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." Several were from Executive MBA courses. 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.

Call me at (212) 998-0709 or visit my website at http://www.stern.nyu.edu/~ealtman;
Email: ealtman@stern.nyu.edu.
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).
Required Materials:


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)

III. Detailed Course Outline

Session Dates Subject and Readings
9/14 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.

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)
9/22  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

9/28  Discussion of the Duplan Case - Chapter 13 (Case should be handed in; You must work with one or two other students).

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)

10/6  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”)

  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

10/12  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
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
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Website: http://www.stern.nyu.edu/~ealtman
### 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
- Hillborough (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