

The Wharton School – University of Pennsylvania
FNCE 391/891
Corporate Restructuring

Spring 2012
Preliminary Syllabus

*(Please note that this syllabus is subject to change over the duration of the course;
however, the general structure and content of the course will remain the same.)*

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Office Hours: By Appointment

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'll begin by reviewing the financial instruments commonly used by risky firms (leveraged loans and high-yield bonds) and learn to interpret the contracts that govern them (credit agreements and bond indentures). We'll then survey a variety of restructuring methods (out-of-court workouts, exchange offers, prepackaged and pre-negotiated bankruptcies, distressed asset sales, and Chapter 11 reorganizations) available to troubled firms and study the dynamics of the restructuring process through a number of historical and current case studies. Finally, we'll consider distressed debt as an asset class and develop techniques for investing in distressed securities.

The course will provide students with tools to value distressed companies, understand the legal framework governing bankruptcy and reorganization in the U.S. and other countries, and navigate the key strategic issues facing managers and investors in distressed companies. It will also provide students with a specialized vocabulary and important facts about the restructuring industry, distress investing, and leveraged financial markets.

The course's content will be presented using a mixture of lectures, case studies, and guest speakers. The speakers will be Wharton alumni with leadership roles in the restructuring industry as managers, advisors, and investors.

Who should enroll? This course is designed for Finance majors who fit one of the following criteria:

- Students interested in restructuring advisory, turnaround management, or distressed debt investing careers
- Students interested in private equity who want to learn (i) how to take advantage of investment opportunities in distressed companies and industries, or (ii) what to do when a deal goes bad (less likely for Wharton grads)
- Students interested in investment banking who want broaden their knowledge of leveraged loan, high-yield, and distressed financing deals, as well as build a skill set for downturns in the M&A or IPO markets
- Students interested in public debt or equity investing (or any other students) who want to expand their understanding of capital structure and improve their investment analysis and modeling skills

Prerequisites: The prerequisites for the course are FNCE 203/726-Advanced Corporate Finance or FNCE 207/728-Corporate Valuation. The main purpose of the prerequisites is to ensure that students have a solid understanding of corporate finance (particularly an understanding of capital structure, accounting and financial statement analysis, valuation methods, and cost of capital), so that we can spend more time on the nuances of distressed situations and less time on reviewing background material. ***Students who receive permission to enroll without the prerequisites are expected to review the relevant topics as necessary to meet the requirements of the class.***

Course Format

Regular classes: Tuesdays and Thursdays, 10:30-11:50am (undergrad) and 1:30-2:50pm and 4:30-5:50pm (MBA) in Steinberg Hall-Dietrich 1201. Classes begin on Thursday, January 12th and end on Tuesday, April 24th. About one third of the regular classes will be traditional lectures, and the rest will be case discussions.

Guest lectures: The course will feature several guest speakers from the corporate restructuring and distress investing industries. In order to accommodate the speakers, guest lectures may be scheduled outside of regularly scheduled class times. Regularly scheduled classes on the days of the guest lectures will be canceled unless otherwise noted. Times and locations of the guest lectures will be set prior to the start of Spring semester (most will be held at 4:30pm on Tuesday or Thursday). ***Please check the guest lecture times before enrolling in the course to ensure that you will be able to attend, since the guest lectures are an important part of the course.***

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

1. Six team case assignments (40%)
2. Team negotiation exercise (15%)
3. Term project/presentation (25%)
4. Class participation (20%)

Case write-ups: For six of the cases discussed in the course (including two presented by guest lecturers), teams will be required to prepare a written memo on the case. Each memo should respond to a specific question or set of questions that I will provide with the case. The memos should be completed in teams of four, with one write-up delivered for each team. Expected page counts for the memos are provided in the detailed syllabus, but they should never exceed 3 pages of write-up plus 3 exhibits.

Negotiation: The negotiation exercise will simulate a bankruptcy negotiation with teams of students positioned on opposing sides of the negotiating table (e.g., management vs. creditors). Each team 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. Additional details will be provided in the Negotiation Guidelines.

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 conclude with a presentation that describes the team's findings to the class. Additional details will be provided in the Term Project Guidelines.

