PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIADIO
SCHOOL OF BUSINESS AND MANAGEMENT

JOHN K. PAGLIA, Ph.D., FRM, PRM, CFM

MBAM 624.14
MERGERS AND ACQUISITIONS
FALL 2003, Session B
THURSDAYS: 6:00 P.M. – 10:00 P.M.
MALIBU CAMPUS

SYLLABUS
Introduction

Welcome to MBAM 624! This course is designed to acquaint students with the fundamental issues surrounding corporate control transactions. We will study the theories developed to explain merger and acquisition activity by working the textbook and case studies. We will study various techniques, both theoretical and non-theoretical, used to value business entities, investments, and assets in general.

Course Description

The purpose of this course is to study the process by which economic resources are allocated. Control transactions are initiated by several motivations, ranging from influences from legal and regulatory systems to competition in product and input markets. Discussions will focus on the nature of the firm, strategic planning, valuation, risk management, and various motives for mergers. Empirical findings that support or reject theories developed to explain why firms merge or acquire other entities will also be examined.
**Course Objectives**

In addition to the previously listed objectives, students may also benefit in the following ways by improving his or her:

1. Understanding the fundamentals of measuring economic value;
2. Understanding the building blocks of valuation, including measuring and interpreting a firm’s weighted average cost of capital, understanding risk and its various forms, and estimation of cash flows;
3. Understanding the many ways valuations are performed and the strengths and weaknesses of each method;
4. Understanding which valuation methodologies are appropriate for specific situations;
5. Oral communication skills through class participation and presentations;
6. Written communication skills through case studies; and
7. Ability to work efficiently and effectively within groups.

**Prerequisite**: This is an elective class and requires at least one prerequisite. Please see catalog for details.

**Texts and Course Materials**

Required Texts:

1) Weston, Fred J., Mark L. Mitchell, and J. Harold Mulherin

2) Packet of case studies

**Grading**

The grade description and weighting method are given as follows:

<table>
<thead>
<tr>
<th>Grade distribution</th>
<th>Assignment weights</th>
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</thead>
<tbody>
<tr>
<td>A = 93% - 100%</td>
<td>Case presentation</td>
</tr>
<tr>
<td>A - = 90% - 93%</td>
<td>50 pts.</td>
</tr>
<tr>
<td>B+ = 87% - 90%</td>
<td>Case write-up</td>
</tr>
<tr>
<td>B = 83% - 87%</td>
<td>50 pts.</td>
</tr>
<tr>
<td>B- = 80% - 83%</td>
<td>Final Exam</td>
</tr>
<tr>
<td>C+ = 77% - 80%</td>
<td>100 pts.</td>
</tr>
<tr>
<td>C = 73% - 77%</td>
<td></td>
</tr>
<tr>
<td>C- = 70% - 73%</td>
<td></td>
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<tr>
<td>F = Below 70%</td>
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</tbody>
</table>

**Total:** 200 points

NOTE: I reserve the right to curve final grades in order to approximate a normal distribution.
A brief description of each of the assignments is given below:

1) **Cases:** Each case will be presented to the class by a group of three to five students. The presentation should not exceed 45 minutes. The group assigned to the presentation of a case is also required to e-mail their typed analysis (maximum of 5 typed pages) no later than one day prior to the presentation. Those students who are not members of the presenting group are expected to read the case and be prepared to contribute to the class discussion. Please e-mail me with a request for the “guiding questions” that are helpful to plan your case presentations.

2) **Exam:** There will be one final exam given during the course. Due to the nature of the material we are studying, concepts introduced early in the course will be an integral part of topics covered later in the course. Therefore, the final exam will be comprehensive. For the examination, you may bring one sheet of 8 ½” x 11” paper on which you may write appropriate formulae.

**Attendance Policy**
Attendance for the first class is mandatory. Without advance written notice, missing the first class meeting will result in your being dropped from the class in order to make seats available for those who wish to add the class. Attendance is not explicitly computed in the course grade, but it is expected that students will only miss class under extenuating circumstances (working out of town, attending weddings/funerals, etc.). Prior written notice of expected absences is highly encouraged.

