

## Lecture Notes for American Movie: 《Other People's Money (1991)》

**Lawrence Garfield** (Danny De Vito), Larry the Liquidator, Wallstreet buccaneer, devour debt-free corporations

Arrogant, Greedy, Self-Centered, Ruthless

**Andrew Jongenson – Jorgy** (Gregory Peck), New England Wire & Cable, 81 year-old company's patriarch

**Kate Solomon** (Penelope Ann Miller), Attorney, high-style and high-stake cunning rival  
Anything is negotiable, Money is the ultimate seduction.

### [Stage 1] Stock Price Movements

$T_0$ , up to \$ 11 ½,                      G buying (<< 1 million share)    > \$14

### [Stage 2] Buying Offer

<Numbers in Facts>

Equitment	\$30 million (original \$120 million, 25%)
Land (110 acre)	\$10 million (land price, \$91,000 per acre, \$15000 per mu, 1 acre=6.07 mu)
Other business	\$60 million
Working capital	\$25 million (10 million cash, 40%)
<b>Total</b>	<b>\$125 million ~ \$100 million</b>
Debt	0
Law suit	0
Environment	0
Pension	0
Outstanding shares	4 million
Stock value	\$25/share
Stock price	\$10/share

Why the wire and cable business lost money?

Competitors: Japan, Korea, Singapore, Malaysia, Thailand (1992).

### [Stage 3] Take-Over Fight

**SEC Regulation: File Schedule 13D within 10 days**

Schedule 13 D (buy 12 %, 480,000 shares),

Section 13(d) of the Williams Act (1968),

Require disclosure when a buyer's stockholdings > 5%(previous was 10%), or bought more than 2% in past 12 months.

File SEC within 10 days. Must disclose identity of acquirer and associates, sources of financing, takeover plan (liquidation, merge, change corporation structure, etc.).

## **Anti-Takeover Defense Strategies**

### **(Option A) Changing the State of Incorporation**

Rhode Island vs. Delaware (Strong Anti-Takeover Legislation)

Delaware antitakeover law (1987-88): reason: incorporation fee account for 20% of state budget;

56 % of Fortune 500 companies and 1/2 of NYSE companies incorporated in Delaware.

An unwanted bidder with 15% or more may not complete for 3 years, except:

- (a) the buyer buys 85% or more, which may not include those held by directors and employees;
- (b) 2/3 of stock holders approve
- (c) Board of Directors decide to waive this law.

### **(Option B) Capital Structure Changes:**

Buy back stocks by working capital or debt

### **(Option C) Litigation: Legal Battle**

Standstill Agreements

TRO (Temporary Restriction Order)

Injunction

### **(Option D) Greenmail**

K Offer \$18    G ask \$25

Counter Offer:

Swap: G Stocks exchange with Wire & Cable Division

(13 million > 35 million,                      Profit: 22 million)

1 million (?) share \*\$13, sell property for \$35 million?)

## **[Stage 4] Shareholder Vote**

### **(Option E) Win Approval of Shareholders**

#### **Power Balance at the Board**

Total:                      100 %                      4,000,000 shares

Founder                      20 %                      800,000 shares

Board                      5%                      200,000 shares

Employee                      5%                      200,000 shares

Count on 30% shares 1.2 million shares

Legal Threat: Over-leverage

Put on Vote in 3 weeks.

Win, buy all stocks at \$20,

Lost, sell back at \$15.

Winner takes all.

Change rules, but games continue.

Total                      1,000,000 shares?

Internal fight

(1) Golden parachute

(2) Insider Swich

Manager has 60,000 shares + 40,000 shares=100,000 shares

1.5+1=2.5 % worth \*20= \$2 million

G needs 2 m shares to break-even, 10% is 200,000.

Switching vote: 5% ~ 10% weight

10 % of vote? (only 1 million shares count?)

Manager sell the right of vote, ask \$1 million

G need G (1 million shares) + 1million shares to win

G offer: make difference > 1 million (win with less than 100,000 shares)

No difference > 0.5 million

Chair Assistant ask call off the fight

\$1 million in trust fund

Vote:

Retain Present Board: 1,741,416 shares (42.1 %)

Against 2,219,901 shares (53.7 %)

Difference: 478,485, (11.6 %)

Switching vote: 100,000 shares ( 2.4 %)

Not Voting 176,111 shares ( 4.2 %)

Total 4,137,428 shares

Final solution:

Find a long-term investor: Mitsubichi, making airbag.

**[Stage 5] Finding A Long-Term Investor for Technology Change**

(joint venture with Mitsushimi for transforming wire-cable production into airbag production)

**(Option F) White Knight: finding a friendly bidder**

K offer \$25 to buy back stocks.

G ask \$30

G profit:

G cost: 1m \* \$10 + 3m \*20 = 70 m;

G sell: 4m \* 30 = 120 m;

Profit: 50 m.

Original Price: 4m\* \$10 = \$40 m;

Liquidation value: \$100 m;

New Price: 4m\*\$30 = \$120 m;

Owner:

Original Price: 4m\*10 = 40 m;

