

SYLLABUS

DEALS: THE ECONOMICS OF STRUCTURING TRANSACTIONS
(LAW 459-08)

Georgetown University Law Center

Professor Joshua C. Teitelbaum

Spring 2015

Tuesday & Thursday, 9:00 AM – 11:00 AM

Course Description: This course examines how attorneys and other professionals create value through transaction engineering. The course is organized in two parts. The first part of the course studies various barriers to transacting, including collective action problems, information problems, risk and uncertainty, and contracting over time, and a range of responses grounded in game theory, contract theory, and decision theory. The second part of the course studies a series of real transactions. Students will be divided into work groups, each of which will be responsible for leading the class discussion on one of the transactions and for writing a group paper analyzing its transaction. Grades will be based on class participation, an individual problem set, the group paper, and a take-home final examination.

Professor Information:

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Office Hours: Thursday, 2:00 PM – 4:00 PM

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Courseware Site: There will be a Courseware site for the course. The password for enrolling in the Courseware site is DEALS. The course materials will be available on the Courseware site. In addition, I will post announcements on the Courseware site from time to time, so please check the site routinely.

Course Materials: The materials for the course—including this syllabus, the assigned readings, and the individual problem set—will be available on the Courseware site for the course.

Class Format: The class format will combine lecture and discussion. Students are expected to attend all class meetings, to prepare for and participate in class discussion on a regular basis, and to complete one problem set that is designed to provide you with practice working with the main concepts of the course. In addition, students will be divided into work groups, each of which will be responsible for leading the class discussion on one of the transactions we study in the second part of the course and for writing a group paper analyzing its transaction. Further administrative details regarding the work groups will be provided at the appropriate time.

Grading: Grades will be based on class participation (10%), the individual problem set (20%), the group presentation and paper (30%), and an eight-hour take-home final examination (40%). Administrative details regarding the final examination will be provided at the appropriate time.

Topics and Assignments: The following is a schedule of topics and reading assignments for the course. Links to the readings will be posted on the Courseware site for the course.

Class	Date	Topic	Assignment
1	Jan 13	Introduction	Ronald J. Gilson, <u>Value Creation by Business Lawyers: Legal Skills and Asset Pricing</u> , <i>Yale Law Journal</i> , Vol. 94, No. 2 (Dec. 1984), pp. 239-313.
I. BARRIERS TO TRANSACTING			
A. <i>Collective Action Problems</i>			
2	Jan 15	Holdouts and Free Riders	Lloyd Cohen, <u>Holdouts and Free Riders</u> , <i>Journal of Legal Studies</i> , Vol. 20, No. 2 (June 1991), pp. 351-362.
3	Jan 20	Holdouts and Free Riders: Debt Tender Offers	David Brittenham and Peter Loughran, <u>Doing a Debt Tender Offer and Consent Solicitation</u> , <i>Insights: The Corporate & Securities Law Advisor</i> , Vol. 21, No. 12 (Dec. 2007), pp. 9-13. <u>HealthSouth Commences Cash Tender Offer and Consent Solicitation</u> , Nov. 16, 2009. HealthSouth Corporation, <u>Offer to Purchase and Consent Solicitation Statement</u> , Nov. 16, 2009. [Read the front cover, pp. i-v, pp. 1-19, and Annex A.] <u>HealthSouth Announces Completion of Refinancing</u> , Dec. 15, 2009.
4	Jan 22	Holdouts and Free Riders: Equity Tender Offers	Jeffrey B. Golden, <u>Clearing the Short-form Threshold in Negotiated Tender Offers</u> , <i>Insights: The Corporate & Securities Law Advisor</i> , Vol. 16, No. 5 (May 2002), pp. 7-12. Andrew M. Johnston, Frederick H. Alexander, Eric S. Klinger-Wilensky, and Jason S. Tyler, <u>Section 251(h) Year in Review</u> , <i>Insights: The Corporate & Securities Law Advisor</i> , Vol. 28, No. 9 (Sept. 2014), pp. 13-22. <u>Johnson & Johnson Begins Tender Offer to Acquire Cougar Biotechnology</u> , June 5, 2009. Johnson & Johnson, <u>Offer to Purchase for Cash</u> , June 5, 2009. [Read the front cover, pp. i-v, and §§ 1, 2, 4 & 8-16.]

