

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

**Corporate Bankruptcy & Reorganization<sup>1</sup>**

FINC-GB.3198.01

Fall 2022 (1<sup>st</sup> Half)

Professor Edward Altman, Emeritus

Adjunct Professor Mark Kronfeld

Tues/Thurs 10:30am-11:50am

Location: In-Person (Room: KMEC 2-90)

**I. Introduction and Overview**

The subject of bankruptcy and reorganization is an exciting as well as important area in the study of corporate finance, capital markets, corporate law and investor behavior. Over the last 30 years the market for non-investment grade debt has grown considerably and with that, the field of corporate bankruptcy has become increasingly prominent. It is also important to note that the issue of insolvency is also highly relevant outside of the corporate arena, as exemplified by the municipal bankruptcy reorganization of Detroit in 2013, the ongoing Puerto Rico debt restructuring, the Argentinean sovereign restructuring, among many others – past, present, and future. All of the foregoing has led to the development of a number of interesting and potentially lucrative career paths within the fields of investment management, investment banking, restructuring and turnaround consulting.

Most recently, we faced a devastating economic downturn, primarily caused by COVID-19 pandemic, which resulted in the number and importance of corporate bankruptcies soaring to record levels, especially amongst the mega- bankruptcies involving firms with more than \$1 billion in liabilities. Moreover, bankruptcy-related statistics do not reflect the extent of out-of-court restructurings and workouts employed by distressed companies in recent years. Even with the rollout of COVID-19 vaccines and boosters combined with the benefits of Government stimulus, low interest rates, available capital, etc., pervasive risks remain including the prevalence of “zombie firms” and the overall excessive debt levels of companies and governments. The role of bankruptcy and reorganization has never been more important.

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

- The key financial, legal and strategic issues associated with the restructuring process in the context of financially troubled companies
- The fundamentals, origins, purpose and evolution of bankruptcy law
- The size, scope and growth of the non-investment grade, leveraged finance and non-bank lending markets
- Tools that can be used to predict corporate distress

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<sup>1</sup> Please note that this syllabus is subject to change but the general structure, dates, times, and overall content of the course will remain the same. In addition to the assigned class readings set forth below, occasional short articles or brief written materials may also be assigned to supplement particular class discussions.

- COVID19 and the Credit Cycle
- Examples of historical bankruptcies
- Distressed investing, including valuation and analysis of distressed firms
- Careers in distressed investing, investment banking, turnaround management and corporate restructuring

The original focus of the class more than 45 years ago was on discussing and using corporate distress prediction models from an external and fixed income security perspective. These statistical-multivariate models, utilizing financial statement and market valuation variables, have become standard analytical procedures in the financial world. They are now complemented by a number of newer analytical approaches, including option pricing, artificial intelligence, corporate governance assessments and machine learning.

While the financial distress prediction aspect is still an important part of the course, perhaps the more important perspective is now the valuation and analysis of below investment grade issuers, distressed or bankrupt firms and their outstanding securities, primarily bonds, bank loans and equities of companies that are distressed and trade either before or during bankruptcy reorganization or have emerged from Chapter 11. The market for these types of investments has grown considerably over the last twenty years and now stands at about \$3.5 trillion. The bankruptcies of corporations like Enron and WorldCom, the credit crisis in 2008/2009 and the recent cycle of extreme distress in the energy and retail industries, among others, are evidence that 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.

In addition to the classroom discussion, all students are given the opportunity to join the NY Chapter of the *Turnaround Management Association*. *This year the entire registration cost will be subsidized by the TMA*. Membership in the TMA provides access to TMA's networking, educational resources, and certification opportunities available to its members in the field of corporate bankruptcy and restructuring.

