

Index

- acquisition gains
 - breach of “implicit contacts,” 33
 - discount hypothesis, 35–9, 46–50
 - division of, 207
 - empirical literature on, 125
 - joint-gains hypothesis, 60–2
 - management buyouts and, 49–50
 - market hypothesis, 35–9, 43, 53, 59, 63
 - misinvestment hypothesis, 35–6, 53–4, 63
 - monopoly power and, 33
 - premia over share price, 31–2
 - “private information” theory, 33
 - recognition, timing of, 275
 - takeover statutes and, 245
 - target firms, created by, 125–6
 - tax savings and, 34–5
 - traditional gains hypothesis, 32–5
 - trapped-equity theory, 34–5
- acquisition premia, *see* acquisition gains
- agency costs
 - bonding against, 190 (*see also* mandatory terms)
 - devices for controlling, 194 (*see also* mandatory terms)
 - diversification and, 190–1, 207–8
 - governance structure and, 187, 210–11
 - mergers compared to takeovers, 146
 - monitoring 190, 291–3
 - no-resistance rule, 146
 - optimal capital structure and, 261–9
 - reincorporation and, 218
 - state incorporation competition and, 219, 250
 - takeover defenses and, 138–9, 146–8
 - takeover threats and, 203
 - tax law, 256, 266–8
- American Stock Exchange, *see* stock exchanges
- antitakeover statutes, *see* takeover statutes
- Antitrust Merger Guidelines, economies of scale as defense to, 3
- asset tax, 270–2
- asymmetric information
 - financing decisions and, 57
 - see also* market contracting, costs of
- auctions in takeovers, 59, 65–8, 203–5
- bankruptcy
 - liquidation, 150–1
 - reorganization, *see* reorganizations
- Bankruptcy Code
 - Chapter 7, 150
 - Chapter 11, 150–1
- bargaining in sale of assets, 122–4
- breakup acquisitions, *see* discounted share price
- bureaucracy, costs of, 6–7
 - see also* conglomerate structure
- business judgment doctrine, 183
- capital markets, failures of, 21–2
- Chandler Act, 151
- closed-end investment funds, *see* discounted share price
- collective action problem
 - corporate ownership and, 293–6
 - reorganizations and, 172
 - see also* dual class recapitalization, shareholder approval of; ownership, costs of
- conglomerate structure, 51
 - see also* bureaucracy, costs of

316 **Index**

- Connecticut fair price statute, 234–5, 248
see also takeover statutes
- consumer cooperatives, *see* customer-owned firms
- contract-defeating doctrines
- contracting parties, protection of, 200–2
- corporate contracts and, 200–13
- corporate bar, role in legislative process, 253–4
- corporate charters
- amendments to, Delaware law on, 229
- market for, *see* state incorporation competition
- see also* corporate contract; governance structures; mandatory terms
- corporate codes, differentiation, 221
- see also* state incorporation competition
- corporate contract
- amendments, rules for, 210–11
- background terms, 212–13
- beneficial intervention and, 204
- breach of, 213
- generally, 192–6
- inefficient terms, 202–9
- latecomer terms, 209–11
- takeover defenses and, 204–6
- third parties, adverse effects on, 201–8
- see also*, corporate charters; governance structures; mandatory terms
- corporate form, *see* governance structures,
- cost of capital
- proportion of debt and, 12–17
- state incorporation competition and, 218
- CTS Corp. v. Dynamics Corp. of America*, 108n35, 233
- customer-owned firms
- cost of contracting vs. cost of ownership, 304
- farm supply cooperatives, 303–4
- retailers of consumer goods, 300–1
- wholesale and supply firms, 301–3
- debt, substitution for equity, 14–16
- see also* equity conversions
- debt–equity ratios, effects of tax law on, 261
- Delaware
- franchise taxes, 229
- legal capital, investment in, 229
- market share of corporate charters, 225
- “mutual reliance relationship” with firms, 232
- political equilibrium, 249
- see also* Delaware corporate law
- Delaware corporate law
- advantages to lawyers, 230–1
- commitment to responsiveness, 228–31
- court decisions, 241–5
- director liability statute, 251n85
- first-mover advantage, 227
- management discretion and, 218
- market for corporate charters and, 216
- state revenue and, 219
- takeover statutes, 238–9
- see also* Delaware
- disclosure, securities laws and, 203
- discount hypothesis
- conversion behavior, 52–8
- takeover statutes, implications for, 64–71
- see also* acquisition gains; discounted share price
- discounted share price
- as acquisition motive, 59–64
- acquisition premia and, 46–50
- asset values and, 63
- breakup acquisitions and, 50–2
- closed-end mutual funds, 40–3
- holding companies, 44
- management reluctance to reduce, 59
- natural resource companies, 44–5
- see also* acquisition gains, discount hypothesis
- diversification, agency cost and, 190–1
- dual class common stock
- American Stock Exchange rule, 75
- nonuniform rules, 111–12
- NYSE rule, 75, 142 (*see also* mandatory terms; New York Stock Exchange, single class common rule)
- OTC rule, 75
- uniform rules, 112–16 (*see also* SEC Proposed Rule 19c–4)
- see also* dual class recapitalization
- dual class recapitalization
- dilution of economic participation, 113–14
- dual class initial public offering, compared to, 79, 84–5
- justifications for, 70–86
- mechanisms to effect, 88–90
- shareholder approval of, 91–104
- shareholder wealth, empirical evidence of effects on, 86–8
- see also* dual class common stock
- equity conversions, 53
- see also* debt, substitution for equity

