COURSE OBJECTIVES

This course will familiarize students with the financial, legal and strategic issues associated with both corporate and governmental restructurings. The main focus will be on the restructuring of financially distressed firms with particular emphasis on the negotiations between stakeholders to convert existing claims into securities of the reorganized firm. The course will begin with a review of the basics of corporate distress: how firms get into financial trouble, warning signs, balance sheet composition and risk, and cost of both debt and equity capital. The course will include discussions of operational restructuring techniques which can be used to avoid or at least mitigate the need for balance sheet restructurings.

The course will introduce commonly used restructuring techniques (out of court exchange and tender offers, chapter 9 and 11 bankruptcy, DIP loans, exit financings, rights offerings). There will be a discussion of distressed debt as an asset class, and how distressed debt is used as vehicle to acquire corporate control. The course will provide students with tools to value distressed companies and the debt of distressed governments, understand the legal framework governing both out of court and in court reorganizations, and how to navigate a complex financial and legal process to avoid damaging the enterprise.

COURSE METHODS

Seminar Format. There will be an assigned reading list including cases. Each session will include a lecture/discussion on specific topics. The final class will be team presentations on the Foamex case followed by a lecture on the case. Class participation and the team project will be the basis for final grades.

READINGS

Managing for Success by MorganWitzel
Creating Value by Stuart Gilson
Financial Shenanigans by Howard Shilit
Why Smart Executives Fail by Stuart Finkelstein
Workouts and Turnarounds Handbook
Distressed Investing by Martin Whitman
City of Detroit Plan of Adjustment
COURSE SCHEDULE

May 16 Morning: Introduction to Restructuring (Diagnosis and Due Diligence)

- What is corporate financial distress – causes, warning signs, competitive implications
- Implications for management, boards, employees
- Market response – customers, creditors, suppliers and competitors
- Legal/contractual issues (relative/absolute priority of claims, creditor rights, shareholder rights)
- Strengths/weaknesses/wants/fears analysis of each stakeholder
- Valuation of distressed companies and implications for corporate debt and equity securities. The most critical issue.

May 17: Restructuring Implementation

- Stabilization Phase (focus on preserving liquidity and achieving breakeven/positive cash flow, cooperation of creditors)
- Rehabilitation Phase (develop long term business plan, redefine corporate strategy, determine cash/investment requirements, assess enterprise value)
- Restructuring Phase (strategy to move from the legacy to pro forma balance supportable by new corporate strategy and enterprise valuation)

May 18 Morning: Out of Court Restructuring Techniques

- Amendments, tender offers and exchange offers
- Vendor and customer financing
- Second lien and mezzanine financings, rights offerings
- Corporate/asset sale and merger

May 18 Afternoon: In Court Bankruptcy Techniques

- Chapter 11 (discussion of history, role in the financial system, basic legal issues)
- Conventional Chapter 11 (filing without a plan)
- Pre-arranged and prepackaged Chapter 11 Plans of Reorganization
- Sale of assets/corporate control (Section 363 sale processes)

May 19 Morning: In Court Financing Techniques

- DIP Loans
- Structuring reorganization securities
- Exit Financing
May 19 Afternoon: Municipal Government Restructuring

- Causes of government financial distress. Causes, warning signs
- Implications for citizens, elected officials, capital markets and creditors
- Capital markets response – underwriters, bond insurers, investors
- Formulating turnaround strategy (political, management, employee and creditor factors)
- Out of court restructuring techniques (amendments, tender offers, sale of assets, bond insurance)
- Chapter 9 (description and comparison to Chapter 11, eligibility, plan design, voting)

May 20: Foamex Case

- The class will have been assigned specific roles to play in analyzing this case: Board of directors, chairman, CEO, investment banker (debtor) investment banker (creditors), key lenders, shareholders and suppliers/customers.
- Following the case simulation, there will be a lecture on “lessons learned” and implications for other situations.