The course includes traditional lectures, case studies, and guest speakers on various topics, such as, valuation in corporate bankruptcy reorganizations, advising a bankrupt debtor, predicting financial distress, operational and financial restructurings, and "vulture" investing. Grading will be determined by a combination of your in-class participation, assignments (individual and group), and a group project that will be due at the end of the full semester. Students *may* have the opportunity to present the findings of their term projects in a special, extra session at the end of the term, as well as at the end of the half-semester. Incidentally, Stern has "hatched" at least six dozen vulture investors, traders of distressed securities and restructuring professionals over the years and this course is oftentimes the "breeding ground" for these successful "birds."

This Fall 2022 semester is being presented to Stern and NYU law students by Professor Edward Altman, who created the course and continues to be active in the relevant academic and practitioner worlds. Professor Altman is extremely pleased to again have Mark Kronfeld as his co-instructor. Professor Kronfeld has over 27 years of experience as a distressed investor, restructuring expert, bankruptcy lawyer and professor. He is the former Global Head of Restructuring at BlackRock, the world's largest asset manager, where was responsible for

overseeing restructurings across the platform and served on BlackRock's Global Credit Oversight Committee. As a senior CIO team member, he helped manage BlackRock's U.S. special situations funds and also focused on distressed debt, private credit, and leveraged finance. He also led BlackRock's internal distressed and credit training programs. Professor Kronfeld is currently a Managing Director at Province, Inc., a leading national financial advisory firm focusing on restructurings and fiduciary-related services. Professor Kronfeld brings to Stern his extensive professional experience in distressed investing and restructuring, his significant academic and teaching experience at Stern and other universities, as well as his experience leading internal training and education programs at BlackRock and other financial institutions over the past two decades.

The course will mainly be taught **in-person**. Professors Altman and Kronfeld will make time to speak with any registered student on an individual basis to supplement class activities. You can reach Professor Altman at (646) 469-7029 and/or visit his website at [www.stern.nyu.edu/~ealtman](http://www.stern.nyu.edu/~ealtman) or email: [ealtman@stern.nyu.edu](mailto:ealtman@stern.nyu.edu). You can reach Professor Kronfeld at (646) 352-1562 or by email: [mpk211@stern.nyu.edu](mailto:mpk211@stern.nyu.edu).

## II. 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 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 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 and sovereign failures and cases as well as to empirical and theoretical scholarly and professional studies.

## III. Course Requirements & Instructions

During the duration of the class there will be a group assignment ("**Final Project**"), individual assignments, and guest lecturers, as well as reading requirements from the required text in addition to individual ppt handouts and readings to support certain lectures. Participants of the course are also responsible for the required readings and assignments for each session.

The Final Project will consist of in-depth report of a significant corporate bankruptcy or theme related to the topics covered in the course. Students are required to work in small groups of three to five members. Ideally, students will *form their groups and choose a topic* early in the term but **no later than October 4, 2022. The Final Project is due by December 11, 2022.** Incompletes are possible (subject to the Professors' determination based on the facts and circumstances of each case).

## IV. Materials

### A. REQUIRED:

1. Edward I. Altman, Edith Hotchkiss, & Wei Wang, **Corporate Financial Distress, Restructuring & Bankruptcy**, 4th ed., John Wiley & Sons, 2019, available in hard copy or electronic version.
2. PowerPoint Presentations as well as other distributed materials and handouts

### B. Suggested books: If "Investing in Distressed Securities" and/or "Managing Credit Risk" is of particular interest to you and would like more to read, the following books are recommended (*these books are **NOT required** for the course; these are purely optional reading for those interested in learning more*):

1. J. Caouette, E. Altman, P. Narayanan and R. Nimmo, *Managing Credit Risk: The Great Challenge For Global Financial Markets*, 2nd edition, John Wiley & Sons, 2008
2. E. Altman, *Distressed Securities: Analyzing & Evaluating Market Potential & Investment Risk*, Probus, 1991, reprinted by Beard Books, 1999
3. S. Moyer, *Distressed Debt Analysis*, J. Ross, 2005
4. H. Rosenberg, *The Vulture Investors*, 1st and/or 2nd edition, John Wiley & Sons