Class	Date	Topic	Assignment
			<p><u>Johnson & Johnson Completes Initial Tender Offer for Cougar Biotechnology</u>, July 3, 2009.</p> <p><u>Johnson & Johnson Completes Acquisition of Cougar Biotechnology</u>, July 10, 2009.</p>
5	Jan 27	Holdouts and Free Riders: M&A Deal Protection Devices	<p>Mark J. Kelson and David M. Grinberg, <u>Will Your Defensive Line Be Too Strong? Designing M&A Defensive Strategies</u>, <i>Insights: The Corporate & Securities Law Advisor</i>, Vol. 19, No. 12 (Dec. 2005), pp. 2-12.</p> <p>Sean J. Griffith, <u>The Costs and Benefits of Precommitment: An Appraisal of <i>Omnicare v. NCS Healthcare</i></u>, <i>Journal of Corporation Law</i>, Vol. 29, No. 3 (Spring 2004), pp. 569-623.</p> <p>The Stanley Works, <u>Agreement and Plan of Merger</u>, Nov. 2, 2009. [Read the preamble, Arts I, II, §§ 5.02, 5.03, 6.01 & 6.06, and Art. VIII. Please skim the rest.]</p> <p>Pfizer, Inc., <u>Agreement and Plan of Merger</u>, Jan. 25, 2009. [Read the preamble, Art. I (skip § 1.9), §§ 6.1 & 6.4, and Art. VIII. Please skim the rest.]</p>
6	Jan 29	Holdouts and Free Riders: M&A Deal Protection Devices	<p>Ian Ayres, <u>Analyzing Stock Lock-Ups: Do Target Treasury Sales Foreclose or Facilitate Takeover Auctions?</u> <i>Columbia Law Review</i>, Vol. 90, No. 3 (Apr. 1990), pp. 682-718.</p>

Class	Date	Topic	Assignment
<i>B. Information Problems</i>			
7	Feb 3	Moral Hazard	Mark V. Pauly, <u>The Economics of Moral Hazard: Comment</u> , <i>American Economic Review</i> , Vol. 58, No. 3, Part 1 (June 1968), pp. 531-537.
8	Feb 5	Moral Hazard: Covenants in Debt Contracts	<p>William J. Whelan, III, <u>Bond Indentures and Bond Characteristics</u>, in <i>Leveraged Financial Markets: A Comprehensive Guide to High-Yield Bonds, Loans, and Other Instruments</i>, ed. William F. Maxwell and Mark R. Shenkman (McGraw-Hill, 2010), pp. 171-196.</p> <p><u>Netflix Commences Exchange Offer for its 8.50% Senior Notes due 2017</u>, Dec. 22, 2009.</p> <p>Netflix, Inc., <u>Offer to Exchange</u>, Dec. 21, 2009. [Read the front cover, the Summary, and the Description of Notes. Please skim the rest.]</p> <p>Netflix Inc., <u>Indenture</u>, Nov. 6, 2009. [Just skim this document. It is summarized by the Description of Notes in the Offer to Exchange.]</p>
9	Feb 10	Moral Hazard: Financial Services Contracts	<p>Christine Hurt, <u>Moral Hazard and the Initial Public Offering</u>, <i>Cardozo Law Review</i>, Vol. 26, No. 2 (Jan. 2005), pp. 711-790.</p> <p>Mary L. Schapiro, SEC Chairman, <u>Letter to Representative Darrell E. Issa</u>, Aug. 23, 2013.</p> <p>Ancestry.com Inc., <u>Prospectus</u>, Nov. 4, 2009. [Read the front cover and pp. 121-123. Please skim the rest.]</p> <p>Ancestry.com Inc., <u>Underwriting Agreement</u>, Nov. 4, 2009. [Read the preamble and ¶¶ 3 & 8. Please skim the rest.]</p> <p>Packaged Ice, Inc., <u>Dealer Manager and Consent Solicitation Agreement</u>, July 2, 2003. [Read ¶¶ 1, 2, 5 & 6. Please skim the rest.]</p>

