July 2, 2017

COLUMBIA BUSINESS SCHOOL

B7511 -- Turnaround Management (Autumn 2017)

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This is a SURVEY course that discusses a wide range of turnaround topics.

The exact sequence of materials assigned for discussion (and paper due dates) may change―depending on availability of guest speakers.

*Always* consult CANVAS for the updated sequence of due dates.

CASES:   Please consult CANVAS for location of cases and assigned readings.

Additional

TEXTS: Donald B. Bibeault (1998) [Corporate Turnaround: How Managers Turn Losers into Winners](http://www.amazon.com/Corporate-Turnaround-Managers-Losers-Winners/dp/1893122026/ref%3Dpd_bbs_sr_1?ie=UTF8&s=books&qid=1212314916&sr=1-1)

John O. Whitney (1998) [Taking Charge: Management Guide to Troubled Companies and Turnarounds](http://www.amazon.com/Taking-Charge-Management-Companies-Turnarounds/dp/1893122034/ref%3Dsr_1_6?ie=UTF8&s=books&qid=1212314916&sr=1-6)

**COURSE DESCRIPTION**

Although this is a Management Division elective, three turnaround perspectives will be articulated: the owner/ shareholder, the creditor/ vulture/ financial arbitrageur, and the consultant/ turnaround manager/ CEO. At its heart, the course is about the turnaround specialist and how distressed companies may be saved. We will seek to avoid bankruptcy (but will discuss how to use restructuring under court protection to advantage).

Turnaround management is a process dedicated to corporate renewal. It uses analysis and planning to save troubled companies and return them to solvency. Turnaround managers handle crises; they also identify the reasons for a firm’s failing performance and rectify them. Such turnaround analysis involves management review, root failure causes analysis, and fundamental SWOT analysis (plus ample use of rudimentary financial tools) in order to determine why a company is failing.

A turnaround specialist is someone who assists a company by either consulting on a short-term-project basis or by acting as an interim chief executive who replaces the current CEO while a company reorganizes. The turnaround specialist may be employed by the Board of Directors or by an investment group; the resulting restructuring plan may or may not involve a bankruptcy filing (whichever is the better solution to return a firm to solvency). Restructuring and turnaround experts may help management to stabilize finances and operations in order to reassure all parties-in-interest that proactive steps are being taken to enhance firm value.

Turnaround management is closely related to change management, transformation management and post-merger-integration management. Turnaround experts sometimes also help firms to cope with high-growth situations. Many turnaround consultancies have become “one-stop” shops that can provide help with (a) corporate funding—by working closely with banks and the Private Equity community—and (b) restructuring—by using professional services firms, such as lawyers and insolvency practitioners—to provide their clients with access to the full range of services that are typically needed in a turnaround process. Turnaround consulting often involves frequent travel or being seconded to a client firm’s site for prolonged periods. Private equity firms often employ former turnaround consultants to do due diligence and/ or lead turnaround processes within distressed firms.

This Turnaround Management course is about rehabilitating distressed companies. The course examines turnaround business situations, *i.e.,* established firms experiencing operational, financial and managerial difficulties. It emphasizes the *operating manager’s* perspective and considers strategy issues as well as financial ones. (In some sessions, the *creditor’s* viewpoint is of critical importance as it affects managerial autonomy.)

Turnaround Management integrates the functional disciplines of the core curriculum; an understanding of accounting and corporate finance is mandatory to do the class exercises which use tools such as ratio analysis, cash flow projections, debt restructuring and liquidation analyses. For example, concepts from the core finance class are used to value a firm’s equity when considering whether to exchange debt for more equity. Insights concerning why customers buy products from particular vendors are used to adjust sales forecasts when doing cash-flow planning.

The Final Project requires articulation of the *general manager’s perspective* to suggest operating changes that may affect product mix, lines of business, and capacity/ site reviews. After all, without viable demand for its products, the firm is dead. The Final Project will use qualitative and quantitative tools to effect turnaround solutions. EMBA teams have won money in the New York Chapter of the Turnaround Management Association’s annual competition on the basis of their Final Projects. That tradition should be maintained and extended to the National Best Paper Competition.

