**New York University**
**Leonard N. Stern School of Business**

**Corporate Bankruptcy & Reorganization**
**B40.3198.10**

**Professor Edward I. Altman**
**Fall 2007 (1st Half)**
**Wed 6:00-9:00 p.m.**
**Location: KMC Bldg., Rm. 1-70**

This is a unique course in business administration curricula and has evolved in an interesting way over the thirty plus years that I have taught it. The original focus was on discussing and using corporate distress prediction models from an external fixed income security perspective. These statistical-multivariate models, utilizing financial statement and market valuation variables, have become standard analytical procedures in the financial world, especially as financial institutions prepare for **Basel II**. They are now complemented by a number of newer analytical approaches, including option pricing and artificial intelligence models.

While the financial distress prediction aspect is still an important part of the course, perhaps the more important perspective is now the valuation and analysis of distressed firms and their outstanding securities, primarily bonds and bank loans. Indeed, this course can now be followed by a companion course on "*Investing in Distressed Securities*" (taught as an additional course in Spring 2007) as well as a Case and Prospectus Analysis course on "*High-Yield and Distressed Debt.*" Discussion and analysis of the high-yield, junk bond market complements the distressed securities materials. Reorganization in bankruptcy cases explore this unique period in a company's "life." As a complement to the investment aspects of the course, we also pursue the financial and operating restructuring of ailing firms. All students are given the opportunity to join the NY Chapter of the *Turnaround Management Association* at a highly discounted price.

The pedagogy of the course includes traditional lectures, case studies, guest speakers in bankruptcy law, turnaround management, corporate restructuring and "vulture" investing and a choice of either a take-home project (usually a complex case study), or a term paper related to the theme of the course. The latter project is discussed early in the course but is not due until the full semester is over. Students have the opportunity to present the findings of their term projects in a special, extra session at the end of the term. Incidentally, Stern has "hatched" at least five-dozen vulture investors and traders of distressed securities over the years and this course is oftentimes the "breeding ground" for these successful "birds."

Call me at (212) 998-0709 and/or visit my website at www.stern.nyu.edu/~ealtman or email: ealtman@stern.nyu.edu

## Course Outline

### I. General Course Description & Objectives

An in-depth study of practical and theoretical financial aspects and implications of corporate bankruptcy, credit analysis, and leveraged and distressed restructurings. Among the topics discussed are the bankruptcy-reorganization process; techniques and procedures to value firms in distress and/or reorganization; global implications of credit risk, predicting impending problems of various types of companies including manufacturing firms, retailers and commercial banks; the effect of bankruptcy on total share valuation; investment strategies relevant to distressed companies' securities; financial restructuring; high yield "junk" bonds; the emerging-market corporate debt market; and the implications of bankruptcy analysis to financial lending institutions and non-financial corporate management personnel. References will be made to recent corporate failures and cases as well as to empirical and theoretical scholarly and professional studies.

### II. Course Requirements & Instructions

The pedagogy of the course includes seminar-type discussion of issues and latest research in the field, analysis of case studies, guest speakers, and student presentations of their case-research reports. The **major written requirement** will be an in-depth report of a significant corporate bankruptcy or a paper related to the theme of the course. Students are required to work in small **groups of two or three members**. See partial list of bankrupt firms and paper themes attached. A take-home final exam is possible as an alternative to the paper. You can work with another student on the Take-Home Final. Participants of the course are also responsible for the required readings of each session's discussion and the case studies (**worked on by groups of two-three students)**.

### III. Additional Practitioner Presentations

There will be several additional practitioner presentations on class-related subjects. These presentations will be held during my morning section on Monday or Wednesday, 10:30-11:50 in KMC 3-65. You are cordially invited to attend or can view these sessions on the class videos. <u>A schedule of these sessions is attached at the end of this course outline.</u>

**Required Materials:**

A. Edward I. Altman and Edith Hotchkiss, **Corporate Financial Distress & Bankruptcy,** 3rd ed., John Wiley & Sons, 2005**.**

B. Packet of Powerpoint Handouts and Exhibits (download from Blackboard)

C. **Suggested books -** If **"Investing in Distressed Security"** and/or **"Managing Credit Risk"** is very important to you, the following books are recommended):

   a. E. Altman, **Distressed Securities: Analyzing & Evaluating Market Potential & Investment Risk**, Probus, 1991, reprinted by Beard Books, 1999

   b. S. Moyer, **Distressed Debt Analysis**, J. Ross, 2005

   c. J. Caouette, E. Altman & P. Narayanan, **Managing Credit Risk: The Next Great Financial Challenge**, John Wiley & Sons, 1998

   d. H. Rosenberg, **The Vulture Investors**, John Wiley & Sons, 2000

## IV. Detailed Course Outline

**Session**
**<u>Dates</u>** **<u>Subject and Readings</u>**

9/26 **The Corporate Bankruptcy Phenomenon**

- Introduction to Corporate Financial Distress
    - Factors that cause firms to enter distress
- Business failures and Bankruptcies – **Chapter 1**
- Defaults and bankruptcies in 2000-2007
- Valuation theory in a distressed reorganization – review basic concepts

