

**NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS
GRADUATE DIVISION**

FINANCE B40.3199

CASE STUDIES IN BANKRUPTCY AND REORGANIZATION

FALL 2008 – SECOND HALF

Course Syllabus

Prof. Max Holmes

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Class Hours: Wednesday 6:00 – 9:00 PM

Class Location: Kaufman Management Center, 44 West 4th Street, Room 1-70

Office Hours: Immediately prior to class and by appointment

Text and Readings

Required

The package of course materials (the “Package”) is available on the SternLinks Quick Links Blackboard under Course Documents at www.stern.nyu.edu. If the site is unavailable, materials can be emailed.

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

Edward Altman and Edith Hotchkiss, *Corporate Financial Distress and Bankruptcy* (3rd ed.) (Hoboken, NJ: John Wiley & Sons, 2006).

Edward Altman, *Bankruptcy, Credit Risk, and High Yield Bonds* (Malden, MA: Blackwell Publishers Inc., 2002).

Brief Description of the Course

The course consists of 6 intensive 3-hour classes; 1 is a lecture and the remaining 5 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. November 5 Case: Chiquita Brands International, Inc.
Good Company / Bad Balance Sheet
Bondholders Acquire Control
Guest Lecturer: Les Levi
2. November 12 Introduction to the Course and Lecture
Fundamentals of Credit Analysis
Fundamentals of Bankruptcy Law
3. November 19 Case: WorldCom, Inc.
Dealing With Fraud / Substantive Consolidation
Creditor Plan Leading to Merger
- November 26 Thanksgiving Break
4. December 3 Case: The Southland Corporation
Why Do Companies Go Bankrupt?
Acquiring Control Through Plan Sponsorship
Take-Home Test Handed Out
5. December 10 Case: R.H. Macy & Co.
Using the Bankruptcy Process as a Takeover Opportunity
Management Versus a Hostile Third Party Acquiror
Take-Home Test Returned
6. December 17 Case: Morrison Knudsen Corporation
The All-Equity Plan
Acquiring Control Through Merger
Writing Assignment Due

Writing Assignment

The writing assignment for the course is due on Wednesday, December 17, 2008, 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; "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 turned in received during the business day on or prior to the due date, (i.) by delivering or sending it to Max Holmes, Plainfield Asset Management LLC, 55 Railroad Avenue, Plaza Level, Greenwich, CT 06830, (ii.) by emailing it to "max.holmes@pfam.com", (iii.) by faxing it to Max Holmes at (203) 302-1759, 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 4 members, or you may work by yourself. No expansion of the group beyond 4 members.

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. Late exams will be penalized by one grading category (e.g., A- becomes a B-).

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.

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.