**COURSE CONTENT**

Turnaround Management addresses many aspects of managing a corporation in trouble and in the turnaround process. There are many cases to analyze and exercises to complete to gain familiarity with turnaround problems. Students will learn to distinguish between “troubled” firms (that can be repaired) and “crisis” companies that are unlikely to survive. Turnaround Management looks at restructuring operations, changing assets and liabilities, modifying capital structures, and fixing organizational issues as a part of the firm’s turnaround strategy. The primary objectives of the course are:

* To help EMBA candidates recognize symptoms (and early warning signals) associated with distressed divisions, subsidiaries, or diversified companies (or those on the way to trouble).
* To help EMBA candidates diagnose the *root causes* of business trouble
* To help them prescribe effective corrective action appropriate to the resources available, in light of competitive intensity, general economic conditions, and other exogenous opportunities and constraints, e.g., technological, regulatory, social, demographic, political, *et cetera*.
* To help EMBA candidates apply the tools of financial analysis to strategic change

CANVAS is organized into (a) required readings, (b) optional readings, and (c) technical readings. The concepts covered by the “technical readings” are listed in the syllabus and you are responsible for knowing what each buzz word refers to. Therefore, unless you are working in the financial or legal fields, you should learn what those terms mean by doing the readings outside of class. Ditto for the financial tools.

**DELIVERABLES**

WRITE-

UPS DUE: You submit **FIVE** write-ups plus a Final Project (solo or teams). **THREE** of the write-ups are mandatory and they are due during the early part of semester [Sessions 1, 3, 6]. You can choose which of the Exchange Offers (debt-for-equity swaps) to write up [Session 8 or 9]. You choose which Optional Assignment to write up [Session 4 or 7 or 10]. See schedule of case to be covered to devise your strategy of when to submit optional write-ups.

The professor assumes that EMBAs already know how to (a) do ratio analysis, (b) use EXCEL to model 13-week cash flows (and feed that information into financial statements for a loan officer to evaluate), and (c) forecast free cash flows to value a firm’s equity and ascertain its debt capacity. Look them up if supplementary training is needed.

The Final Project is mandatory (solo or teams) and you can use the aforementioned tools plus your strategic analyses to recommend a turnaround process. *[CANVAS offers more explanations about expectations for write-ups. Read instructions beforehand.]*

SURVEYS: INDIVIDUAL responses are *mandatory* for the surveys associated with each case for each class session—whether you wrote up/ presented a particular case or not. The surveys correspond to the cases that everybody should read. Typically the survey questions ask for the results of a calculation, so they may be a useful guide to attacking a case analysis. ALWAYS answer survey questions. Points received for completing the CANVAS surveys are a part of the 25% of individual contribution points used to calculate your Final Grade. (*Useful contributions to class discussions are the other basis for that category of points.*)

**METHOD OF INSTRUCTION**

**Course Materials**
The pedagogical portfolio consists of cases, readings, optional web site materials, group exercises, written submissions, group presentations, and guest speakers.  Additional written materials may be distributed in class or via the CANVAS courseware. Watson Library keeps source documents for the readings on reserve, so additional reading can be done at the Library. References will be made to recent corporate troubles, so keep current on turnarounds and bankruptcies. You will find firms appropriate for the Final Project’s requirements at websites like [http://www.distressedcompanyalert.com].

Join the Turnaround Management Association [http:\\www.turnaround.org] or Columbia Business School’s Private Equity/ Venture Capital Club for additional information about turnaround management: [http:\\www0.gsb.columbia.edu/students/organizations/pevc/](http://www0.gsb.columbia.edu/students/organizations/pevc/). The Value Investing track makes use of distressed company materials from this course.