**Overview of the Bankruptcy "Industry"**

- Major Players in the reorganization process
- The Chapter 11 process **– Chapters 2, 4**
- Guest Speaker – Officer of the NY Turnaround Management Association

10/3 **Managing Credit Risk: A Global Challenge –** PowerPoint file and/or book on *Managing Credit Risk: The Next Great Financial Challenge* (optional)

- Topic overview – key risk management area
- Importance in low and high credit risk regions of the world
- BIS regulatory issues and Basel II
- Credit-Scoring Models and Default Probabilities
- Default and recovery rates
- Securitized credit instruments
- Traditional and new portfolio management techniques

- Introducing the **Duplan Case** – (Handout or Blackboard)

**The Duplan Case should be worked out carefully; it will be discussed and collected on October 17. You must work in teams of two or three students (three is suggested).**

10/10 **Credit Scoring Models: Predicting Financial Distress**

- Z-Score and Z"-Score analysis – **Chapter 11**
- ZETA, KMV, Neural Networks, etc. – **Chapter 11**
- Enron/WorldCom and GM/Ford discussion
- For emerging markets-expanded version of Z"-Score – **Chapter 12**
- A new model for Chinese firms

**Implications & Applications of Financial Distress Prediction Models**

- For investors – **Chapter 13**
- For bankers – **Chapter 13**
- For managers – the corporate renewal process – **Chapter 14**
- The GTI Corporate Turnaround – **Chapter 14**

10/17 **The High Yield Bond and Distressed Debt Markets – Chapter 7 and First Half 2007 Salomon Center Report**

- Evolution and current status of the market (Review introductory [9/26] materials)
- Risk and return analysis
- The new material for the distressed securities market
- Traditional default and mortality rate methods
- Estimating the probability of default
- Are Historically Based Models Still Relevant? "Global Debt Market in 2007: A New Paradigm or Great Credit Bubble?"

10/17 **Discussion of the Duplan Case**
(Case should be handed in; you must work with one or **two** other students).

10/24 **Guest speaker on Distressed Investing: Marc Lasry, President and CEO, Avenue Capital**

10/24 **Corporate Restructurings: Leveraged & Deleveraged (Chapter 6)**

- Asset and liability restructuring
- Leveraged management buyouts
- Linking theory with practice
- Lessons from the 1980's and 1990's

**Adding Value through Restructuring (Chapters 3-6)**

- Debt for equity swaps
- Leverage management buyouts
- Deleveraging strategies

10/31 **Guest Speakers on Corporate Distressed Restructurings from IB, Steve Zelin, The Blackstone Group and Turnaround Management firm's perspective, Holly Etlin, Alix Partners**

- Distressed financial restructuring
- Investment bankers and turnaround management
- Valuation in bankruptcy
- Current issues and career opportunities
- Current case studies

11/12 **Take-home final due (for those not doing term paper) – hand in (KMC 9-160, Salomon Center) or send in by email. You should work with one other student.**

**And**

12/5 **Student presentation of term reports: all reports due December 13**

- Attendance mandatory for all students, unless conflicting with other courses.

**Grading:** Will be based primarily on the term project/take-home exam with smaller weights for cases and in-class contribution. Term project discussed in class (see sample of possible topics listed below).

**Office Hours/Location:** Wednesday: 2:00 – 5:00 p.m.
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## POSSIBLE BANKRUPTCY PAPER TOPICS