Participation: Class participation is an important component of this course and will be judged based on attendance and in-class contribution. Students should be prepared to discuss all cases, whether or not a write-up is required.

Course Resources

Course materials: The primary resource for the course is the course pack available from Study.net and Wharton Reprographics. The course pack contains cases and selected readings that will augment the lectures. Additional readings will be post on Canvas. There is no required textbook for the course, but the following is an excellent resource: Stephen Moyer, *Distressed Debt Analysis: Strategies for Speculative Investors*, J. Ross Publishing, 2004.

Course website: There is a Canvas room for this class where I will post readings and case materials. The room's address is <https://wharton.instructure.com/courses/262789>.

Teaching assistants: The teaching assistants for the course are TBD. The teaching assistants are responsible for answering questions about the cases and grading the case write-ups.

Course Outline

Date	Topic	Readings/Deliverables
1/12 Th	Lecture: Course Introduction	
1/17 Tu	Lecture: Corporate Credit I	
1/19 Th	Lecture: Corporate Credit II	CP: Insolvency Regimes and Debt Structures
1/24 Tu	Lecture: Restructuring out of court	CP: Leveraging Exchange Offers
1/26 Th	Guest: Richard Shinder, Perella Weinberg Partners <i>(Restructuring at Loehmann's)</i>	CP: Loehmann's case **All sections meet at 4:30pm**
1/31 Tu	Case: Cumberland Worldwide <i>(Distressed exchange offer)</i>	*Memo due (2-3 pages)
2/02 Th	Case: Kmart Corporation <i>(Overview of Chapter 11)</i>	Optional reading: Lyondell Chemical
2/07 Tu	Case: Flagstar Companies <i>(Prepackaged bankruptcy)</i>	*Memo due (1-2 pages)
2/09 Th	Lecture: Distressed Valuation <i>(DCF methods with NOLs)</i>	CP: The Market Approach CP: Gilson, Technical Note
2/14 Tu	Case: Sunbeam-Oster Co. <i>(Finding value in bankruptcy)</i>	*Memo due (2-3 pages)
2/16 Th	Guest: Howard Marks, Oaktree Capital Management <i>(Investing in Distressed Companies)</i>	**All sections meet at 4:30pm**
2/21 Tu	Case: Six Flags Corporation <i>(Emerging from bankruptcy)</i>	*Memo due (1-2 pages)
2/23 Th	Case: Adelphia Corporation <i>(Legal issues in bankruptcy)</i>	
2/28 Tu	Negotiation Meetings (no class)	*Pre-Negotiation proposal due
3/01 Th	Case: United Airlines, 2004 <i>(Labor issues in bankruptcy)</i>	*Post-Negotiation write-up due <i>(By 5pm on Friday, March 2nd)</i>

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

3/13 Tu	Lecture: Credit ratings and default prediction	
3/15 Th	Lecture: Performing debt analysis	CP: Whitman & Diz Ch. 11-12
3/20 Tu	Guest: Michael Weinstock, Monarch Alternative Capital <i>(Investing in Tribune Company)</i>	*Memo due (1-2 pages) **All sections meet at 4:30PM**
3/22 Th	Lecture: Credit default swaps	
3/27 Tu	Guest: David Matlin, MatlinPatterson Global Advisors <i>(Distress for Control Investing)</i>	*Term project proposal due **All sections meet at 4:30PM**
3/29 Th	Case: Groupe Eurotunnel <i>(Restructuring in Europe)</i>	Optional reading: Countrywide plc
4/03 Tu	Guest: Doug Rosefsky, Alvarez & Marsal <i>(Due Diligence in Distress)</i>	*Memo due (1-2 pages) **All sections meet at 4:30PM**
4/05 Th	Guest: Doug Rosefsky, Alvarez & Marsal <i>(Operational Turnaround)</i>	**All sections meet at 4:30PM**
4/10 Tu	Lecture: Alternatives to Chapter 11	
4/12 Th	Guest: Jed Hart Centerbridge Partners <i>(Investing in Capmark Financial)</i>	**All sections meet at 4:30PM**
4/17 Tu	Presentation of term projects	*Term project write-up due
4/19 Th	Presentation of term projects	
4/24 Tu	Presentation of term projects	