

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

Fall 2013
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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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 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 will 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 will 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 individuals with leadership roles in the restructuring industry as attorneys, 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, 9:00-10:20 and 10:30-11:50 am (MBA) and 12:00-1:20 pm (UGR) in Huntsmann Hall Room F60. Regular class sessions begin on Thursday, August 29th and end on Tuesday, December 10th. There is no final exam.

Guest lectures: 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. Regularly scheduled classes on the days of the guest lectures will be canceled unless otherwise noted. Times and locations for most guest lectures will be set prior to the start of the semester (most will be held at 4:30 pm 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 assignments: For six of the cases discussed in the course (including two presented by guest lecturers), teams will be required to submit their analysis as a written memo and/or as answers to an online quiz on Canvas. The form of the submission will vary depending on the case; details will be provided in advance. If a memo is required, it should respond to a specific question or set of questions that I will provide with the case. Memos should never exceed 2 pages of write-up plus 2 exhibits. The case assignments should be completed in teams of four.

Negotiation: The negotiation exercise will simulate a bankruptcy negotiation with teams of students positioned on opposing sides of the negotiating table (e.g., senior vs. junior 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 are provided in the Negotiation Case.

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 are 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 posted 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 TBD.

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
8/29 Th	Lecture: Introduction	
9/3 Tu	Lecture: Corporate Credit I	CP: Six Flags Credit Agreement, Six Flags Indenture, Facts & Figures on Secured Lending
9/5 Th	Lecture: Corporate Credit II	CP: Insolvency Regimes and Debt Structures
9/10 Tu	Lecture: Restructuring out of court	CP: Leveraging Exchange Offers
9/12 Th	Guests: Larry Halperin, Michael Friedman, Richards Kibbe & Orbe Case: Danfom LLC (Restructuring Midmarket LBO)	*Assignment due
9/17 Tu	Case: Kmart Corporation (Introduction to Chapter 11)	
9/19 Th	Lecture: Chapter 11 basics	CP: Coming through a Crisis
9/24 Tu	Case: Flagstar Companies (Bargaining in Chapter 11)	*Assignment due
9/26 Th	Case: Lyondell Chemical (Valuing Turnarounds)	CP: Gilson, Technical Valuation Note
10/1 Tu	Guest: Michael Goldstein, Stutman, Treister, and Glatt (Pitfalls in Debt Contracts)	**All sections meet at 4:30pm** CP: Make-Whole Premiums
10/3 Th	Case: Sunbeam-Oster Co. (DCF Valuation/Distressed LBO)	*Assignment due
10/8 Tu	Case: Six Flags Corporation (Strategies for Junior Creditors)	*Assignment due
10/10 Th	Fall Break	
10/15 Tu	Guest: Brandon Aebersold, Lazard Restructuring (Section 363 Sales)	**All sections meet at 4:30pm**
10/17 Th	Case: United Airlines (Labor issues in Chapter 11)	
10/22 Tu	Negotiation Meetings (no class)	*Pre-Negotiation write-up due *Post-Negotiation write-up due

10/24 Th	Case: Groupe Eurotunnel (<i>Int'l Insolvency Regimes</i>)	CP: Maximizing Value of Distressed Assets.
10/29 Tu	Guest: Aaron Wolfe, Sun Capital Partners (Date unconfirmed) (<i>Investing in The Limited</i>)	**All sections meet at 4:30PM**
10/31 Th	Lecture: Default Prediction	
11/5 Tu	Lecture: Performing Debt Analysis	CP: Primer on Distressed Debt Investing
11/7 Th	Guest: Billal Sikander, Serengeti Asset Management (<i>Finding Value in Kodak</i>)	*Project proposal due **All sections meet at 4:30PM**
11/12 Tu	Case: Delphi Corp CDS (<i>Credit Default Swaps</i>)	*Assignment due
11/14 Th	Guest: Kent Collier, Reorg Research (<i>Distressed Investing 101</i>)	*Assignment due **All sections meet at 4:30PM**
11/19 Tu	Lecture: Avoidance Actions	
11/21 Th	Guest: Mark Kronfeld, Blue Mountain Capital (<i>Distressed Investment Strategies</i>)	**All sections meet at 4:30PM**
11/26 Tu	Lecture: Distressed Equity	
11/28 Th	Thanksgiving	
12/3 Tu	Presentation of term projects (A)	*Project slide deck due
12/5 Th	Presentation of term projects (B)	
12/10 Tu	Presentation of term projects (C)	