**Sample Themes**

**Abuses of the Bankruptcy Code**
**Accountants' roles in bankruptcies**
**Airline deregulation & bankruptcies**
**Airline industry prediction model**
**Argentina bank crisis**
**Asset management companies (AMCs)**
**Auto Supply & Automotive Industry**
**Bankruptcy in the telecommunication industry**
**Bankruptcy as a business strategy**
**Bankruptcy and pension plans (PBGC)**
**Bankruptcy and reorganization in the airline industry**
**Bankruptcy expert systems**
**Bankruptcy in Central and Eastern Europe**
**Busted convertibles**
**Chapter 22s, 33s**
**China's bankruptcy Laws & NPLs**
**Claims purchases as a takeover technique**
**Climate change and the Insurance Industry**
**Computer and Electronic Industry**
**Corporate abuses and bankruptcy**
**Corporate fraud and indirect bankruptcy costs**
**Crisis in Japanese banking**
**Critical events analysis and bond price reaction**
**Debtor-in-possession (DIP) financing**
**Distressed Firm Control Strategy**
**Emerging market corporate debt models**
**Emerging Equity Investing**
**Equity Performance in Reorganization**
**Equity performance after bankruptcy emergence**
**European Distressed Debt Market**
**Fallen angels (e.g., GM & Ford)**
**FASB 107 Disclosures**
**Financial reporting consolidation (captives) & Z-Scores**
**Fraudulent conveyance**
**Hedge Funds as Corporate Lenders**
**Highly leverage transactions (HLT)**
**Investing in bankrupt equities**
**Japanese Rating Agencies**
**Macro-default models**
**Macro-influences on defaults**
**Municipal defaults**
**New Bankruptcy Act of 2005**
**Option pricing default models**
**Power companies and public utilities**
**Pre-packaged bankruptcies**
**Rating Agencies**
**Rating downgrade triggers**
**Retail industry prediction model**
**Roll-Up Strategy from Bankruptcies**
**Subprime Mortgage Crises**
**Telecommunications industry prediction model**
**The Corporate Bankruptcy Restructuring Industry**
**The new BIS regulation on credit assets (Basel II)**
**Z-Scores and investing**

**Sample Companies**

**Adelphia**
**Allegheny International/Sunbeam**
**Allied & Federated Department Stores**
**Arch Wireless**
**Armstrong World**
**Bethlehem Steel/International Steel Group**
**Boston Chicken**
**Braniff International (Chapter 33)**
**Caldor**
**Canary Wharf**
**Charter Communications**
**Collins & Aikman**
**Continental Airlines (Chapter 22)**
**Dana Corporation**
**Delphi Corporation**
**Delta Airlines**
**Dow Corning**
**Eagle Picher Industries**
**Enron Corporation**
**Euro Tunnel (1 and 2)**
**Fedders**
**General Motors/Ford(?)**
**Gillette Holdings**
**Global Crossing**
**Globalstar**
**Grand Union (Chapter 33)**
**Greyhound**
**Hillsborough (Jim Walter)**
**ICO Global Communications**
**Iridium**
**Johns Manville**
**Kaiser Aluminum**
**Kmart/Sears**
**Loewen**
**Loral Space & Communication**
**LTV (1 and 2)**
**Mirant Energy**
**Montgomery Ward**
**Movie Gallery**
**Northwest Airlines**
**Olympic & York**
**Pacific G&E**
**Parmalat**
**Polaroid**
**R. H. Macy & Company**
**Spectrasite**
**Southland**
**Swissair**
**Tower Automotive**
**Trump Hotels & Casinos**
**United Airlines**
**USAirways (Chapter 33?)**
**Winn-Dixie Stores**
**WorldCom**
**Xerox Corporation Restructuring**

**Guest Speaker Schedule for Fall 2007**
**Bankruptcy Classes**
**Professor Edward I. Altman**

**Day Section: Monday/Wednesday 10:30-11:50 am, Room: KMC 3-65**

| Date | Time | Place | Name and Affiliation | Topic |
|---|---|---|---|---|
| 9/26 | 11:30 | 3-65 | Jordan Siev<br>TMA President (NY Chapter) | Turnaround Management Association |
| 10/8 | 10:30 | 3-65 | Amit Arora, Vice President<br>Bear Stearns | Credit Derivatives Market |
| 10/15 | 10:30 | 3-65 | Allan Brown, Concordia Advisors | Distressed Investing |
| 10/29 | 10:30 | 3-65 | Barry Ridings, Lazard Freres | Distressed Firm Advising from an IB Perspective |

**Evening Section: Wednesday 6:00 – 9:00 pm, Room: KMC 1-70**

| Date | Time | Place | Name and Affiliation | Topic |
|---|---|---|---|---|
| 9/26 | 7:15 | 1-70 | Jordan Siev<br>TMA President (NY Chapter) | Turnaround Management Association |
| 10/24 | 6:00 | 1-70 | Marc Lasry, Avenue Capital | Distressed Investing |
| 10/31 | 6:00 | 1-70 | Holly Etlin, Alix Partners | Turnaround Management |
| 10/31 | 7:30 | 1-70 | Steve Zelin<br>The Blackstone Group | Distressed Firm Advising from an IB Perspective |

**Students from either class are cordially invited to attend the other section's guest speaker sessions.**