1. Here’s the beginning of a press release from last year:

**Concorde to Repurchase 600,000 Shares of Common Stock from the Robert F. Brozman Trust**

MISSION, Kan.--(BUSINESS WIRE)--Sept. 12, 2005--Concorde Career Colleges, Inc. (Nasdaq:CCDC) (the "Company" or "Concorde"), a provider of career training in allied health programs, today announced an agreement to repurchase 600,000 shares of its common stock from the Robert F. Brozman Trust in a private transaction. The total aggregate purchase price will be determined using 95% of the average closing price of the Company's stock on the NASDAQ market over a 30-day period. The 30-day period began on the 15th trading day prior to this announcement and ends on the 14th trading day after the date of this announcement. The shares represent approximately 10.0% of the Company's 6,050,393 outstanding shares and will be purchased at a price that will be a minimum of $13 and a maximum of $17 per share. Concorde will purchase the shares with existing cash.

What concerns does this deal structure address? How?

2. An entrepreneur has two potential investment projects, A and B, each of which costs 100. Their payoff depends on whether the economy next year is in a state of Depression (D) or Prosperity (P), each of which has probability $\frac{1}{2}$ of occurring:

<table>
<thead>
<tr>
<th>Project</th>
<th>D</th>
<th>P</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>75</td>
<td>130</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>140</td>
</tr>
</tbody>
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The discount rate is zero, and everyone is risk-neutral. The entrepreneur needs to raise some money toward the cost of 100, and what he doesn’t raise he has to pay in himself. The entrepreneur cannot commit to which project he would choose.

a) Show that the entrepreneur makes an expected profit if he sells debt with face value 60.

b) The entrepreneur wants to raise more money than he raises with a face value of 60. Would it help to increase the face value to 70? That is, would the entrepreneur raise more money and make an expected profit on what he pays in himself if the face value were 70?

c) Would it help to instead make the bond convertible into $\frac{1}{2}$ the firm’s equity? That is, in one year, the investor can choose between having a debt claim with face value 60, or $\frac{1}{2}$ the equity (for simplicity, assume here that there is only one investor). That is, would the entrepreneur raise more money and make an expected profit?

3. Suppose GM has a bond maturing in a year and that there are exactly two possible states of the world at maturity: in one GM is bankrupt and the bond is worth 40, and in the other it is not and the bond pays 108. Also, if GM goes bankrupt, DaimlerChrysler stock will be $30/share, and if it does not go bankrupt then Daimler Chrysler stock will be $70/share. Currently, DaimlerChrysler is $56/share. The one-year risk-free rate is 5%.

a) What is today’s price of GM’s bond, i.e. the price that does not present an arbitrage opportunity?

b) What would today’s price be for a credit derivative that offsets the GM bond’s default risk, i.e. a derivative that pays 68 if GM goes bankrupt and 0 if it doesn’t?
4. At the end of the handout is an edited-down version of a tender offer and consent solicitation launched last week by Navistar.
   a) Suppose some bondholders are determined to take legal action over this apparent default. Can this tender offer solve that problem?
   b) How do the features of this offer encourage participation? The design of the “additional consent payment” is novel. What purpose do you suppose that design serves?
   c) The 9 3/8 bond mentioned (which pays semiannual coupons) matures June 1st of this year (93 days from today). The Treasury bill maturing June 1st is trading with a discount rate of 4.48 bid, 4.47 asked. How much would it cost Navistar to simply defease this bond?

5. In bankruptcy news in the 1/31/06 Hedge World we read that “attorneys for Owens-Corning made their case for another extension of the exclusivity period.” What is the practical significance of the exclusivity period, and what effect should we expect from the fact that the Bankruptcy Reform Act recently imposed limits on the number of extensions?

6. On Friday 2/24, the on-the-run 10-year note, which has a coupon of 4½% and matures February 15, 2016, had a repo rate of 0.8%, whereas the general repo rate was 4.5%. Its quoted prices were 99:13 bid, 99:13+ asked. You decided to short $10MM face value of this note from Friday 2/24 to Monday 2/27. What was the effect of this bond’s specialness on your net profit on this trade? (For simplicity, assume 0% margin, and don’t worry about accrued interest).

7. In the closing prices from 2/24/06, we see three securities all maturing February 15, 2016: the on-the-run 10-year from the previous question, a bond issued 20 years ago with a coupon of 9¼, and a STRIP.