Class	Date	Topic	Assignment
10	Feb 12	Moral Hazard: Covenants and Conditions in M&A Contracts	<p>Ronald J. Gilson and Alan Schwartz, <u>Understanding MACs: Moral Hazard in Acquisitions</u>, <i>Journal of Law, Economics, & Organization</i>, Vol. 21, No. 2 (Oct. 2005), pp. 330-358. [Read §§ 1 & 2.]</p> <p>Stephen I. Glover, Adam J. DiVincenzo, and Arathy S. Thamodaran, <u>Allocating Antitrust Risk in Merger Agreements</u>, <i>Insights: The Corporate & Securities Law Advisor</i>, Vol. 27, No. 10 (Oct. 2013), pp. 10-21.</p> <p>The Stanley Works, <u>Agreement and Plan of Merger</u>, Nov. 2, 2009. [Read Arts III & IV, §§ 5.01, 6.02, 6.03, 6.08 & 6.11, and Art. VII. Please skim the rest.]</p> <p>Pfizer, Inc., <u>Agreement and Plan of Merger</u>, Jan. 25, 2009. [Read Arts. III, IV & V, §§ 6.2, 6.3 & 6.8, and Art. VII. Please skim the rest.]</p>
	Feb 17	No Class – Faculty Retreat	
	Feb 19	No Class – Statutory Monday	
11	Feb 24	Adverse Selection	George A. Akerlof, <u>The Market for “Lemons”:</u> <u>Quality Uncertainty and the Market Mechanism</u> , <i>Quarterly Journal of Economics</i> , Vol. 84, No. 3 (Aug. 1970), pp. 488-500.
12	Feb 26	Adverse Selection: Representations, Warranties, and Indemnification in M&A Transactions	<p>Ronald J. Gilson, <u>Value Creation by Business Lawyers: Legal Skills and Asset Pricing</u>, <i>Yale Law Journal</i>, Vol. 94, No. 2 (Dec. 1984), pp. 239-313. [Re-read § III.D (pp. 267-293).]</p> <p>Stanley, Inc., <u>Agreement and Plan of Merger</u>, June 10, 2008.</p>

Class	Date	Topic	Assignment
13	Mar 3	Adverse Selection: Loan Guarantees; Third-Party Verification in M&A Transactions	<p>Ronald J. Mann, <u>Verification Institutions in Financing Transactions</u>, <i>Georgetown Law Journal</i>, Vol. 87, No. 7 (July 1999), pp. 2225-2272. [Read the Introduction and §§ I & III.]</p> <p>Avery Weiner Katz, <u>An Economic Analysis of the Guaranty Contract</u>, <i>University of Chicago Law Review</i>, Vol. 66, No. 1 (Winter 1999), pp. 47-116. [Read pp. 47-52 and 62-86.]</p> <p>Gilead Sciences, Inc., <u>Parent Guarantee Agreement</u>, Dec. 18, 2007.</p> <p>Robert J. Giuffra, Jr., <u>Investment Bankers' Fairness Opinions in Corporate Control Transactions</u>, <i>Yale Law Journal</i>, Vol. 96, No. 1 (Nov. 1986), pp. 119-141.</p> <p>Wyeth, <u>Schedule 14A</u>, June 17, 2009. [Read "Opinions of Wyeth's Financial Advisors" on pp. 72-92, as well as the opinions of Morgan Stanley (Annex B) and Evercore Group (Annex C).]</p>
14	Mar 5	Adverse Selection: Third-Party Verification in Securities Offerings	<p>Ronald J. Gilson and Reinier H. Kraakman, <u>The Mechanisms of Market Efficiency</u>, <i>Virginia Law Review</i>, Vol. 70, No. 4, (May 1984), pp. 549-644. [Read the introduction and pp. 609-621.]</p> <p>Ancestry.com Inc., <u>Prospectus</u>, Nov. 4, 2009. [Read the front cover, pp. 126 & F-2.]</p> <p>Ancestry.com Inc., <u>Underwriting Agreement</u>, Nov. 4, 2009. [Read ¶ 6 (pp. 16-18).]</p> <p>A. Sidney Holderness and Brooke Wunnicke, <u>Legal Opinion Letters Formbook</u> (3d ed. 2010). [Read §§ 8.01-8.05.]</p> <p>AICPA, <u>AU Section 634 (SAS No. 72): Letters for Underwriters and Certain Other Requesting Parties</u>. [Read ¶¶ .01-.25 and Examples A, C & P in the Appendix.]</p>
	Mar 10	No Class – Spring Break	
	Mar 12	No Class – Spring Break	

