NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS
GRADUATE DIVISION

FINANCE B40.3198.10

BANKRUPTCY AND REORGANIZATION

FALL 2003 - FIRST HALF

Course Syllabus

Prof. Max Holmes
(212) 478-0273
holmes@deshaw.com

Class Hours: Monday 6:00 – 9:00 PM
Class Location: Kaufman MEC Hall, 44 West 4th Street, Room 365
Office Hours: Immediately prior to class and by appointment

Text and Readings

Required
The package of course materials (the “Package”) handed out in the first class.

Recommended  (Available at the N.Y.U. Professional School Bookstore and on reserve in the Library)


Brief Description of the Course

The course consists of 7 intensive 3-hour classes; 1 is a lecture and the remaining 6 each cover a case in depth. Class requirements include (i) a Take Home Test requiring analysis of a Bankruptcy Disclosure Statement, (ii) a Written Assignment comparing and contrasting two securities of a company emerging from bankruptcy, and (iii) Class Participation. All readings in the Package are required.

Purposes of the Course

The course will provide an overview of the bankruptcy and reorganization process as it currently exists for large companies in the United States. The purposes of the course are:

(1) to examine the bankruptcy process from the perspectives of: (a) securities analysis – when are a bankrupt company’s securities a good or bad investment; (b) capital structure choices – company management and creditor actions to select a post-bankruptcy capital structure; (c) uses and abuses of the bankruptcy process from the perspectives of management and creditors; (d) prepackaged bankruptcies and out-of-court restructurings; (e) contests for corporate control within the bankruptcy process; and (f) public policy implications of the current bankruptcy process;

(2) to develop the student’s ability to understand complicated financial deals and financial statements;

(3) to develop the student’s ability to think on his or her feet; and

(4) to develop the student’s financial writing skills.
Class Schedule

1. September 22  
   Introduction to the Course and Lecture  
   Fundamentals of Credit Analysis  
   Fundamentals of Bankruptcy Law

2. September 29  
   Case: The Southland Corporation  
   Why Do Companies Go Bankrupt?  
   Acquiring Control Through Plan Sponsorship

3. October 6  
   Case: TWA Inc.  
   The Operationally Sick Company  
   A Rights Offering Upon Exit from Bankruptcy

4. October 13  
   Case: R.H. Macy & Co.  
   Using the Bankruptcy Process as a Takeover Opportunity  
   Management Versus a Hostile Third Party Acquiror  
   Take-Home Test Handed Out

5. October 20  
   Case: Morrison Knudsen Corporation  
   The All-Equity Plan  
   Acquiring Control Through Merger  
   Take-Home Test Returned

6. October 27  
   Case: Chiquita Brands International, Inc. – Daniel Posner Guest Lecturer  
   Good Company / Bad Balance Sheet  
   Bondholders Acquire Control

7. November 3  
   Case: Gearhart Industries, Inc.  
   Buying the Troubled Company Before Bankruptcy  
   Richard Rainwater at Work  
   Writing Assignment Due
Writing Assignment

The writing assignment for the course is due on Monday, November 3, 2003, with the following instructions:

Federated Department Stores, Inc. You are the newly appointed financial analyst reporting to one of the portfolio managers of the Fidelity Aggressive Bond Mutual Fund, who tells you: “We have already taken a major loss on our holdings of old Federated bonds. Under the Federated Plan of Reorganization which has just been confirmed, we can now elect to swap those old bonds for $10 million (face) of new Federated Convertible Debentures, or we can swap them for $10 million (face) of new Federated Series D Senior Notes. Which should we choose and why?” This requires that you compare and contrast the two issues. Assume you are reviewing the issues simultaneously at the confirmation date. [Note that the choice is hypothetical; no actual old securities faced this choice in the Disclosure Statement.]

The format of this written assignment will be as follows:

1. It must be at least 10 pages and no more than 20 pages (including all tables, charts, graphs and exhibits). Pages beyond the limit will not be read; resulting omissions will adversely affect your grade. It must be typed or word-processed on letter-sized paper, 10 to 12 point type, single or doubled spaced (your choice), with at least 1-inch margins on the top, bottom and each side.

2. Tables, charts, graphs, exhibits, etc. are not required, but use them if you think they aid analysis.

3. It must begin with an executive summary of exactly 1 page, including a statement of the problem (2 or 3 sentences), as discussion of the alternatives, and a recommendation. Papers without a recommendation are useless and will receive an F. “Gather more information” is not a recommendation.

4. Assume the reader knows the problem involved and understands finance. Do not rehash the facts; do not go wild on jargon. If you are using a technical term and you think there may be ambiguity as to its use, define the term in a footnote. Common sense will be the most important ingredient in coming up with a good answer. There is no “right” answer.

5. The assignment must be delivered or sent during the business day on or prior to the due date, (i.) by delivering or sending it to Max Holmes, D. E. Shaw & Co., 120 West 45th Street, 39th Floor, New York, NY 10036, (ii.) by emailing it to “holmes@deshaw.com”, (iii.) by faxing it to Max Holmes at (212) 845-1273, or (iv.) by delivering it at the beginning of the class on the due date. Late papers will be penalized by one grading category (e.g., A- becomes a B-).

6. Standards for grading include: (a) Did you properly focus on the relevant problem?; (b) Did you identify all of the important alternatives?; (c) Were you able to realistically assess the company’s financial condition?; (d) Did you reach a defensible recommendation?; (e) Did you identify key facts which logically support your recommendation?; (f) Is your recommendation supported by reference to the real world?; (g) Did you recognize and deal with facts which are contrary to your recommendation?; (h) Was your paper written in clear, concise English, and free from typographical, grammatical and mathematical mistakes?; and (i) Was the paper presented well? The level of quality should be the same as if you were actually in the job involved, and were eager to get promoted.

7. The paper may be done jointly by a group of no more than 3 members, or you may work by yourself.
Examination

There will be one examination, an open-book Take-Home Test between the 4th and 5th class sessions. You must complete the Take-Home Test by yourself. Makeup or rescheduled exams will be allowed only with a written doctor’s medical excuse or certified death in the family.

The Test will consist of excerpts from an actual bankruptcy Disclosure Statement. Part of the test will consist of short-answer math questions which will test your ability to extract information from the document. These questions will range from very easy to medium to very difficult. For math problems, up to ½ partial credit will be given even if you reach an incorrect final answer, if you show some correct steps in your answer. The remainder of the Test will be an essay in which you will be asked to make a recommendation on purchasing a security.

An HP-12C or equivalent calculator is highly recommended to take this course. You should master the IRR and other calculations described in the “Practical Guide to Using the HP-12C” provided.

Grading

For the overall grade in the course, assignments will be weighted as follows:

40%  Written Assignment  
30%  Take-Home Test  
30%  Class Participation.

The course will be based on grades from A to C (or F for unsatisfactory work), with pluses and minuses. The course will not be graded on a curve.

During discussion of cases, you will be called on at random to comment. Being absent when called on, passing when called on, or being unprepared when called on will be a negative. Unless you have notified me in advance, excuses for any of these are not relevant. You can also gain class participation credit by asking relevant questions at other times or by bringing up current events which are relevant to the topics covered.