## V. Detailed Course Outline

Note: An *optional pre-recorded “Primer Session”* will be available to all students in the class who would like an introduction/refresher on certain basic foundational concepts relating to debt/credit. This optional Primer Session will cover the basics of debt instruments and markets as well as some basic terminology and jargon. Specific discussion topics will likely include an overview of (i) types of debt instruments such as bonds and loans, (ii) legal documents that govern debt instruments and their key terms, (iii) secured vs. unsecured debt, (iv) basics of credit analysis (e.g., the 5 Cs), (v) what do we mean by “capital structure”, (vi) debt market basics, and (vii) basic corporate structure. Needless to say, beyond the Primer Session, we will also cover these topics throughout the course and we will, of course, be available for students who have questions (e.g., during office hours, by appointment, etc.) throughout the semester.

### Session

### Dates Subject and Readings

#### 9/1 Foundations of Corporate Credit; The Corporate Bankruptcy Phenomenon

##### (Read Chapters 1, 2 and 4; Introductory Materials (PPT))

- Overview of the Course, Final Project, and Grading
- Overview of leveraged finance and the debt markets
- Corporate financial distress and factors that cause firms to go bankrupt
- Business failures, corporate distress, restructuring and bankruptcies
- Trends in restructuring, corporate reorganization and bankruptcy
- *Introduction to Final Project*

9/6 **Restructuring and the Chapter 11 Bankruptcy Process – Part One**  
(Read Chapters 3, 4, 6; “Overview of Workouts, Restructurings & Bankruptcy”  
(PPT))

- Recap of key underlying concepts in credit analysis
- Corporate governance in distressed firms
- Objectives and approaches for workouts, restructurings and bankruptcy
- Causes and triggers – insolvency, workouts, restructuring, bankruptcy
- Bankruptcy Code Basics; Overview of chapter 7 and 11
- Key players, goals, issues, and conflicts

9/8 **Restructuring and the Chapter 11 Bankruptcy Process – Part Two**  
(Read Chapters 5, 7; “Fundamentals of Chapter 11 Bankruptcy” (PPT))

- Deeper dive into Chapter 11 process, from petition to plan confirmation
- Overview of “absolute” priority, bankruptcy valuation and distributions
- Commencement of case, automatic stay, first-day orders, bankruptcy committees
- Adequate protection, cash collateral, and DIP (post-petition) financing
- Claims process, bankruptcy causes of action and litigation issues
- Asset sales; plan of reorganization process; third-party releases
- Key protections and strategies; case studies and controversies

9/13 & 9/15

**The High Yield Bond Market and “COVID-19 and the Credit Cycle”**  
(Read Chapters 2 & 8; “Current Conditions and Outlook for Credit Markets”  
(PPT) and New manuscript “COVID19 and the Credit Cycle: Revisiting 2020 and  
Outlook for 2021”)

- Evolution and current status of leveraged finance markets
- Risk and return analysis of high-yield and distressed securities
- The raw material for the distressed securities market
- Distressed Debt Market - Market Dynamics
- Default and Recovery Rate and Mortality Rate Models and Methods
- Estimating the probability of default
- Are historically based models still relevant?
- Structured Credit Products (CLOs)
- Major risks going forward - Market Outlook
- COVID-19 and the Credit Cycle

**Where are we in the Credit Cycle & Outlook**  
**Global Zombies & Corporate Resiliency**

**9/20 Chapter 11 Bankruptcy Process – Part Three**

**Overview of Distressed Investing**

**(Read Chapters 14-15; “Distressed Investing – Part 1” (PPT))**

- Complete discussion of Chapter 11 Process – plan confirmation, key takeaways, strategies, case studies and controversies; Q&A.
- Intro to distressed debt market and investing landscape
- Styles, approaches, and strategies of distressed investors across the distressed company life cycle (pre- and post-bankruptcy)
- Distressed recovery paradigm; Seven-Step Approach
- Basics of distressed valuation
- Importance of rank, structure, seniority, rights and remedies
- Identifying and analyzing distressed investment opportunities
- Recent trends in distressed investing; examples and case studies