Class	Date	Topic	Assignment
<i>C. Risk, Uncertainty, and Time</i>			
15	Mar 17	Risk Aversion and Ambiguity Aversion	<p>David A. Cather, <u>A Gentle Introduction to Risk Aversion and Utility Theory</u>, <i>Risk Management and Insurance Review</i>, Vol. 13, No. 1, pp. 127-145. [Read pp. 127-142.]</p> <p>Terrence R. Chorvat, <u>Ambiguity and Income Taxation</u>, <i>Cardozo Law Review</i>, Vol. 23, No. 2 (Jan. 2002), pp. 617-651. [Read the introduction and part I (pp. 617-629).]</p>
16	Mar 19	Commercial Contracts	<p>Steven N. S. Cheung, <u>Transaction Costs, Risk Aversion, and the Choice of Contractual Arrangements</u>, <i>Journal of Law and Economics</i>, Vol. 12, No. 1 (Apr. 1969), pp. 23-42.</p> <p>PNK (Lake Charles), L.L.C., <u>Vessel Construction Contract</u>, Aug. 27, 2003.</p> <p>A&P, <u>Supply Agreement</u>, June 27, 2005.</p> <p>Georgetown University, <u>Exclusive License Agreement</u>, Mar. 1, 2000.</p>
17	Mar 24	M&A Contracts: Earnouts and Collars	<p>Ronald J. Gilson, <u>Value Creation by Business Lawyers: Legal Skills and Asset Pricing</u>, <i>Yale Law Journal</i>, Vol. 94, No. 2 (Dec. 1984), pp. 239-313. [Re-read §§ III.B & III.C (pp. 262-267).]</p> <p>Steven B. Fuerst, Nicholas San Filippo IV, and Steven H. Ornstein, <u>Earn-Outs: Bridge the Gap, With Caution</u>, <i>Mergers & Acquisitions Law Report</i>, June 16, 2009.</p> <p>Ben Bodamer and Ron Landen, <u>Is Your Earnout Headed For A Burnout?</u>, <i>Weil Gotshal Private Equity Alert</i>, Feb. 2010.</p> <p>Victor I. Lewkow and Sarah G. Koss, <u>Another Look at Allocating Market Risk in Stock Acquisitions</u>, <i>Insights: The Corporate & Securities Law Advisor</i>, Vol. 17, No. 8 (Aug. 2003), pp. 6-13.</p> <p>Clifford E. Neimeth, <u>Addressing Value and Dilution Certainty in Business Combinations</u>, <i>Insights: The Corporate & Securities Law</i></p>

Class	Date	Topic	Assignment
			<p data-bbox="824 186 1430 222"><i>Advisor</i>, Vol. 20, No. 4 (Apr. 2006), pp. 12-16.</p> <p data-bbox="824 260 1409 327">Mach One Corporation, <u>Earn-out Agreement</u>, Feb. 2009.</p> <p data-bbox="824 369 1446 436">Asante Technologies, Inc., <u>Earn-out Agreement</u>, Feb. 25, 2005.</p> <p data-bbox="824 478 1455 546">ClearOne Communications, Inc., <u>Agreement and Plan of Merger</u>, Nov. 3, 2009. [Read Article II.]</p> <p data-bbox="824 588 1468 695">Polaris Acquisition Corp., <u>Second Amended and Restated Agreement and Plan of Merger</u>, Mar. 12, 2009. [Read Article II.]</p> <p data-bbox="824 737 1386 804">CytRx Corporation, <u>Agreement and Plan of Merger</u>, June 6, 2008. [Read Article III.]</p> <p data-bbox="824 846 1468 989">Denbury Resources, Inc., <u>Form 8-K</u>, Nov. 5, 2009. [Read the Form 8-K and Section 2.1(a) of the Agreement and Plan of Merger (Exhibit 2.1 to the Form 8-K).]</p> <p data-bbox="824 1031 1446 1138">ViaSat, Inc., <u>Form 8-K</u>, Oct. 2, 2009. [Read the Form 8-K and Section 3.4 of the Agreement and Plan of Merger (Exhibit 2.1 to the Form 8-K).]</p> <p data-bbox="824 1180 1468 1323">Sykes Enterprises, Incorporated, <u>Form 8-K</u>, Oct. 5, 2009. [Read the Form 8-K and Section 1.8 of the Agreement and Plan of Merger (Exhibit 2.1 to the Form 8-K).]</p>

