

The Wharton School – University of Pennsylvania
FNCE 891
Corporate Restructuring

Spring 2010
Syllabus

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Office Hours: Monday 4:30-6:00pm

Course Overview

The objective of this course is to familiarize students with the financial, legal, and strategic issues associated with the corporate restructuring process. The main focus of the course will be on restructuring financially distressed firms. We will survey a variety of restructuring methods (out-of-court workouts, exchange offers, prepackaged bankruptcies, Chapter 11 bankruptcies, international insolvency practices) available to troubled firms and study the dynamics of the restructuring process through a number of historical and current case studies. The course will provide students with tools to value distressed securities, understand the legal framework governing bankruptcy and reorganization, and navigate the key strategic issues facing managers and investors in distressed companies.

The course is designed for MBA students who are interested in careers related to corporate restructuring, including those in distressed investing, private equity, investment banking, and turnaround management.

Course Format

The course content will be presented using a mixture of lectures, case studies, a negotiation exercise, and several guest speakers. The guest speakers will be Wharton alumni who have leadership roles in the restructuring industry as managers, advisors, and investors.

Regular lectures: Mondays and Wednesdays, 12:00-1:20pm and 3:00-4:20pm in Steinberg Hall-Dietrich Hall 109. Classes begin on Wednesday, January 13th and end on Monday, April 26th. There is no class on Monday, January 18th in observance of Martin Luther King Day.

Guest speakers: The course will feature several guest speakers from the corporate restructuring and distressed investing industries. In order to accommodate the speakers, guest lectures may be scheduled outside of regularly-scheduled class times. Times and locations of the guest lectures are listed in the course schedule below. Regularly scheduled classes on the days of the guest lectures will be canceled unless otherwise noted. If possible, guest lectures may be taped for students who are unable to attend; however, this will not be possible for all guest lectures.

Teaching assistants: The teaching assistants for the course are Amit Gupta (Cohort B), Howard Levine, and a third TA to be named. Their primary responsibilities will be answering questions (via email and webCafe) and grading cases and exams.

Course website: There is a webCafe room for this class, where I will post readings and case materials. The room's address is <http://webcafe.wharton.upenn.edu/eRoom/fnce/891-sp10>.

Course materials: An electronic course pack is available on Study.Net that contains cases and additional readings for the course. It can be downloaded directly from the Study.Net website or printed through Wharton Reprographics. Additional readings, slides, articles, and spreadsheets for the case exercises will be posted on webCafe. There is no required textbook for the course, but the following book is recommended:

- Stephen Moyer, *Distressed Debt Analysis: Strategies for Speculative Investors*, J. Ross Publishing, 2004.

Additional books that may be of interest include:

- Martin Whitman and Fernando Diz, “Distress Investing: Principles and Techniques”, Wiley Finance, 2008.
- Edward Altman and Edith Hotchkiss, “Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, Analyze and Invest in Distressed Debt”, Wiley Finance, 2005.
- Thomas Salerno, Jordan Kroop, and Craig Hansen, “The Executive Guide to Corporate Bankruptcy”, Beard Books, 2001.

Course Requirements

Prerequisites: The prerequisites for the course are FNCE 726-Advanced Corporate Finance and FNCE 728-Corporate Valuation. The main purpose of the prerequisites is to ensure that students have a solid understanding of corporate finance (particularly the theory of capital structure, how to compute costs of capital, basic accounting and financial statement analysis, and valuation methods), so that we can spend more time on the nuances of distressed situations and less time on reviewing background material. Students that have received permission to enroll without the prerequisites are expected to review the relevant topics as necessary to meet the requirements of the course.

Grading/exams: Final grades in the course will be based on:

1. Five written case analyses (20%)
2. Take-home midterm exam (25%)
3. Team negotiation exercise (10%)
4. Term project/presentation (25%)
5. Class participation (20%)

Case write-ups: Written case analyses should be completed in teams of three, with one write-up delivered for each team. The write-ups should include answers to several key questions, which I will provide along with the case, as well as a description of the calculations and reasoning supporting each answer.

Midterm exam: There will be one take-home midterm exam the week before Spring Break. The take-home exam will be similar to the cases presented in class and will focus on valuing a distressed company. Each student should complete the exam independently, but may use any additional materials as aids (e.g., books, lecture notes, etc.).

Negotiation exercise: The negotiation exercise will simulate a bankruptcy negotiation with teams of students positioned on opposing sides of the negotiating table (e.g., as management or as creditors). Each team of four will deliver a pre-negotiation write-up detailing their valuation of the distressed firm and their negotiation approach and a brief post-negotiation summary of their accepted reorganization plan. Negotiations will be held in class.