**Attendance**Class participation is evaluated for each class session and comprises a part of the individual contributions to your final grade. **Since it is *impossible* to participate in absentia, your attendance is expected and unexcused absences will adversely affect your course grade.  Excused absences are those officially sanctioned by the School's academic regulations.  In *all* cases of absence, professional conduct and courtesy dictate that the Professor be informed prior to class – whether the absence is an excused one (or not). Hint: You can improve class participation by volunteering to present a few PowerPoint slides on your team’s analysis on the day that your write-up is discussed. You can also gain extra credit participation points by offering the class a supplemental presentation on topics related to course materials. Look at the session titles and readings to get ideas on supplemental presentations (for extra participation points). Send the professor an email to reserve a case (or supplemental topic) for presenting. Useful materials are hoarded for use in subsequent sections of turnarounds as your legacy.**

**These basic proportions are used to calculate the Final Grade:**

 Write-ups of FIVE cases = **50%**. (These cases are spelled out herein -- with extra credit points available for doing extra write-ups of the optional cases.)

 Individual contributions to class = **25%** -- which includes the CANVAS surveys.

Final Projects = **25%** and the best are submitted to the TMA Competition.

In practice, passing course grades will be calculated using a 1,100-point accumulation; there will be a maximum of 400 points of extra credit available for case write-ups (from submitting additional papers) for calculating high pass and honors grades. Points are allocated thusly:

**300 points** for Final Project (Analysis, Recommendations, Presentation).

**300 points** for daily, individual class contributions (including **200 points** for individually completing CANVAS surveys pertaining to cases and evaluating the course materials and **100 points** for routine, daily individual contributions to class). Your individual accumulation of these class contribution points can be augmented by making presentations similar to the extra credit examples posted in sessions 6 and 9 (and by getting your team to present its write-ups in class). Schedule any such extra-credit presentations with Professor Harrigan ASAP;

That’**s 600 points so far ….**

**Plus another 300 points for these required cases:**

 **50 points** for Nadir Publishing **(required)**. Evaluation equally based on analytics as well as insightful discussions supported by analytics of the case (Session 1);

**200 points** for Bonne Chance 2015 **(required)**. Evaluation equally based on analytics as well as insightful discussions supported by analytics of the case (Session 3);

 **50 points** for Bonne Chance 2016 **(required)**. Although analytics are required, evaluation is skewed towards insightful discussion/ recommendations suggested by a 16-month cash-flow forecast for Bonne Chance 2006 (Session 6);

 **(subtotal is up to 900 points now)**

**PLUS**

**100 points** for Allegheny International **(Choice A)**. Evaluation based on analytics as well as insightful discussion of the exchange offers supported by analytics of Allegheny International **-- OR -- 100 points** for Foamex **(Choice B)**. Evaluation based on analytics as well as insightful discussion of the exchange offers supported by analytics of Foamex**;**

**PLUS 100 Points** for write-up of one optional case:[[1]](#footnote-1)

**100 points** for Lyric Dinner Theater (**OPTIONAL) – or -- 100 points** for the Arch Wireless “Fairness Opinion” **(OPTIONAL) – or -- 100 points** for PRG-Schultz International (A) (**OPTIONAL**). Evaluation equally based on analytics as well as insightful discussion of issues supported by analytics of case.

**Preparation and Class Participation**
Write-ups, projects, assigned cases and readings for this course will constitute a *heavy* preparation load.  The expectation is that these materials will be fully prepared for each session and that all team members have worked on the assignments due. Teams should volunteer to come to class ready to open the day’s discussion with a few PowerPoint slides in hand. (There is *Extra Credit* to be earned by volunteering to make a special presentation on the day’s topic – which can include critiquing all related reading materials – accompanied by a PowerPoint presentation (with handouts provided to members of class) or other innovative topics. Schedule these presentations with Professor.) Every day the Professor must assess your contributions – individually and within your teams.  EMBAs receive one point per day for attending class and saying nothing (that includes asking no questions). Presentations receive the maximum daily grade, but contributions based on thorough analysis leading the case discussion in important new directions -- including specific examples as well as great underlying analysis – receive almost as many daily points. “Ringers” (professionals who work daily on restructuring firms) that share their knowledge daily receive lots of discussion points too. Contributions which are based on students’ own experience from situations outside the case will be welcomed when they enrich the case discussion.