**Office Hours and How to Contact Me**
In general, I will be available before and after each class for at least one hour but I will be happy to arrange meetings outside of these times on request. The best way to contact me personally is through e-mail at my University e-mail address (see above) although you can also call me at the phone number above. I check my e-mail regularly and will respond to messages as quickly as possible - often within 15 minutes.
Conduct

“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.
- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

**Dismissal** – separation of the student from the University on a permanent basis.

**Suspension** – separation of the student from the University for a specified length of time.

**Probation** – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.” GSBM Catalog, pgs. 192-193.

Policy on Disabilities

Assistance for Students with Disabilities

“Students with disabilities, whether mental or physical, are encouraged to contact the Equal Opportunity Office before the academic year begins or soon after classes are in session. This office will assist each student by providing general information about campus facilities and available resources. The office will assist in providing reasonable accommodation to students with disabilities pursuant to applicable laws. Inquiries should be directed to equal opportunity officer, Dr. Calvin H. Bowers, (310) 456-4208. (Students who wish to file a formal grievance should refer to the “Nondiscrimination Policy,” which is listed in the “Legal Notices” section of this catalog.)” GSBM Catalog, pg. 31.
Schedule of Classes

<table>
<thead>
<tr>
<th>Session</th>
<th>Topics</th>
<th>Chapters</th>
<th>Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulatory Environment</td>
<td>2, 2A</td>
<td></td>
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<tr>
<td></td>
<td>Corporate Governance</td>
<td>20</td>
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</table>

We discuss the rationale for the existence of the firm, organizational structures, and separation of ownership and control. Ethical issues facing managers are discussed. We also consider (broadly) forms of restructuring firms. We also survey the laws and regulations that govern various aspects of the market for corporate control including; U.S. antitrust laws, regulation established by state courts, and securities acts controlling insider trading. We also discuss the fiduciary responsibilities of directors and the composition of the board of directors on firm performance.

| 2       | Theories of Mergers & Acquisitions | 6, 8     |                       |
|         | Increasing the Value of the Organization | 10, 10A |                       |

We examine the motives for mergers and acquisitions, characteristics of these corporate control transactions, and empirical results related to the alternative theories.

| 3       | Accounting for M&A and Tax Issues  | 3, 4     | Pepsi/Quaker Oats     |
|         | Strategy                           | 5        |                       |

We examine the different historic forms of accounting for mergers and acquisitions and their impact on reported earnings and cash flows. We will also discuss the recent changes in current accounting requirements and the impairment of goodwill. An overview of the strategic planning process and approaches to strategic planning are discussed. The valuation process is examined further.

| 4       | Financial Restructuring            | 13       | UAL                   |
|         | Going Private transactions         | 16       |                       |

We examine how managers can create value through financing choices related to recapitalizing the firm. We will analyze leveraged recapitalizations, the motive for such transactions, and the value creation and risk associated with highly levered firms. We discuss the process of taking public companies private by managers (MBOs) and private parties (LBO) through highly leveraged transactions.

| 5       | Asset Restructuring                | 11, 12   | USG                   |

We examine managers' asset restructuring choices. Asset restructuring includes: asset sales, equity carve-outs, and spin-offs. Liability restructuring is considered as part of the financing choice when one firm is purchasing another's assets. We attempt to determine the information content of these choices and the related tax consequences.

| 6       | Takeover Defenses                  | 19       | Humana                |

An abundance of takeover defenses have been developed to thwart and ward off potential suitors. We will study many of these defenses, the rationale that gave rise to them, and their effectiveness in shielding incumbent management.

| 7       | Bankruptcy, and Workouts           | Handouts | Hilton/ITT            |

Bankruptcy is examined as a form of recontracting, as a defense to a hostile takeover, as well as a means for facilitating asset transfer. We also examine workouts, or recontracting outside of the court system, and prepackaged bankruptcies.