Index

317

- fair price acts, ownership concentration and, 237
see also Connecticut fair price statute; takeover statutes
- farm supply cooperatives
 tax preferences, 304
see also customer-owned firms
- federal system of corporate law, *see* state incorporation competition
- firm-specific human capital, investments in
 takeover defenses and, 127–31
see also shareholder opportunism; specific capital
- franchise taxes, *see* state incorporation competition
- golden parachutes, *see* managerial compensation
- governance structures
 adaptations, 193
 agency costs, 187
 contractual terms of, 196
 mandatory terms, 199–200
 shaping of, 183–7
 stock prices and, 197–200
 valuation of terms, 198–9
see also corporate charters; corporate contract
 “greenmail,” 80
- holding companies, *see* discounted share price
- horizontal mergers, 3
- information
 asymmetries of, *see* market contracting, costs of
 investment in, 252
- Indiana antitakeover statute, *see* takeover statutes
- institutional investors, 251–2
- internal organization, costs of, *see* bureaucracy
- Internal Revenue Code
 section 301, 264
 section 305, 266
 section 306, 266
 section 338, 270–80
 section 351, 266
- investor-owned firms
 market contracting, costs of, 297–8
 ownership, costs of, 298–300
 as producer cooperative, 284
- irrelevance proposition, *see* Modigliani-Miller irrelevance proposition
- law firms, *see* worker-owned firms
- leveraged buyouts
 cash-flow vs. asset-based financing, 15
 free cash-flow hypothesis, 16–17
 innovators in, 20
 major lenders, 15
 management buyouts, 16
 share prices, effects on, 55–6
 tax law and, 257
 transaction-cost theory, 12–17
- liquidation reincorporation, tax treatment of, 208
- majority voting mechanisms, inefficiencies of, 294
- management buyouts, *see* leveraged buyouts
- management opportunism
 dual class recapitalizations and, 80
see also agency costs
- management resistance to takeovers, *see* bargaining in sale of assets; takeover defenses
- managerial compensation
 deferred compensation, 81–2
 golden parachutes, 82
see also shareholder opportunism
- mandatory terms
 government, imposed by, 107–8 (*see also* no-resistance rule; takeover statutes)
 justifications for, 88–111, 200–11
 stock exchanges, imposed by, 75–6, 111–16, 142–3, 108–9, 111
- market contracting, costs of
 asymmetric information, 289
 investor-owned firms, 297–8
 “lock-in,” 288–9
 market power, 288
 wholesale and supply firms, 301–2
- market power, *see* market contracting, costs of
- M-form structure
 technology transfer, 19
 U-form, advantages over, 10
see also multidivisionalization, innovators in; U-form structure
- misinvestment hypothesis
 acquisition premia, 35–6, 53–4, 63
 auction debate and, 65–8
 energy industry, applications to, 63
see also acquisition gains; discount hypothesis; discounted share price
- Modigliani-Miller irrelevance proposition
 generally, 12–13, 265
 tax law and, 260–9
- monitoring
 corporate structure and, 185
 division of interest and, 189–90