Term project: The term project will be a detailed analysis of a current restructuring situation, viewed either from the standpoint of management or a prospective distressed investor. The project will consist of three parts: (1) a case write-up that describes the background of the distressed situation, highlights a key decision point, and presents relevant financial data (2) an analysis write-up that analyzes the data and recommends a managerial course of action or investment decision (3) a presentation that briefly summarizes the project’s findings. The term project should be completed in teams of four. Additional details will be provided as the course progresses.

Class participation: Class participation is an important component of this course, and will be judged largely based on the quality, rather than quantity, of comments. I expect students to come prepared to discuss both cases and readings. While I will not have a formal attendance policy, students must attend class to participate. I also expect students to arrive on time, use their nameplates, and refrain from using mobile devices or laptops during class.

Course Outline

A list of topics and cases we will cover in the course are included in the outline below.

Date	Topic	Readings/Deliverables
1/13 W	Introduction and Course Overview	Moyer, Chapters 1-2 Ineichen, Chapter 7 (pp 270-285)
1/20 W	The Causes and Costs of Financial Distress	Kaiser, Chapter 11 Moyer, Chapter 8
1/25 M	Methods of Dealing with Financial Distress	Kaiser, Chapter 12 Moyer, Chapter 9
1/27 W	Case Discussion: Cumberland Worldwide (Distressed exchange offer)	*Case write-up due
2/01 M	U.S. Bankruptcy Law	Kaiser, Chapter 13
2/03 W	Case Discussion: Flagstar Companies, Inc. (Prepackaged bankruptcy)	*Case write-up due
2/08 M	Valuation: Overview and Cost of Capital	Roe Chapter 2, AICPA Section 13
2/10 W	Valuation: The APV and CCF Methods	Gilson, Technical Note Gilson, Hotchkiss, Ruback article
2/15 M	Case Discussion: Sunbeam-Oster Company (Chapter 11 bankruptcy)	*Case write-up due Rosenberg, Chapters 7-8
2/17 W	Case Discussion: Kmart Corporation (Chapter 11 bankruptcy)	Whitman & Diz, Chapter 16
2/22 M	Case Discussion: Marvel Entertainment Group (Chapter 11 bankruptcy)	*Case write-up due
2/24 W	Guest Speaker: Howard Marks Founder, Oak Tree Capital Management Topic: Investing in Distressed Companies	Location/Time change: 12:00pm, JMHH Moyer, Chapter 10
3/01 M	Topics in Distress Investing	
3/03 W	Take-Home Midterm Exam (no class)	*Exam due by 5pm

***** SPRING BREAK *****

3/15 M	Guest Speaker: Michael Weinstock Co-Founder, Monarch Alternative Capital Topic: CIT Group	Location/Time change: 4:30pm, JMHH TBD
3/17 W	Guest Speaker: Jed Hart Managing Director, Centerbridge Partners Topic: TBD	Location/Time change: 4:30pm, JMHH TBD
3/22 M	Emerging from Financial Distress	*Term project proposals due
3/24 W	Guest Speaker: Bruce Mendelsohn Co-Head of Restructuring Group, Goldman Sachs Topic: Distressed Investment Banking	Location/Time change: 4:30pm, JMHH
3/29 M	Introduction to Negotiation Exercise Case Discussion: International Restructuring Case	*Case write-up due Kaiser, Chapter 14
3/31 W	Guest Speaker: Doug Rosefsky Managing Director, Alvarez & Marsal Topic: International Restructuring	Location/Time change: 4:30pm, JMHH
4/05 M	In-Class Negotiation Exercise	*Negotiation write-up due
4/07 W	Guest Speaker: David Matlin Co-Founder, MatlinPatterson Global Advisors Topic: "Distress for Control" Investing	Location/Time change: Time TBD (3:00 or 4:30pm) JMHH TBD
4/12 M	Debriefing of Negotiation Exercise Case Discussion: Navistar International (Restructuring employee claims)	*Case write-up due DiNapoli, Chapter 16
4/14 W	Current Topic: Bank Failures	
4/19 M	Presentation of term projects	*Term project write-up due
4/21 W	Guest Speaker: Jay Alix CEO, Lakeview Capital and Founder, AlixPartners Topic: TBD	Location/Time change: 3:00pm, JMHH
4/26 M	Presentation of term projects	