

**The Wharton School
University of Pennsylvania**

**FNCE 890-Corporate Restructuring
Fall 2004**

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Office Hours: 1:30-3:00 on Fridays or by appointment

WebCafe: <http://webcafe.wharton.upenn.edu/eRoom/aisp/fnce890-fa04-1>

Teaching Assistants: TBA

Overview: The objective of this course is to familiarize students with financial, legal and strategic issues associated with corporate restructuring process. Main focus of the course will be on the restructuring of financially distressed firms. We will survey a variety of restructuring methods (out-of-court workouts, exchange offers, prepackaged bankruptcies, Chapter 11 bankruptcies, insolvency practices in other countries) available to troubled firms. A small portion of the course will be concerned with restructuring employee contracts and equity claims (equity carve-outs, spin-offs, tracking stock). Throughout the course, our attention will be devoted equally among valuation tools; details of the legal framework; and strategies available to the companies and their claimants under the legal framework they operate.

Format: The course uses a mixture of lectures, cases, guest speakers and a negotiation exercise. In order to accommodate the speakers, we may have to schedule the talk outside the regular class times. In that case, the talk will be taped and made available for you to review it later on.

WebCafe: There is a webCafé room for this class that I will use regularly. For the classes that involve lectures, I will post the lecture notes on webCafé so that you can print them before class and bring to class to take notes. The spreadsheets associated with case discussions will be posted on webCafé after the class.

Course Materials: There is no textbook for the course. There is a course bulkpack available from Wharton Reprographics. Some additional readings may be distributed in class or posted on webCafé..

Grading and Exams: Final grades in the course will be based on 4 written case analyses (5% each) and a term project (30%) to be completed in groups of four people, presentation of the term project and class participation (20%) and a midterm exam (30%).

This course is an experimental one. We will work together on the fine tune of the course design throughout the semester.

Course Outline and Readings (tentative)

- 9/9** **Introduction and course overview**
- 9/14** **Financial Distress**
Kaiser, Chapter 11
Difference between financial distress and economic distress
Costs of financial distress: direct costs and indirect costs
Effects of financial distress on investment decisions
Statistical estimates of costs of financial distress
- 9/16** **Methods of Dealing with Financial Distress**
Kaiser, Chapter 12
Liquidation vs. reorganization
Out-of-court workouts/exchange offers
Chapter 7 and Chapter 11 bankruptcies
Difficulties of out-of-court workouts
Advantages and disadvantages of Chapter 11 bankruptcies
Empirical evidence
- 9/21** **Case Discussion: Cumberland Worldwide**
- 9/23** **U.S. Bankruptcy Law**
Kaiser, Chapter 13
Rules of Chapter 7
Rules of Chapter 11
Timeline of Chapter 11
Development of reorganization plans
Empirical evidence
- 9/28** **Guest Speaker: Jim Warner, Blackstone**
Careers in Restructuring
- 9/30** **Business Valuation in Bankruptcy**
Roe, Chapter 2
AICPA, Section 13
Purposes of valuation in bankruptcy
Premises of value
Valuation approaches and methods
Court rulings on valuation
- 10/5** **Cost of Capital**
Copeland, Koller and Murrin, Chapters 10 and 14 and Appendix A
Purposes of developing a discount rate in bankruptcy
Risks associated with restructuring
Review of CAPM
Computing unlevered cost of capital

- Court rulings on discount rates
- 10/7** **Valuation in Bankruptcy**
Gilson, Appendix B
Gilson, Hotchkiss, Ruback article
Capital Cash Flows Method
Net Operating Losses
Empirical evidence
- 10/12** **Case Discussion: National Convenience Stores**
- 10/14** **Guest Speaker: Howard Marks, Oaktree**
Branch and Ray, Chapter 5
Investing in Distressed Companies
- 10/19** **Case Discussion: Sunbeam-Oster**
Rosenberg, Chapters 7 & 8
[Business Week Article: The Return of the Wall Street Vulture](#)
- 10/21** **Exam**
- 10/26** **Fall Break**
- 10/28** **Distressed Mergers and Acquisitions**
[HLHZ, Buying and Selling the Troubled Company](#)
Legal details
Acquisition strategies
Sale strategies
Empirical evidence
- 11/2** **Negotiation Case: TBA**
- 11/4-11/11** **Valuation of Contingent Securities**
Ross, Westerfield, Jaffe Chapters 22, 23, 24 or Brealey and Myers
Chapters 20, 22 (not in bulkpack)
Need for valuation of contingent securities in restructuring
Review of option pricing models
Valuation of warrants
Mini case: Gaylord Container
- 11/16** **Guest Speaker: Gilbert Sanborn, Lehman Brothers**
Kaiser, Chapter 14
European restructurings
- 11/18** **Case Discussion: Buenos Aires Embotelladora S.A.**

- 11/23** **TBA**
- 11/25** **Thanksgiving Break**
- 11/30** **Employee restructurings**
DiNapoli, Chapter 16
Case Discussion: Navistar International
- 12/2** **Equity Restructurings**
Kaiser, Chapter 8
Equity carve-outs
Spinoffs
Tracking stock
Empirical evidence
- 12/7** **Case Discussion: Donaldson, Lufkin and Jenrette**
- 12/9** **Presentation of term projects and wrap-up**