318 **Index**

- monitoring (*cont.*)
 generally, 136, 203
 profit sharing and, 189
 takeover defenses and, 143
see also agency costs; ownership, costs of
- Moran v. Household Int'l. Inc.*, 134n39
- multidivisionalization, innovators in, 19–20
see also M-form structure
- mutual companies, 311–12
- NASD, *see* stock exchanges
- national corporation law, advocates of, 218–19
- New York Stock Exchange
 delisting, cost of, 109
 rules discouraging defensive tactics, 142–3 (*see also* takeover defenses)
 single class common rule, 75–6, 108–9, 111
see also stock exchanges
- no-resistance rule
 disadvantages, 144–5
see also mandatory terms; takeover defenses; takeover statutes
- noise trading, 38
see also acquisition gains; discount hypothesis; discounted share price
- nonprofit firms
 generally, 284
 market contracting, costs of, 312
 ownership, costs of, 312
- nonredeployable asset, 227–8
see also specific capital
- nonvoting stock, 182
see also dual class common stock
- organization-specific capital, 307
see also specific capital
- organizational innovation, antitrust and, 21
- ownership
 formal rights of, 283
 general theory of, 286–8
 market contracting, trade-off between, 296–7
 transaction costs and, 287–8
- ownership, costs of
 collective decision making, 293–6
 investor-owned firms, 283–300
 monitoring, 290–93
 risk bearing, 296
 wholesale and supply firms, 302–3
see also agency costs
- Pac Man defense, 80
see also takeover defenses
- place of business regulation, 246–7
- poison pill defense, *see* takeover defenses
- pooling capital, tax law effect on, 262
- preferred stock, tax treatment of, 266–7
- premia, *see* acquisition gains
- producer cooperative, 285
- proxy contests
 costs of, 8–10
 management control of, 252
 regulation of, 10
- regulatory view of corporations, 184
- reincorporation
 cheaper legal regimes and, 225–6
 merger-and-acquisition programs and, 241
 stock prices and, 239–45, 249
 transaction costs of, 224–5
 transaction-type motivation, 223
see also state incorporation competition
- reorganizations
 Bankruptcy Code, Chapter 11, 150–1
 bargaining among participants, 154–5
 capital structure, choice of, 155–6
 collective action problems, 172
 division problem, 153–7
 entitlements of participants, 155, 164–74
 generally, 151–3
 information of participants, 171–2
 proposal for reform, 157–64
 reinstatement of contracts, 178
 valuation problem, 153–7, 165, 169–71
- Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 134n39
- “Saturday Night Specials,” 67n124
- search costs, *see* takeovers
- SEC Proposed Rule 19c-4
 generally, 76–8, 112–16
 NASD and AMEX firms, application to, 115–16
 NYSE firms, application to, 113–15
- SEC Schedule 13E-3, 49n63
- separation of ownership and control, efficiency of, 291–2
- share prices, *see* stock prices
- shareholder distributions, 52–8
- shareholder misinformation, 251, 253
- shareholder opportunism
 firm-specific human capital and, 83–4
 management compensation and, 81–3
 takeover defenses and, 140–1

