

Texaco x Penzoil

- Penzoil and Getty agreed to merge in 1984.
 - But before this happened, Texaco bought Getty.
 - Penzoil sued Texaco and was awarded \$10.3 Billion in 1985.
 - Texaco offered to settle for \$2 Billion and threatened to appeal if its offer was not accepted.
 - Penzoil thought that \$3 to \$5 Billion was fair.
 - Question: What should Penzoil do?
 - Please construct the decision tree to show the best alternatives.
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Texaco x Penzoil

- Penzoil could accept the \$2 Billion or counteroffer \$5 billion.
 - If Penzoil counter offered \$5 Billion, then the alternatives and probabilities were:
 - Texaco could accept to pay the \$5 Billion. (17%)
 - Texaco could refuse the counteroffer and the case would to court for appeal. (50%)
 - Texaco would make a counteroffer of its own for \$ 3 Billion (33%)
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Texaco x Penzoil

- If there were no agreement, then the case would be decided in court.
 - Penzoil also estimated that if the case went to court, there were three possible outcomes:
 - Court would award the full amount (20% chance)
 - Award would be reduce to \$5 Billion (50% chance)
 - Award would be reduced to zero (30% chance)
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