<table>
<thead>
<tr>
<th>Coupon</th>
<th>Bid</th>
<th>Ask</th>
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<tbody>
<tr>
<td>4½</td>
<td>99:13</td>
<td>99:13+</td>
</tr>
<tr>
<td>9¼</td>
<td>136:11</td>
<td>136:12</td>
</tr>
<tr>
<td>0</td>
<td>63:00</td>
<td>63:03</td>
</tr>
</tbody>
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Create a portfolio out of the 9¼ and the STRIP that replicates the on-the-run note, and compare the price of the on-the-run with the portfolio. Any intuition for what you find?

8. Earlier this month, NRG Energy issued $3.6BB of bonds, and the indenture for these bonds includes covenants limiting asset sales, dividend and other payments, issuance of other debt, transactions with affiliates and some other corporate actions. However, the indenture also states that these covenants are suspended if NRG Energy is rated investment grade by both Moody’s and S&P. Do you see an economic argument for or against this suspension clause? Explain.
HEADLINE: Navistar Launches Cash Tender Offers and Consent Solicitations for Certain Outstanding Debt; Company Also Provides Update on Accounting Review

DATELINE: WARRENVILLE, Ill. Feb. 21, 2006: Navistar International Corporation (NYSE:NAV) announced today that it has launched a cash tender offer and consent solicitation for three series of its outstanding senior note debt securities.

The cash tender offers and consent solicitations are for each of the following series of Navistar's outstanding long-term senior debt: $393 million in aggregate principal amount of 9 3/8 percent senior notes due 2006; $250 million in aggregate principal amount of 7 1/2 percent senior notes due 2011; and $400 million in aggregate principal amount of 6 1/4 percent senior notes due 2012. Specific terms and details of the cash tender offers and consent solicitations are set forth below...

"As previously announced, the trustee of our public debt has notified the company that it is in default on various issuances of the company's existing debt because we have not yet filed our Annual Report on Form 10-K for fiscal year ended 2005," said Daniel C. Ustian. "While we dispute the default notices, our tender offers will allow those bondholders who believe we are in default to redeem their holdings, ensuring that management is able to focus all of its attention on operations in this strong 2006 truck market."

Terms of the Tender Offer and Consent Solicitations

Under the terms of the senior notes tender offers, Navistar is offering to purchase the outstanding senior notes for a total consideration, per each $1,000.00 principal amount of the senior notes, equal to $960.00 with respect to the 7 1/2 percent notes and 6 1/4 percent notes and $968.75 with respect to the 9 3/8 percent notes, plus in each case an additional consent payment equal to the product of $40.00 multiplied by a fraction, the numerator of which is the aggregate principal amount outstanding of the applicable series of senior notes and the denominator of which is the aggregate principal amount of such series of senior notes validly tendered and not validly withdrawn prior to the consent time, plus in each case all accrued and unpaid interest through, but not including, the date of purchase. Holders who validly tender and do not withdraw on or prior to 5:00 p.m. EST, on March 2, 2006 (the "consent time"), will receive the total consideration. Holders who validly tender after the consent time and do not withdraw on or prior to the senior notes tender offer expiration date will receive the tender consideration equal to $960.00 with respect to the 7 1/2 percent notes and 6 1/4 percent notes and $968.75 with respect to the 9 3/8 percent notes, plus in each case all accrued and unpaid interest through, but not including, the date of purchase...

In connection with the senior notes tender offers, Navistar is soliciting the consents of the holders of the senior notes to proposed amendments to the indentures governing the senior notes. The primary purpose of the solicitation and proposed amendment is to waive any and all defaults and events of defaults existing under the senior notes indentures, eliminate substantially all of the material restrictive covenants, specified affirmative covenants and certain events of default and related provisions in the senior notes indentures and rescind any and all prior notices of default and/or acceleration delivered to Navistar pursuant to such indentures. In order to be effective, holders of a majority in aggregate principal amount of each series of the senior notes must consent to the proposed amendments. Holders may not tender their notes without delivering the related consents.

The consummation of the senior notes tender offers are conditioned upon, among other things, the receipt of sufficient proceeds from one or more debt financings to fund the senior notes tender offers, Navistar's audit for its fiscal year 2005 not being completed and the consent of the holders of a majority in aggregate principal amount of each series of the senior notes to the proposed amendment to the indenture governing each series of the senior notes.