
	Managing Value as an Antitakeover Defense	540

CONTENTS

Benchmarks of Value	541
How the Market Determines Discount Rates	553
Valuation of the Target's Equity	562
Takeovers and Control Premiums	564
Marketability of the Stock	566
Valuation of Stock-for-Stock Exchanges	575
Trends in Cash versus Stock Percentage of Takeover Financing	576
Shareholder Wealth Effects and Methods of Payment	580
Exchange Ratio	586
Fixed Number of Shares versus Fixed Value	593
Adjusting Stock Offers for the Effects of Stock Options and Convertible Securities	593
International Takeovers and Stock-for-Stock Transactions	593
Desirable Financial Characteristics of Targets	594
Summary	602
Appendix	603
15 Tax Issues	607
Financial Accounting For M&As	607
Taxable Versus Tax-Free Transactions	608
Tax Consequences of a Stock-For-Stock Exchange	610
Asset Basis Step-Up	613
Changes in The Tax Laws	614
Role of Taxes in The Merger Decision	616
Role of Taxes in the Choice Selloff Method	617
Organizational Form and M&A Premiums	617
Capital Structure And Propensity to Engage in Acquisitions	618
Leverage and Deal Structure	618
Taxes as a Source of Value in Management Buyouts	619
Miscellaneous Tax Issues	620
Summary	621
Glossary	623
Index	631