

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

**Corporate Bankruptcy & Reorganization  
FINC-GB.3198.20**

**Professor Stuart Kovensky  
Spring 2017 (2<sup>nd</sup> Half)  
Tue/Thurs 10:30-11:50 a.m.  
Location: TBD**

**Thank you for choosing to consider this course in Corporate Bankruptcy & Reorganization!**

The subject of bankruptcy and reorganization is both an exciting as well as important area in the study of corporate finance, capital markets, corporate law and investor behavior. In addition, it has become increasingly relevant as over the last 10 years we have seen rapid growth in the size of the credit markets as well as hundreds of bankruptcies of large companies including Enron, Caesars, General Motors, Chrysler and American Airlines. More recently, the recent decline in energy and commodity prices has resulted in a large number of bankruptcies in those industries. In fact, the issue of insolvency has become relevant outside of just the corporate arena with the bankruptcy reorganization of Detroit in 2015, as well as the issues currently facing Puerto Rico.

Over the term of the course, we will study a number of important areas to help you get an understanding of:

- The origins, purpose and evolution of bankruptcy laws
- Myths vs. Reality of what happens to companies that file for bankruptcy
- What causes companies to go bankrupt
- The size, scope and growth of the non-investment grade debt markets
- Tools that can be used to predict corporate distress
- Corporate Bankruptcy investing
- Valuation and analysis of distressed firms
- Examples of historical bankruptcies – Enron, GM, Kodak, Dynegy and others
- Municipal and Sovereign Bankruptcies

As both an Adjunct Professor of Finance, as well an investor with over 20 years of experience in the non-investment grade and distressed debt markets, I bring both an enthusiastic love of the field as well as the ability to bridge both theory and practice into our classroom discussions.

Investing in non-investment grade debt, in the form of Leverage Loans and High Yield Bonds has grown significantly in the last 20 years. Today there is approximately \$3 Trillion of this debt outstanding just in the United States, making for a very large market. Alongside this growth, the distressed debt market has matured into a significant part of the capital markets with a robust industry of investors, legal and financial advisors as well as other professionals working towards investing in and resolving the issuer's distress.

Given the size and inherent risk in this market, familiarity with bankruptcy and reorganization is essential to truly understanding corporate finance and the capital markets. Indeed, this course can now be followed by a companion course on “*Distressed Securities, FINC-GB.3176*” as well as a Case and Prospectus Analysis course on “*Case Studies in Bankruptcy & Reorganization, FINC-GB.3199.*”

The pedagogy of the course includes traditional lectures, case studies, guest speakers on various topics, such as, valuation in corporate bankruptcy reorganizations, advising a bankrupt debtor and “vulture” investing. Grading will be determined by a combination of your in-class participation, assignments (individual and group) and a group take home project that will be due at the end of the full semester.

## 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, commercial banks, municipalities and sovereign nations; the effect of bankruptcy on total share valuation; investment strategies relevant to distressed companies’ securities; financial restructuring; high yield “junk” bonds; the increasing presence of sovereign and municipal bankruptcies; and the implications of bankruptcy analysis to financial lending institutions and non-financial corporate management personnel. References will be made to recent corporate and sovereign 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. Students are required to work in small groups of three to four members. 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-four students). Ideally, students will form their groups early in the term so that they can work together on a few assignments prior to preparing their final report.**

#### Required Materials:

- A. Edward I. Altman and Edith Hotchkiss, **Corporate Financial Distress & Bankruptcy**, 3<sup>rd</sup> ed., John Wiley & Sons, 2006.

- B. Packet of PowerPoint Handouts and Exhibits (Download from “NYU Classes”).
- 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 and R. Nimmo, **Managing Credit Risk: The Great Challenge For Global Financial Markets**, 2<sup>nd</sup> 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**, 1<sup>st</sup> or 2<sup>nd</sup> edition, John Wiley & Sons

#### **IV. Detailed Course Outline**

##### **Session**

##### **Dates Subject and Readings**

##### **3/23 The Corporate Bankruptcy Phenomenon**

- Overview of the Course, Assignments, Projects and Grading
- Introduction to corporate financial distress
  - Factors that cause firms to enter distress
- Business failures and bankruptcies - **chapter 1**
- Defaults and bankruptcies in 1971-2016
- Major players in the reorganization process
- Trends in bankruptcy reorganization

- 3/28 **The Bankruptcy Process**
- Basics of the Bankruptcy Code
  - The chapter 11 process - **chapters 2, 4**
  - Focus on Chapters 7 and 11
  - Steps in the restructuring process
  - Key Terms and Milestones
  - Changes to Bankruptcy Code and Implications
- 3/30 **The High Yield Bond Market – Chapters 8,9 and 2016 Salomon Center Annual Report**
- Risk and return analysis
  - Evolution and current status of the market
  - The raw material for the distressed securities market
  - Traditional default and mortality rate methods
  - Estimating the probability of default
- 4/04 **The Leveraged Loan Market and Understanding Corporate Capital Structures**
- Covenants
  - Subordination
  - Structural Considerations
- 4/06 **Credit Scoring Models: Predicting Financial Distress – Chapters 11, 12**
- Z-Score Family of Models – **Chapter 11**
  - KMV, Neural Networks, etc. – **Chapter 11**
  - For emerging markets-expanded version of Z"-Score – **Chapter 12**
  - Enron/WorldCom and GM/Ford discussion
  - The GTI Turnaround – **Chapter 14**
  -
- 4/11 **Introduction of Kodak Case**
- Company History
  - Corporate Transition/Restructuring
  - Bankruptcy
  -
- 4/13 **The Distressed Debt Market (S. Kovensky)**
- Size, scope, players
  - Evolution and current conditions
  - Historical returns/risk
- 4/18 **Investing in Distressed Securities (S. Kovensky)**
- The bankruptcy process and investing
  - Techniques/opportunities to invest
  - Debt vs equity, or both

- Growth in number and size of restructurings

**04/20 Analyzing Distressed Securities/Credit Investment Strategies (S. Kovensky)**

- Financial and operational analysis required
- Why is a company stressed or distressed?
- Who are the creditors/stakeholders/key players?
- Can/should it re-organize?
- What is it worth?
- How should it be capitalized?
- How will the new value compensate existing creditors?
- What are the downside risks?
- Are there opportunities for upside?

**04/25 Review Dynege Assignment**

**04/27 Guest Speaker – TBA**

**05/02 Final Project Summary/Update Presentation**

- This is an opportunity to provide a summary overview of your project, the key issues that you will cover, the various stakeholders involved and the specific factors that make it a worthwhile example of either a complex corporate bankruptcy or a worthwhile theme topic (see last page for ideas for theme topics)

**Office Hours/Location:**      **By Appointment**  
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