The assignments are done individually or in groups.  These assignments involve a balanced mix of quantitative and conceptual analysis -- as well as a high degree of cooperation among team members.  Each team should be composed of *no more than* *six members*.  If you have no team affiliation, you will turn in papers *alone*.

**Deliverables**

Written analyses are assigned during the course with all inclusive page limits.  Please note that *“all inclusive”* means that all pages of text and pages of spreadsheets or charts count towards the limit.[[2]](#footnote-2)  The Professor will read and evaluate each one.  In CANVAS, click on the assignment for each respective write-up to read the instructions associated with that particular case. *Submit a PDF or WORD document -- plus your EXCEL and/ or PPTX slides for each assignment before each respective class beginsusing the CANVAS drop box that is linked to the Gradebook. Remember that* **each** *member of the team should be familiar enough with the solution submitted to answer the online survey individually by 7:30 AM on the day when the case will be discussed.*

**Final Project**

It is due at NOON on the date of the Friday reserved for Final Exams. The typical all-inclusive page limit is 30 PDF pages (and that includes legible financials). EMBAs will be expected to describe a situation and recommend the turnaround strategy advocated (with supporting evidence).  If the students' conclusion is that the entity should sell out, outsource or file for Chapter 11, the implications of this action for managers, shareholders, bankers, creditors, customers, *et cetera*, should be discussed thoroughly, and this course of action must be carefully supported through insightful analytic reasoning and financial analysis. See CANVAS for additional write-up details concerning this assignment. The best Final Project(s) will be submitted to the local Turnaround Management Association’s annual “Best Paper” Competition. Go to the TMA website to see past prize-winning projects. EMBA projects usually win the local competition – sometimes they win at the Nationals too (which is larger prize money and huge bragging rights).

Suggestions

Form a team of at least three competent members as soon as you enroll.

**Give the team a *memorable* name to help Professor remember your contributions.**

Volunteer to present your team’s analysis in-class for one of the early write-ups.

Always submit your XLSX spreadsheets as a supplement to other documents comprising the write-up but include key excerpts in the main document – especially if you submit a PDF file. The Professor offers feedback on XLSX files, where possible.

Every case discussed has a corresponding survey. Always submit the survey individually by 7:30 AM to give the Professor ample time to update teaching notes. Each and every member of a particular team must do each and every survey by 7:30 AM on the day when class meets. The surveys are part of the “class contributions” grade and you should always submit them in a timely fashion.

**Deliverables will be due for:**

Session 1, Session 3, Session 4 *[optional],* Session 6, Session 7 *[optional],* Session 8 or 9, and Session 10 *[optional]*. Sometimes the survey questions contain hints of how to approach analysis. You may submit papers solo or in groups *[limited to six persons].*

**COURSE OUTLINE AND MATERIALS LIST FOR AUTUMN 2017**

B7511 Turnaround Management

 *Here is the “planned” session sequence. Parts of it may be re-arranged to accommodate the schedule changes of guest speakers. For each session, always check with CANVAS for any updates to keep up with changes in the readings and assignments. Always answer the survey questions by 7:30 AM on the day when class meets.*

***Please review these Notes to judge whether to enroll in course:***

“Note on Financial Analysis,” 9-206-047. *[This is a remedial reading]*

“Note on Financial Forecasting,” 9-206-048. *[This is a remedial reading]*

**Part I: Sink or Swim**

**B7511 Session 1: Distressed Companies – Cash Flow Is King!**

***Assignments Due for Session #1 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

*Part I emphasizes “operating turnarounds”*

**Cases:** **“Nadir Publishing”[[3]](#footnote-3)\*** CaseWorks #160421 [Upload your analysis in CANVAS’s *Nadir Publishing* drop box. ***Read the CANVAS assignment for further instructions about this REQUIRED write-up***]

**“Bonne Chance 2015”\*** CaseWorks #160420. *Introduction only.* Bonne Chance 2015 write-up will be due for Session 3 and Bonne Chance 2016 will be due for Session 6. If you have a potential solution by Session 2, you can ask questions to improve it. Look now at the assignments for Sessions 3 and 6. Come to Session 2 with questions. Do so early enough to get help on doing these write-ups by trying to solve their problems.