Class	Date	Topic	Assignment
18	Mar 26	Underwriting Contracts	<p>Gershon Mandelker and Arthur Raviv, <u>Investment Banking: An Economic Analysis of Optimal Underwriting Contracts</u>, <i>Journal of Finance</i>, Vol. 32, No. 3 (June 1977), pp. 683-694.</p> <p>Ronald J. Gilson and Reinier H. Kraakman, <u>The Mechanisms of Market Efficiency</u>, <i>Virginia Law Review</i>, Vol. 70, No. 4, (May 1984), pp. 549-644. [Re-read pp. 613-618.]</p> <p>Ancestry.com Inc., <u>Prospectus</u>, Nov. 4, 2009. [Re-read the front cover and pp. 121-123.]</p> <p>Ancestry.com Inc., <u>Underwriting Agreement</u>, Nov. 4, 2009. [Re-read the preamble and ¶¶ 3, 4 & 5.]</p> <p>H&R Block, Inc., <u>Prospectus Supplement</u>, Oct. 28, 2008. [Read the front cover and the "Plan of Distribution" on p. S-3.]</p> <p>H&R Block, Inc., <u>Placement Agent Agreement</u>, Oct. 28, 2008. [Read ¶¶ 1 & 2.]</p>
19	Mar 31	Convertible Securities: Anti-Dilution Protections	<p>Michael A. Woronoff and Jonathan A. Rosen, <u>Understanding Anti-Dilution Provisions in Convertible Securities</u>, <i>Fordham Law Review</i>, Vol. 75, No. 1 (Oct. 2005), pp. 129-162.</p> <p>Validus Holdings, <u>Form of Warrant</u>, Sept. 2007.</p> <p>Signature Exploration & Production Corp., <u>Convertible Promissory Note</u>, Feb. 10, 2010.</p> <p>Signature Exploration & Production Corp., <u>Common Stock Purchase Warrant</u>, Feb. 10, 2010.</p> <p>Environmental Tectonics Corporation, <u>Common Stock Warrant</u>, Feb. 20, 2009.</p> <p>Environmental Tectonics Corporation, <u>Series E Convertible Preferred Stock</u>, July 2009.</p> <p>Intellect Neurosciences, Inc., <u>Form of Warrant to Purchase Common Stock</u>, Aug. 2009.</p> <p>A&P, <u>8% Cumulative Convertible Preferred Stock Series A-T, A-Y, B-T and B-Y</u>, Aug. 2009.</p>

Class	Date	Topic	Assignment
20	Apr 2	Overflow and catch-up	
PART II: GROUP PRESENTATIONS			
21	Apr 7	Groups 1 & 2	Groups 1 & 2 reading materials.
22	Apr 9	Groups 3 & 4	Groups 3 & 4 reading materials.
23	Apr 14	Groups 5 & 6	Groups 5 & 6 reading materials.
24	Apr 16	Groups 7 & 8	Groups 7 & 8 reading materials.
25	Apr 21	Groups 9 & 10	Groups 9 & 10 reading materials.
26	Apr 23	Groups 11 & 12	Groups 11 & 12 reading materials.

GROUP WORK MEMORANDUM

DEALS: THE ECONOMICS OF STRUCTURING TRANSACTIONS (LAW 459-08)

Georgetown University Law Center
Professor Joshua C. Teitelbaum
Spring 2015

Group Assignments: Students will be divided into work groups, each of which will be responsible for leading a class discussion on one real transaction and for writing a group paper analyzing its transaction. Group assignments will be made in February.

