

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

**B40.3198**  
**Corporate Bankruptcy & Reorganization**

**Professor Edward I. Altman**

**Course Genesis And Overview**

This is a unique course in business administration curricula and has evolved in an interesting way over the twenty plus years that I have taught it. The original focus was on discussing and using corporate distress prediction models in a firm and 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 and form the basis for many internal risk based rating systems of financial institutions. 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, and is now part of the broader topic of credit risk management, 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 mini-course on "Investing in Distressed Securities." Incidentally, Stern has "hatched" at least two-dozen vulture investors and traders of distressed securities over the years and this course is oftentimes the "breeding ground" for these successful "birds." Discussion and analysis of the high yield, junk bond market complements the distressed securities materials. Reorganization in bankruptcy and turnaround management cases explore this unique period in a company's "life."

The pedagogy of the course includes traditional lectures, case studies, guest speakers in bankruptcy law, turnaround management 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 usually 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.

The course is either taught as an evening course, mixing full and evening program students (in the fall term), or as a predominantly full time, day section (in the Spring).

Call me at (212) 998-0709 or visit my website at <http://www.stern.nyu.edu/~ealtman>;  
Email: [ealtman@stern.nyu.edu](mailto:ealtman@stern.nyu.edu).

**New York University  
Stern School of Business**

**B40.3198  
Corporate Bankruptcy & Reorganization**

**Prof. Edward I. Altman  
Fall 2001 (1<sup>st</sup> Half)  
Wednesday 6:00-8:50 p.m.  
Room KMEC 1-70**

**Course Outline**

**I. General Course Description and 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; corporate restructuring and turnaround management; 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 and 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 corporate turnaround, or a paper related to the theme of the course. On some themes, students can work in small groups of two members. See partial list of bankrupt firms and paper themes attached. **Each student is responsible for only one bankruptcy or one theme and therefore this report should reflect a major effort. It is strongly recommended to work on term projects with a partner.** A Take-Home Final Exam is possible as an alternative to the paper. 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**).

The Turnaround Management Association will contribute a cash prize to the best three term papers, as judged by a panel of managers and professors.

**This section, given in the Fall 2001 semester, is followed by another mini-course on "Investing in Distressed Securities" taught on Tuesday evenings in the second half of the semester by Professor Allan Brown. Students who are interested in the bankruptcy and distressed securities industry are encouraged to consider one or both of these courses.**

## Required Materials:

- A. Edward I. Altman, **Corporate Financial Distress & Bankruptcy**, 2<sup>nd</sup> ed., John Wiley, 1993.
- B. Handout Packet (Bring To Class Each Week)
- C. **Suggested Books** (Only if "Investing in Distressed Securities" and/or "Managing Credit Risk" is important to you)
- E. Altman, **Distressed Securities: Analyzing and Evaluating Market Potential and Investment Risk**, Probus 1991, reprinted by Beard Books, 1999.  
Supplementary material found in Course Handout Packet.
  - J. Caouette, E Altman and P. Narayanan, **Managing Credit Risk: The Next Great Financial Challenge**, John Wiley & Sons, 1998.
  - A. Saunders, **Credit Risk Measurement**, John Wiley & Sons, 1999.

## III. Detailed Course Outline

### Session

#### Dates Subject and Readings

- 9/5 **The Corporate Bankruptcy Phenomenon**
- \* Introduction to Corporate Financial Distress
  - \* Discussion of Term Projects
  - \* Business Failures and Bankruptcies - Chapter 1, 2 (2001 - A Record Default Year)
  - \* Dun & Bradstreet, Failure Record (Handout)
  - \* Macroeconomic Influences on Business Failures
  - \* Major Players in the Reorganization process and Procyclicality
- The Bankruptcy Reorganization Process - Legal & Economic Issues**
- \* The Chapter 11 Process - - Chapter 3
  - \* Emerging (Emerged) Trends - Chapter 4
  - \* Valuation Theory in a Distressed Reorganization - Review Basic Concepts
  - \* Guest Speaker from the Turnaround Management Association (TMA), subsidized student 2001-2002 Membership Available.
- 9/12 **Managing Credit Risk: A Global Challenge** - Exhibits A, article on "Managing Credit Risk: The Challenge of the New Millennium," and/or optional book on **Managing Credit Risk**
- \* The New World of Credit Risk
  - \* Importance in Low and High Credit Risk Regions of the World
  - \* Portfolio Management Techniques, Credit Derivatives, Securitizations
  - \* Credit Risk Management in a Changing Regulatory Environment – New BIS Proposals
  - \* Introducing the Duplan Case (Chapter 13 in book) Case Write-up **due on September 26 (Groups of 2-3 students)**

- 9/19 **Credit Scoring Models: Predicting Financial Distress**
- \* Chapter 8 - Z-Score Analysis
  - \* Chapter 9 - ZETA® Scores, KMV, Neural Networks, etc. (Exhibits B)
  - \* For Emerging Markets (Exhibits C)

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

- \* For Investors - Chapter 7
- \* For Bankers - Chapter 10
- \* For Managers - The Corporate Renewal Process - Chapter 11 (GTI Case, in book).

- 9/26 **Discussion of the Duplan Case - Chapter 13** (Case should be handed in; **You must work with one or two other students**).