**Required Reading Assignments Due:**

Harrigan, K.R.\*\* 2011. “A Turnaround Strategy Framework,” Caseworks #110407

Harrigan, K.R.\*\* 2016. “Why Do Managers Wait So Long to Turn Around Operations?” CaseWorks #160422.

“Strategic Decline,” [9-708-437]

Whitney, J.O. 1989. “Cash Projections: The Past Is Not Prologue,” CFO, April 1989.

Cimilluca, D. & Terlep, S. 2017. “Avon’s Chief Nears Decision to Retire,” Wall Street Journal, June 15, 2017, pp. B1

Rizzo, L. & Brickley, P. 2017. “Gymboree Files for Chapter 11,” Wall Street Journal, June 13, 2017, pp. B6

Winslow, R. 2017. “Mayo's Tricky Task: Revamp What Works --- The elite clinic, renowned for success in treating complex cases, is tackling cost pressures by rethinking most aspects of its system,” Wall Street Journal, June 3, 2017, pp. A1

Lublin, J. 2017. “Rankings Defy Usual Gender Gap,” Wall Street Journal, June 1, 2017, pp. B2

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**Topics from Core Courses:** *Change management; product line selection; releasing cash from assets; ratio analysis; pro forma analyses*

**Comments concerning the write-up of *Nadir Publishing\**:**

Make recommendations for Nadir Publishing that will make it more solvent (and keep it away from bankruptcy). Suggest ways of improving cash flow. Make a recommendation about the opportunity to distribute the proposed new line of titles (include persuasive evidence). Recommend how to handle future relationships with creditors. You could provide annotated ratio analysis (if it provides insights), a calculation of Nadir’s “burn rate,” an estimate of break-even levels of activity, some comparison with industry norms, projections of cash flows (at least one week hence), pro forma financial statements and analyses, and a candid assessment of Nadir’s liquidation value (if it were not a going concern). See the *Nadir Publishing\** assignment for additional instructions.

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**B7511 Session 2: Legal and Economic Aspects of Capital Markets**

***Assignments due for Session #2 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

*Session 2 typically discusses infrastructural topics*

**Cases:** **“SunGard 8K Filing”**

 **“SunGard10Q Filing, September 2005”**

 **“SunGard Credit Agreement”**
 **“SunGard Indenture”**

 **“Masters’ Novelty”**

**Do you have any questions about the Bonne Chance 2015 solution? Ask now!**

**Required Reading Assignments Due:**

Whitney, J.O. 1993. “The Role of the Turnaround CFO,” CFO, February 1993, p. 8

Felix, R. & Maziek, T. 2013. “Fitness of Collateral Shapes Prognosis for Obtaining Asset-Based Loans,” Journal of Corporate Renewal, July/August 2013, pp. 20-23.

Term Sheet (Redacted) from an EMBA Banker

Stone, S.L. 2013. “Few Investment Options for Staggering Amounts of Cash,” Journal of Corporate Renewal, January/February 2013, pp. 4-15. (Includes “Beyond the Bottom Line: Valuing Target Companies”)

Guy, B. 2012. “Lender Remedies: Reading between the Lines,” Journal of Corporate Renewal, April 2012, pp. 33-37.

MacGreevy, D. & Koza, E. 2016. “Critical Considerations for Assessing, Integrating Distressed Companies,” Journal of Corporate Renewal, January/February 2016, pp. 6-11.