Deal Selection: Each group will select a deal. Deal selection will take place in February.

Class Presentations: Each group is responsible for presenting its deal to the class on the date indicated on the course syllabus. The presentation should be cohesive and is graded on an overall basis rather than on an individual basis. The presentation may take any form that your group determines will best relay the information relevant to your deal. Please do not spend significant amounts of time adding bells and whistles to your presentation (although if someone in your group already has a relevant skill set, you should feel free to use it). Ultimately, the presentation will be evaluated on the basis of its content, and any extra time your group has should be spent on the actual substance of your presentation. If you have slides or other similar materials which you will be using for your presentation (not the reading materials discussed below), please email them to Professor Teitelbaum the day before the presentation.

Class Reading Materials: In advance of your class presentation, each group should assemble approximately one hour of reading materials for the class, which will help them prepare for and understand your presentation and transaction. For example, relevant readings may include selected transaction documents, industry background, news articles, and transaction charts. The compiled readings should be emailed to Professor Teitelbaum at least one week prior to your presentation date. Professor Teitelbaum will post the readings on the Courseware site.

Group Papers: Each group is responsible for writing a comprehensive paper on its transaction. The group paper should provide an in-depth analysis of the transaction, using the concepts and analytical tools that you have studied in class. To the extent relevant, the group paper generally should attempt to answer questions such as:

- What is the contextual background of the transaction (e.g., the relevant industry background or regulatory landscape)?
- What factors are driving the parties in the transaction?
- What problems/barriers are the parties likely facing?
- How have the parties attempted to address these problems (e.g., through deal structure or contractual provisions)? Do these solutions work or are there limitations?

Papers should be limited to 3,000 words, or approximately 12 pages. Papers must be typed in 12-point font, double-spaced, and have one-inch margins all around.

First Draft: The first draft of your group paper is due on the date of your class presentation. You should send the draft via email to Professor Teitelbaum. Written comments on your initial draft will be provided to you (hopefully within a week or so) by the group with secondary responsibility (see below). Obviously, the more complete the draft is, the more helpful and in-depth the comments will be. Although the first draft will not be graded, it is an opportunity for your group to get feedback that will help in completing the final draft.

Final Draft: The final draft is due at 5:00 PM on Monday, April 27, 2015 and should be sent via email to Professor Teitelbaum. While it is not expected that the first draft will be in perfect form, the final draft should be. That is, the final draft should read as if a single hand wrote it, even though different group members may have been responsible for the initial drafting. Please do not underestimate the amount of time that this will take, and factor this in when dividing up the responsibilities for the project. Typically, this final editing process will fall on the shoulders of one individual. Certain steps can be taken up front to alleviate some of this final editing work by implementing drafting rules for group members (e.g., consistent tenses, person, defined terms, etc.) and/or having a detailed outline to prevent overlapping. Ultimately, however, a lot of editing work will typically need to be done.

Secondary Group Responsibilities: In addition to your primary group responsibilities, you also have secondary responsibility for another deal. Secondary responsibility entails providing written comments on the primary group's first draft and being prepared with questions when the primary group makes its class presentation (i.e., make sure that you thoroughly read all of the class materials prepared by the primary group and are prepared to ask questions during the class presentation). Secondary group assignments will be made concurrently with the group assignments.

Intra-Group Participation Evaluations: I am relying on you to be able to work effectively in a group setting (as this will often be the environment in the real world). In that regard, you are responsible for dividing up the various responsibilities in whatever manner your group sees fit. As a partial check and balance, however, each group member's participation will be evaluated by the other group members in the following manner:

Each group member will allocate among its other group members a number of points equal to the number of other members in the group times 10 (e.g., if there are three people in your group, you will have 20 points to allocate among the other two members of your group).

If everyone pulls their weight, the obvious allocation is 10 points to each member, in which event this element of the evaluation will effectively disappear. If, however, the other group members believe that a particular member has not participated fully, or has carried more than his or her proportional share of the work, then a different allocation may be made and Professor Teitelbaum will take that assessment into account in determining grades.

Please email your point allocation to Professor Teitelbaum by 5:00 PM on Tuesday, April 28, 2015.