

The Wharton School – University of Pennsylvania
FNCE 391/891
Corporate Restructuring
Spring 2015
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: 10:00-12:00 Tuesday and 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 (Chapter 11 reorganizations, prepackaged and pre-negotiated bankruptcies, out-of-court workouts, exchange offers, and distressed asset sales) available to troubled firms and study the dynamics of the restructuring process through a number of 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: Mondays and Wednesday, 9:00-10:20am (MBA) in Huntsman F55, 12:00-1:20pm (UGR) in Steinberg Hall-Dietrich Hall Room 1201, and 3:00-4:20pm (MBA) in Huntsman F65. Regular class sessions begin on Wednesday, January 14th and end on Wednesday, April 29th. There is no final exam.

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 will 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 Spring semester (most will be held at 4:30pm on Monday or Wednesday). ***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. Five team case write-ups (30%)
2. One team case presentation (10%)
3. Team negotiation exercise (15%)
4. Term project/presentation (25%)
5. Class participation (20%)

Case assignments: For five of the cases discussed in the course, 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 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 three-five. Please hand in your case report electronically before 8:30am on the due date.

Case presentation: Each team will choose one of the five cases for which a written memo is required to present in class. Three to four ten-minute slots are to be assigned to presentations. Each team has six minutes for presentation, two minutes for Q&A, and two minutes for feedback. The presentation will take place at the beginning of the class on the day when the case is discussed. Please select the case you would like to present before January 30. The signup sheet will be available on January 26.

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 book by Stephen Moyer, *Distressed Debt Analysis: Strategies for Speculative Investors* (J. Ross Publishing, 2004) is an excellent reference. The books listed below are also good references, especially for those who are interested in working in restructuring advisory, turnaround management, or distressed debt investing (books listed in alphabetical order):

- *Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, and Analyze and Invest in Distressed Debt*, by Edward I. Altman and Edith Hotchkiss, 3rd edition, Wiley Finance.
- *Creating Value through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts, and Breakups*, by Stuart C. Gilson, 2nd edition, Wiley Finance.
- *Distress Investing: Principals and Techniques*, by Whitman and Diz, Wiley.
- *The Art of Distressed M&A: Buying, Selling, and Financing Troubled and Insolvent Companies*, by H. Peter Nesvold, Jeffrey M. Anapolsky, and Alexandra Reed Lajoux, McGraw Hill.
- *The Vulture Investors*, by Hilary Rosenberg, 2nd edition, Wiley.
- *Elements of Bankruptcy*, by Douglas G. Baird, 3rd edition, Foundation Press.
- *United States Bankruptcy Code and Rules Booklet*, legalpub.com

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:

- Phil Barkhorn, 2nd year MBA, barkhorn@wharton.upenn.edu
- Sam Rappaport, 4th year UGR, samrap@wharton.upenn.edu
- Teddy Xiong, 4th year UGR, teddy.xiong.wh15@wharton.upenn.edu

The teaching assistants are responsible for answering questions about the cases and grading the case write-ups and presentations.

Detailed Class Schedule

Class	Date	Topic	Readings/Deliverables
#1	1/14 Wed	Lecture: Introduction	
	1/19 Mon	Martin Luther King, Jr. Day – No Class	
#2	1/21 Wed	Lecture: Corporate Credit I	CP: Facts and Figures on Secured Lending; A Guide to the Loan Market by S&P.
#3	1/26 Mon	Lecture: Corporate Credit II	CP: Insolvency Regimes and Debt Structures; High-Yield Bond Market Primer.
#4	1/28 Wed	Lecture: Causes of Financial Distress (<i>Circuit City Stores and Paramount Equipment</i>)	CP: Paramount Equipment
#5	2/02 Mon	Lecture: Chapter 11 Basics I (<i>Introduction to Chapter 11</i>)	CP: Coming through a Crisis; Notes on Bankruptcy; Notes on BAPCPA of 2005
#6	2/04 Wed	Lecture: Chapter 11 Basics II (<i>Notable Issues</i>)	CP: Kmart & ESL; FAME: Hedge Funds and Chapter 11
#7	2/09 Mon	Case: Six Flags Corporation (<i>Strategies for Junior Creditors</i>)	*Assignment due *Presentation slide deck due Recovery and Returns of Distressed Bonds in Bankruptcy.
#8	2/11 Wed	Guest: Ted J. Goldthorpe , Apollo Investment Corp. (<i>Leverage Loans and Distressed Financing</i>)	**All sections meet at 4:30PM**
#9	2/16 Mon	Case: Flagstar Companies (<i>Bargaining in Chapter 11</i>)	*Assignment due *Presentation slide deck due
#10	2/18 Wed	Guest: Harlan Cherniak , KKR (<i>Bankruptcy Restructuring</i>)	**All sections meet at 4:30PM**
#11	2/23 Mon	Guest: Greg Segall , Versa Capital Management (<i>Creating Value in Distress</i>)	**All sections meet at 4:30PM**
#12	2/25 Wed	Case: Lyondell Chemical (<i>Valuation, DIP Financing, and Senior Creditor Strategy</i>)	*Assignment due *Presentation slide deck due CP: Gilson Technical Valuation Notes
#13	3/02 Mon	Guest: Brandon Aebersold , Lazard Restructuring (<i>Section 363 Sales</i>)	**All sections meet at 4:30PM**
#14	3/04 Wed	Negotiation Meetings (no class)	*Pre-Negotiation write-up due *Post-Negotiation write-up due 9am 3/05.

*** SPRING BREAK ***

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#15	3/16 Mon	Case: Groupe Eurotunnel (Int'l Insolvency Regimes)	CP: Maximizing Value of Distressed Assets.
#16	3/18 Wed	Case: United Airlines (Labor Issues in Chapter 11)	*Assignment due * Presentation slide deck due
#17	3/23 Mon	Lecture: Governance of Distress Firms (Incentivizing Key Employees in Chapter 11)	Provision of Management Incentives in Bankrupt Firms ; Costly Bankruptcy for Top Executives .
#18	3/25 Wed	Case: Pinewood Mobile Homes (Distressed Exchange Offer)	*Assignment due * Presentation slide deck due CP: Leveraging Exchange Offers
#19	3/30 Mon	Guest: Mark Kronfeld , Blue Mountain Capital (Distressed Investment Strategies and Pitfalls)	**All sections meet at 4:30PM**
#20	4/01 Wed	Guest: David Matlin , MatlinPatterson Global Advisors (Distress for Control Investing)	**All sections meet at 4:30PM**
#21	4/06 Mon	Lecture: Performing Debt Analysis	CP: Jackson Automotive Systems; A Primer on Distressed Debt Investing
#22	4/08 Wed	Lecture: Default Prediction	Modeling Default Risk (KMV) . *Project proposal due
#23	4/13 Mon	Guest: Kent Collier , Reorg Research (Distressed Investing 101)	**All sections meet at 4:30PM**
#24	4/15 Wed	Lecture: Credit Default Swaps	CP: Delphi Corp CDS
#25	4/20 Mon	Guest: TBD (TBD)	**All sections meet at 4:30PM**
	4/22 Wed	Presentation of term projects (A)	*Project slide deck due
	4/27 Mon	Presentation of term projects (B)	
	4/29 Wed	Presentation of term projects (C) Guest: Scott Graves , Oaktree Capital Management	**All sections meet at 4:30PM**