

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

**Corporate Bankruptcy & Reorganization
FINC-GB.3198.10 (B40.3198.10)**

**Professor Edward I. Altman
Fall 2011 (1st Half)
Thurs 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 and III**. 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 “*Distressed Securities, FINC-GB.3176*” (taught as an additional course in Spring 2011) as well as a Case and Prospectus Analysis course on “*Case Studies in Bankruptcy & Reorganization, FINC-GB.3199*,” (taught in 2nd Half, fall 2011). Discussion and analysis of the high-yield, junk bond and sovereign debt markets complement 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 full-time 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 on various topics, e.g., 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 to four 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 must work with one or two other students 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 practitioner presentations on class-related subjects. These presentations will be held during the semester in our section and also in my morning section on Tuesday or Thursday, 10:30-11:50am in KMC 2-90. You are invited to attend or can view these sessions on the class streaming videos (schedule will be distributed in class).

Required Materials:

- A. Edward I. Altman and Edith Hotchkiss, **Corporate Financial Distress & Bankruptcy**, 3rd ed., John Wiley & Sons, 2006.
- B. Packet of Powerpoint Handouts and Exhibits (download from Blackboard)
- C. **Suggested books** - If “**Investing in Distressed Securities**” and/or “**Managing Credit Risk**” is very important to you, the following books are recommended:
 - a. J. Caouette, E. Altman, P. Narayanan & R. Nimmo, **Managing Credit Risk: The Great Challenge For Global Financial Markets**, 2nd edition, John Wiley & Sons, 2008
 - b. E. Altman, **Distressed Securities: Analyzing & Evaluating Market Potential & Investment Risk**, Probus, 1991, reprinted by Beard Books, 1999
 - c. S. Moyer, **Distressed Debt Analysis**, J. Ross, 2005
 - d. H. Rosenberg, **The Vulture Investors**, 1st or 2nd edition, John Wiley & Sons.

IV. Detailed Course Outline

Session

Dates Subject and Readings

9/22 **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 2000-2008
- Credit crisis of 2007-2009 (Global), 2009-2011 (Euro-Sovereign)
- Valuation theory in a distressed reorganization – review basic concepts
- Investing in Distressed Securities and High-Yield Debt: A Primer
- Introducing to the **Duplan Case** (on Blackboard) – **Due on October 20**

Overview of the Bankruptcy “Industry”

- Major Players in the reorganization process
- The Chapter 11 process – **Chapters 2, 4**
- **Guest Speaker – Rich Bochicchio, President, NY Chapter of the Turnaround Management Association**
- Discussion of Team Project

9/29 **No Class**

10/6 **Managing Credit Risk: A Global Challenge** – PowerPoint file and/or book on *Managing Credit Risk: The Great Challenge for Financial Markets* (optional)

- Topic overview – key risk management area
 - Importance in low and high credit risk regions of the world
 - BIS regulatory issues and Basel II, III
 - Credit-scoring models, default probabilities and default recoveries
 - Securitized credit instruments and credit default swaps
 - More on the **Duplan Case - Due on October 20**
- 10/6 **Discussion with the Hon. Judge James Peck, U.S. Southern District Court of New York and Harvey Miller, Director of Bankruptcy Practice, Weil, Gotshal & Manges LLP**
- Reflections on the **Lehman Brothers and General Motors Bankruptcies**
 - Current issues in bankruptcy-reorganization
- 10/13 **Credit Scoring Models: Predicting Financial Distress**
- Z-Score, Z''-Score and Z-Metrics analysis – **Chapter 11**
 - KMV, Neural Networks, etc. – **Chapter 11**
 - Enron/WorldCom and GM/Ford discussion
 - For emerging markets-expanded version of Z''-Score – **Chapter 12**
 - The rating agency industry – Changes after the Crisis?
- 10/13 **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**
- 10/20 **The Duplan Case should be worked out carefully; it will be discussed and collected on October 20, 2011. You must work in teams of two or three students (three is suggested).**
- 10/20 **The Distressed Debt and High Yield Debt Markets (Review and Extension)**
- Size, scope and outlook
 - Investment strategy and players
 - Performance and correlation
- 10/27 **Guest speaker: Investing in Distressed Securities: Head Distressed Debt Portfolio Management, Stuart Kovensky, Portfolio Manager, Onex Credit, LLC**
- Are they vultures?
 - Investment strategies
 - Valuation of bankrupt companies
 - Long/short positions
 - Career opportunities
- 10/27 **Corporate Restructurings: Leveraged & Deleveraged (Chapters 3-6)**
- Asset and liability restructuring
 - Leveraged management buyouts

- Linking capital structure theory with practice
- Lessons from the 1980s, 2001, and 2008-9
- Equity for debt exchanges or swaps

11/3 Guest Speaker on Corporate Distressed Restructurings from an IB Firm Perspective: Tim Coleman, Head of Corporate Restructurings, the Blackstone Group

- Investment bankers and turnaround management
- Valuation in bankruptcy
- Current issues, hot-areas and career opportunities

11/3 Guest Speaker on a Financial and Operating Turnaround: Holly Etlin, Partner, Alix Partners, LLP

- The Turnaround Management Profession
- Case study on a recent bankruptcy – Borders(?)

11/21 Take-home final due (for those not doing term paper) – hand in (KMC 9-160, Salomon Center) or send in by email. You must work with one other student. and

12/15 Student presentations on December 15 of term reports: all reports due.

- 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: Thursday: 2:00 – 4:00 p.m.
& by appointment, KMC bldg, Rm. 9-61
Phone: 212 998-0709
Fax: 212 995-4220
Email: ealtman@stern.nyu.edu
Web: www.stern.nyu.edu/~ealtman

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 (PBG)
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
Crisis in Japanese banking
Critical events analysis and bond price reaction
Debtor-in-possession (DIP) financing
Distressed Firm Control Strategy
Distressed Ratio
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)
Financial reporting consolidation (captives) & Z-Scores
Fraudulent conveyance
Government Intervention & Creditor Rights
Greece and the Euro-Peripherals
Hedge Funds as Corporate Lenders
Highly leverage transactions (HLT)
Indirect and Direct Bankruptcy Costs
Investing in bankrupt equities
Japanese Rating Agencies
LBO Bankruptcies
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
Roll-Up Strategy from Bankruptcies
Sovereign Risk Models
Subprime Mortgage Crises
Systemic Risk Analysis
Telecommunications industry prediction model
The Corporate Bankruptcy restructuring industry
The new BIS regulation on credit assets (Basel 11)
Z-Scores and investing

Sample Companies

Adelphia
Allegheny International/Sunbeam
Allied & Federated Department Stores
Arch Wireless
Bethlehem Steel/International Steel Group
Borders
Boston Chicken
Braniff International (Chapter 33)
Buffets
Charter Communications
Chrysler
CIT Financial
Collins & Aikman
Continental Airlines (Chapter 22)
Dana Corporation
Delphi Corporation
Delta Airlines
Dow Corning
Dura Corp.
Eagle Picher Industries
Enron Corporation
Euro Tunnel (1 and 2)
Exide
Federated Dept. Stores
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
Lehman Brothers
Loewen
LTV (Chapters 11 and 22)
Mirant Energy
Montgomery Ward
Movie Gallery
Northwest Airlines
Olympic & York
Northwest Airlines
Pacific G&E
Parmalat
Polaroid
Quebecor World
R.H. Macy & Company
Residential Capital
Spectrasite
Swissair
Tower Automotive
Trump Hotels & Casinos (Chapter 44!)
United Airlines
US Airways (Chapter 33?)
Winn-Dixie Stores
WorldCom