

UNIVERSITY OF PENNSYLVANIA

Deals:

The Economic Structure of Transactions and Contracts

LAW 720/MGMT 717

Spring 2013

Mondays and Wednesdays 3:00 to 4:20 PM

Gittis- (TBD)

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This course will focus on the creation of value through transaction and contract design. The goal of the course is to explain both how private parties actually order their commercial interactions and to develop a systematic theory of how they ought to do so.

The first fourteen or so classes will be devoted to barriers to transacting-including information problems and strategic behavior-and a range of responses. In the final ten classes, student teams will apply the tools developed in the first part of the course to a series of real transactions. This syllabus covers the first of these parts in detail. The second part will be described in a separate memorandum.

Required reading: Course materials on website and handouts

Grading bases: Class participation, assigned problems, a group presentation, and two individual papers.

**REGULAR ATTENDANCE IS EXPECTED**

**YOU MAY WORK ALONE OR IN PAIRS ON ALL HOMEWORK PROBLEMS.**

**HOWEVER, THE TERM PAPER MUST BE INDIVIDUALLY WRITTEN.**

Class 0 (January 7)  
LAW STUDENTS ONLY—WHARTON TERM NOT YET COMMENCED  
Some Economics Background

**Schools Brief - Unlocking Corporate Finance, The Economist 81-82 (December 8, 1990).**  
**Stephen Ross, Randolph Westerfield & Jeffrey Jaffe, Corporate Finance 417 (7th ed. 2005).**

The readings below for Class 0 are strictly optional, but deeply thought provoking:

**Ronald H. Coase, The Nature of the Firm, 4 *Economica* 386 (1937).**

**Ronald H. Coase, The Problem of Social Cost, 3 *Journal of Law and Economics* 1 (1960).**

**Franco Modigliani and Merton H. Miller, The Cost of Capital, *Corporation Finance and the Theory of Investment*, 48 *American Economic Review* 261 (1958).**

Class 1 (January 9)  
Introduction

**Josh Levin, Bullpen Market,** (A minor-league pitcher named Randy Newsom is selling shares of his future earnings. Should I invest?)

**A Note on Implied Warranties**

**Potato Chip Supply Agreement (How might you modify this agreement if you represented a major national snack food company and wanted supplier to be a major supplier to you of potato chips?)**

Class 2 (January 14)

The Reverse Modigliani-Miller Theorem and Introduction to Mergers and Acquisitions

**Pfizer-Wyeth Merger Agreement, January 25, 2009 (skim Article I)**

**Peter Huang and Michael Knoll, *Corporate Finance, Corporate Law, and Finance Theory*, 74 *Southern California Law Review* 175 (2000), pages 177-80.**

**Robert Bruner, *Applied Mergers and Acquisitions*, pages 531-38.**

**William J. Carney, *Essentials of Mergers and Acquisitions*, pages 13-25**

Class 3 (January 16)  
Informational Asymmetry: Adverse Selection I

Problem to be handed in before class: **Real Estate Deal with Free Look Clause**

**George Akerlof, The Market for Lemons: Quality, Uncertainty and the Market Mechanism, 84 Quarterly Journal of Economics 488 (1970)** (read, but do not struggle with the model).

CLASS WILL NOT MEET ON JANUARY 21 DUE TO MARTIN LUTHER KING DAY

Class 4 (January 23)  
Informational Asymmetry: Adverse Selection II

**Pfizer-Wyeth Merger Agreement, Sections, Article III.**  
**Ronald Gilson, Value Creation by Business Lawyers: Legal Skills and Asset Pricing, 94 Yale Law Journal 239, pages 269 – 280 (1984)** (Value Creation).  
**James Freund, Anatomy of a Merger, pages 242-248 (1975).**

Class 5 (January 28)  
Agency Costs: Moral Hazard I

**Pfizer-Wyeth Merger, Articles V, VII, and VIII** (sections on covenants, closing conditions, termination).  
**Illinois Lottery Sale**

Class 6 (January 30)  
Agency Costs: Moral Hazard II

**Ronald Gilson, Value Creation, pages 280 - 293.**  
**Ronald Gilson and Reiner Kraakman, Mechanisms of Market Efficiency, 70 Virginia Law Review 549, pages 613 – 621 (1984).**  
**A note on Hotel Management and Ownership.**  
Problem to be handed in before class: **San Francisco Luxury Hotel Development.**

Class 7 (February 4)  
Asset Specificity I

**Levi's-Designs Joint Venture Part I.**

Problem to be handed in before class: **Pay or Play, Take or Pay.**

Class 8 (February 6)  
Asset Specificity II

**Levi's-Designs Joint Venture Part II: Rights of First Refusal** (Be prepared to answer questions at end of the case – do not hand in).

Problem to be handed in before class: **Miami Dolphins Case Study: Right of First Refusal** (Again, you may work alone or in pairs).

Class 9 (February 11)  
Taxation: Basic Principles

**Myron Scholes et al., Taxes and Business Strategy, pages 1-8, 118-27, 130-32.**

**Guy Baehr, NJ Transit Getting Foreign Firms to Pay the Fare: Overseas lease-back tax shelters proving profitable for agency, The Newark Star Ledger, July 25, 1995.**

**Andrew McIntosh, Governor in the Jet-Lease Business, Sacramento Bee, January 3, 2006.**

**Bob Turner et al., Transfer Pricing Gets More Scrutiny, Financial Executive, May 1, 2004.**  
**"Explanation of Calculations in PAI Leasing Example."**

Class 10 (February 13)  
Taxation: Mergers and Acquisitions

Problems to be discussed in class (need not be handed in): **Pinnacle's acquisition of Tangent.**

Class 11 (February 18)  
Taxation: Other Regulations

**John Carryrou and Maurice Tamman, A Device to Kill Cancer, Lift Revenue, Wall Street Journal, December 10, 2010.**

**42 U.S.C. § 1320 – 7b(b).**

**42 U.S.C. § 1395nn (excerpts)**

Class 12 (February 20)  
Exogenous Risk

Materials to be distributed

Class 13 (February 25)  
Putting It All Together: Contingent Contracts

**Robert Bruner, Applied Mergers and Acquisitions, pages 609-22.**

Problem: Contingent Compensation Problem: **Sports Apparel Licensing** (Be prepared to answer the questions in class).

Problem to be handed in before class: **Sale of a Regional Brewer.**

Class 14 (February 27)  
Putting It All Together: Capital Structure

**Marriott Spinoff (A)** (For this case, please be prepared to answer the following questions in class: (a) If you were on the board of Marriott would you have approved this transaction? (b) why or why not?).

Problem to be handed in before class: **Goodyear Tire & Rubber.**

CLASS WILL NOT MEET ON MARCH 4 OR MARCH 6 DUE TO SPRING VACATION

Classes 16 and 17 (March 11 and 13)

Materials to be distributed

Classes 17-26 (March 18 through April 19)  
The Deals

Materials to be distributed

[Last year's transactions were the J. Crew IPO and take private, Halyard Capital's acquisition and subsequent reorganization of Tranzact Information Services, General Electric's strategic acquisition of the Wood Group Well Support operation, Merck's sale of its Animal Health Care products business in connection with its merger with Schering-Plough, and ConAgra's hostile bid for Ralcorp.]