**Guest Speaker** – “Turnaround Managing”

- 10/3 **The High Yield Debt Market - Chapter 5** (Optional readings in **Managing Credit Risk** book – Chapters 15/16).
- \* Evolution & Current Status of the Market
  - \* Defaults & Return Analysis (Report Handout)
  - \* The Year 2001 – Record Defaults and Opportunities
  - \* Traditional Default & Mortality Rate Methods - Credit Risk Book (Ch. 15-16)

**A Primer on the Distressed Securities Market** (Chapter 6, Handouts)

- \* The Evolution of the Market, Amazing Size in 2001!
- \* Major Players: Investors, Brokers, Analysts
- \* Risk/Return Analysis
- \* Introducing Next Week’s “Singers” (“The Vultures”)

- 10/10 **Distressed “Vulture” Investing**

**Guest Speakers (All Stern Graduates)**

Allan Brown – Magten Capital Investors  
Marti Murray – Murray Capital  
John Beiter – SRS Capital (Stanfield)

- \* Investment Opportunities in 2001
- \* Investment Styles
- \* Are They “Vultures” – Do They Create Value?
- \* Career Opportunities

- 10/17 **Corporate Restructurings: Leveraged & Deleveraged (Chapter 6 and Exhibits D)**

- \* Asset & Liability Restructuring
- \* Leveraged Management Buyouts, Recaps and other HLTs
- \* Linking Theory with Practice – From M&M to LBOs to Distress Costs
- \* Lessons from the 1980’s, Summary of Interco Case (Exhibit D)
- \* Déjà vu All Over Again in 2000/2001

**December      Extra Session (To be arranged) – Probably December 12**  
**\* Presentation of Term Papers**

**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 Handout Packet.

**Office Hours/Location:**      Wednesday, 1:30 - 2:30 and 5:00 – 6:00  
   & by appointment - Room KMEC 9-61  
Telephone:      212 998-0709  
Fax :              212 995-4220  
Email:            [ealtman@stern.nyu.edu](mailto:ealtman@stern.nyu.edu)  
Website:         <http://www.stern.nyu.edu/~ealtman>

## POSSIBLE BANKRUPTCY PAPER TOPICS

### Sample Themes

Abuses of the Bankruptcy Code  
Asbestos Bankruptcies  
Accountants Roles in Bankruptcies  
Airline Deregulation & Bankruptcies  
Airline Industry Prediction Model  
Argentina Bank & Sovereign Crisis  
Artificial Intelligence Credit Models  
Bankruptcy in Telecommunication Industry  
Bankruptcy in E-Commerce Land  
Bankruptcy as a Business Strategy  
Bankruptcy & Pension Plans  
Bankruptcy & Reorganization in the Airline Industry  
Bankruptcy in Central & Eastern Europe  
China's Experiment with Bankruptcies  
Claims Purchases as a Takeover Technique  
Computer & Electronic Industry  
Crisis in Japanese Banking  
Critical Events Analysis & Bond Price Reaction  
Debtor-In-Possession (DIP) Financing  
Emerging Market Debt Models  
    - Corporates  
    - Sovereign  
Energy Industry Prediction Model  
European High Yield Market  
Fallen Angels, (Xerox, etc.)  
FASB Disclosures  
Financial Reporting Consolidation (Captives)  
    & Z-Scores  
Foreign Bankruptcy Law  
Fraudulent Conveyance  
Highly Leveraged Transactions (HLT)  
Investing in Bankrupt Equities  
Macro-Default Models  
Macro-Influences Model  
Municipal Defaults  
Option Pricing Default Models (KMV, etc.)  
Pre-Packaged Bankruptcies  
Procyclicality in Banking  
Recoveries in Bankruptcy  
Retail Industry Prediction Model  
S&L Debacle  
Southeast Asian Crisis  
The new BIS Regulation on Credit Assets  
The Default Explosion in 2000-2001  
Utility Crisis (California, etc.)  
Z & Zeta Score Comparison

### Sample Companies

Allegheny International  
Allied & Federated Department Stores  
Ames Department Store  
Boston Chicken  
Bank of New England  
Braniff International (Chapter 33)  
Caldor  
Canary Wharf  
Coleco Industries  
Columbia Gas System  
Continental Airlines (Chapter 22)  
Dow Corning  
Eastern Airlines  
Euro Tunnel  
Federated Department Stores  
FINOVA Capital  
Gillette Holdings  
Globalstar  
Grand Union (Chapter 33)  
Greyhound  
Hills Department Stores  
Hillsborough (Jim Walter)  
Iridium  
ICO Global Communications  
LTV (Chapter 22)  
Loewen  
Manville Corporation  
Maxicare  
Memorex-Telex  
Montgomery Ward  
National Gypsum  
Olympia & York  
Orion Pictures  
Pacific G&E  
Paging Network  
Pan Am  
Prime Motor Inns  
PSI Net  
RSL Communications  
R.H. Macy & Company  
Resorts International  
Revco Corporation  
SCI-TV  
Southland  
Storage Technology  
TWA (2X)

Zeta Scores & Stock Prices  
Z-Scores for Japanese Firms  
Z-Scores and Investing

Trump Plaza  
Wang Laboratories  
Zale