Index

319

- see also* dual class recapitalization, justifications for
- shark repellents
 - ownership concentration and, 237
 - predatory practices, solution to, 236–7
 - welfare-enhancing properties of, 236–7
 - see also* takeover defenses
- Singer v. Magnavox Co.*, 243
- Smith v. Van Gorkom*, 244
- specific capital
 - asset specificity, vertical integration and, 5
 - firm-specific human capital, 83–4, 127–31
 - “lock-in,” *see* market contracting, costs of
 - organization-specific capital, 307
 - transaction-specific assets, 227
 - see also* firm-specific human capital
- state incorporation competition
 - agency costs, 219
 - beneficiaries of, 239–45
 - cost of capital and, 218
 - differentiated codes, 321
 - franchise taxes, 217
 - literature on, 217–32
 - policy implications, 248–54
 - politics, local, 219
 - “race for the bottom,” 218
 - self-selection thesis, 222–4, 227
 - takeover statutes and, 232–9
 - transaction-cost theory, 224–32
 - uniformity, 220
 - see also* reincorporation
- stock exchanges
 - competition, 109–11
 - migration between, 109, 114–15
 - see also* American Stock Exchange; mandatory terms; New York Stock Exchange
- stock prices
 - asset values and, 37
 - mispricing, 37–9
 - public information and, 197–8
- strategic choice problems, *see* dual class recapitalization, shareholder approval of
- takeover defenses
 - agency costs of, 133–4
 - bargaining rights and, 119–24
 - corporate contract and, 204–6
 - default options, 145
 - disincentives to bidders, 133
 - divergence between private and social optimality, 205
 - externalities from, 132–8
 - financial restructuring, 54–5
 - monitoring and, 143
 - NYSE rules discouraging resistance, 142–3
 - poison pills, 134n39
 - private solutions to the problem, 138–46
 - shareholder agreements and, 138–41
 - state laws barring resistance, 141–2 (*see also* takeover statutes)
 - tax liabilities, avoidance of, 275
 - waiting periods, 70
 - see also* shark repellents
- takeover gains, *see* acquisition gains
- takeover statutes
 - Delaware corporate law, 238–9
 - fair price provisions, 237 (*see also* Connecticut fair price statute)
 - Indiana law, 108n35
 - opt-in provisions, 237, 250
 - politics of, 234–5
 - proportion of successful takeovers, effects on, 246
 - second generation, 247–9
 - shareholder sovereignty, effects on, 238
 - shareholder wealth, effects on, 234–5
 - state incorporation competition and, 232–9
 - takeover premia, effects on, 245
 - transaction-cost reduction, 238
- takeovers
 - auctions, 59, 65–8
 - costs of, 11
 - costs of ownership and, 299
 - discount gains, *see* acquisition gains, discount hypothesis
 - hostile, ban on, 69
 - motives for, *see* acquisition gains
 - no-resistance rule, 119
 - recent wave of, 62
 - search costs, 48, 131–2
 - “stepping up” basis and, 269–80
 - value creation by target firms, 124–31
- tax-free reorganizations, 269–70
- tax law
 - agency costs and, 256
 - capital assets, sale of, 259
 - capital structure, influence on, 260–9
 - disincentives to excessive debt financing, 265–9
 - disincentives to financial fiddling, 265–9
 - distributed bonds, treatment of, 262–9
 - liquidation reincorporations, treatment of, 268
 - positive effects of, 262–9

320 **Index**

- tax law (*cont.*)
 preferred stock, treatment of, 266–7
 stock and asset acquisitions, role in,
 269–80
see also tax law intrusions
- tax law intrusions
 allocation of resources, 258
 capital structures, 256
 debt–equity ratios, 261
 disincentive to exchanges, 255
 disincentive to risky investments, 257
 dividend policy, 256
 economic explanation for, 259
 financial intermediaries, 256
 geographic location of capital, 258
 managerial compensation, 256
 mix of ownership forms, 257
 size of firms, 257
 tolerance of, 258–60
see also tax law
- Tax Reform Act of 1986, section 336, 270
- Tobin's Q, 45
- trapped-equity theory, *see* acquisition
 gains
- U-form structure, 9
see also M-form structure
- Unocal Corp. v. Mesa Petroleum Co.*,
 134n39
- venture capital, 186
- vertical integration
 antitrust enforcement, 6
 applied-price theory, 4
 asset specificity, 5
 into final sales and service, 18–19
 innovators, 17–19
 inventory management, 17–18
 mistakes, 19 (*see also* bureaucracy,
 costs of)
 monopoly purpose, 4
 selective integration hypothesis, 17
 transaction-cost theory, 5–7, 17
- vertical mergers, *see* vertical inte-
 gration
- Williams Act, 66–7, 69–70
- worker-owned firms
 generally, 305
 law firms, 308–9
 market contracting, costs of, 305–7
 ownership, costs of, 307–11
 Pacific coast plywood cooperatives,
 308n66