**9/22 Analyzing Distressed Securities & Related Investment Strategies**

**(Read “Distressed Investing – Part 2” (PPT) – *Possible Guest Speaker - TBA*)**

- Seven-Step Approach – deeper dive
- Key considerations driving reorganizations, valuation, and recoveries
- Distressed waterfall models, going concern and liquidation models
- Determining recoveries/LGDs and other default-related considerations
- Identify hidden risks, issues, red flags and opportunities in investments that most impact LGD, recoveries, etc. and how to spot/analyze them
- Vulture or Phoenix? Activism and the role of the distressed investor
- Distressed investment examples and case studies

**9/27 Credit Scoring Models: Predicting Financial Distress**

**(Read Chapters 10 & 11) and Corporate Credit Scoring Models (PPT))**

- Z-Score Family of Models
- KMV, Neural Networks, etc.
- For emerging markets- robust version of Z-Score Model – Z”-Score GMF/Ford discussion and more current cases
- A 50-Year Retrospective on Z-Scores
- Models for SME Analytics

**9/29 Implications & Applications of Financial Distress Prediction Models**

**(Read Chapters 11, 12; Financial Restructuring, The GTI Case of Managing a Financial Turnaround (PPT))**

- For investors
- For bankers
- For managers - the corporate renewal process
- For Board Members
- The GTI corporate turnaround - Chapter 12
- How to avoid Chapter 22

**10/4 Final date to form group and pick topic for Final Project**

**10/4 Nieman Marcus Case Study / Ethical Issues & Governance in Bankruptcy**

**Guest Speaker: Dan Kamensky, Ex-CEO of Marble Ridge Capital**

***(Assigned Reading TBA)***

- Case study on Nieman Marcus
- Ethical issues, conflicts and tensions in restructuring and distressed investing
- Distressed corporate governance

**10/6 Distressed Investor Perspective/Molycorp Bankruptcy Case Study – Part One**  
**(Read Distressed Investor Perspective – Molycorp Case Study (PPT), additional case materials)**

- Recap prior sessions; advanced distressed techniques and strategies
- Insider view of distressed investing
- Case study on Molycorp: Review court docket filings, examine history and events before, during, and after the bankruptcy. Focus on financial, legal, and process drivers that ultimately dictated the outcomes for creditors and how those same drivers play into credit investing generally. We will highlight the takeaways from the case that are most useful to the restructuring and investment analysis process.

**10/11 Molycorp Bankruptcy Case Study Discussion – Part Two**

***Guest Speaker - TBA***

- 1<sup>st</sup> half of class: Finish case study on Molycorp: illustrate topics from prior sessions and cover distressed analysis, tactics and strategies, hidden pitfalls and opportunities, etc.
- 2<sup>nd</sup> half of class: Guest Speaker - TBA

**10/13 Careers in Restructuring and Investing**

**Tying up Loose Ends; Q&A**

- Careers in restructuring, distressed investing, and related paths
- Discussion of diversity, equity, and inclusion
- Job market, opportunities, interviews, career paths, war stories, skills for success
- Tying up loose ends: recap, clarifications, etc. regarding prior topics and materials
- Wrapping up: lessons learned, how does this all fit together, what do we now think, and have our view or opinions changed?
- Q&A

**FINAL PROJECTS WILL BE DUE ON DECEMBER 11**

**Grading:** Will be based primarily (80-90%) on the Final Project with smaller, but meaningful weights for in-class contribution and any graded individual assignments (10-20%)

**Office Hours/Location:** Edward Altman  
Remote Office Hours: Fridays 11:30am to 1pm, and by appt.  
Phone and Facetime: (646) 469-7029  
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Web: [www.stern.nyu.edu/~ealtman](http://www.stern.nyu.edu/~ealtman)

Mark Kronfeld  
Office Hours: Fridays 10am to 11:30am, and by appt.  
Will be available in person and via zoom, phone or Facetime  
(*sign up details TBA*)  
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