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Menu.**

**A Folder of Technical Readings Is offered in CANVAS to help you learn the vocabulary of restructuring. Check the FILES Menu for Session 2.**

**Technical Readings for Session 2 in CANVAS address**: Fulcrum security; Debtor-in-possession financing; Second-lien financing; Ratings agencies; Sub-prime lending; Credit-default-swaps; Absolute Priority Rule

**Topics from Core Courses:** *Balance sheet analysis, capital structure, ratings agencies and borrowing costs; subordinated debt; institutional/ legal background of restructuring*

**Comment for SunGard case series and Masters’ Novelty. *No write-up is due.***

Today we will discuss the intricate provisions of SunGard's financing and the reason for doing due diligence in Masters’ Novelty. The SunGard agreement is a “template” used in subsequent financing deals like it. You need to understand the creditor seniority, covenants and other salient aspects of this financing. Draw the structure of obligations as a test of whether you understand these documents. (Learn to become a careful reader of these types of filings if you want to work with distressed companies.  It's the most fun you can have without being a lawyer! Private equity firms rely upon the careful reading of these types of documents as part of their due diligence.)

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**B7511 Session 3: Managing the Turnaround Process**

***Assignments Due for Session #3 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Cases Due:**

**“Bonne Chance”\*\*** CaseWorks #160420 [Upload your analysis in CANVAS’s “*Bonne Chance”* drop box before class begins. *Read the CANVAS assignment for further instructions*][[4]](#footnote-4)\*\* *Bonne Chance is a* ***REQUIRED*** *write-up and the write-up cover sheet should list everybody who deserves credit for the submission.*

**“Elan Corporation Turnaround,”** [KEL 507]

**Required Reading Assignments Due:**

Kaufman, M. 2014. Weekly Cash-Flow Analysis: Why Isn't It a "Best Practice"?

American Bankruptcy Institute Journal (Aug 2014): 32-33, 88-89.

 “Chapter 1: Style and Substance,” in Whitney, J.[[5]](#footnote-5)\*\*\* 1987. Taking Charge: A Management Guide to Troubled Companies and Turnarounds, Dow Jones Irwin, pp. 3-25.

“Chapter 2: Marketing in the Turnaround’s Early Stages,” in Whitney, J.\*\*\* 1987. Taking Charge: A Management Guide to Troubled Companies and Turnarounds, Dow Jones Irwin, pp. 26-34.

Peterson, C. 2013. “Critical Management Issues in Distressed/ Turnaround Investments,” Journal of Corporate Renewal, Jan/ Feb 2013. Pp. 22-25.

Natale, T. 2012. “Ethical Challenges in Turnaround Engagements,” Journal of Corporate Renewal, March 2012, pp. 4-8.

Krakora, K.A. 2014. “Turnaround Pros Must Practice What They Preach,” Journal of Corporate Renewal, November/December 2014, pp. 4-9.

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**Topics from Core Courses:** *Forecasting weekly cash flows from operations; timing of payables; profitability of product lines; situation assessment; strategy implementation*

**Comments concerning the write-up of *Bonne Chance 2015* due in Session 3:** You should submit (and clearly label) (a) the 4th Quarter Bonne Chance ***Base Case*** Cash Projection (which assumes NO Swatch, NO Rolex trade-in sales promotions, NO Rolex inventory balancing, NO other merchandise off-price sale, and NO headcount reductions); (b) the 4th Quarter Bonne Chance ***SWATCH Case*** Cash Projection (again assuming NO Rolex trade-in sales promotions, NO Rolex inventory balancing, NO other merchandise off-price sale, and NO headcount reductions); (c) for each version of the projections—Base Case and Swatch Case—build the end of year (2015) **Financial Statements** for the firm—Balance Sheet, Income Statement, and Summary of Sources and Uses. Write a memo explaining what Bonne Chance should do vis-à-vis the Swatch opportunity. Do NOT use any of the “sales deals” in this iteration of analysis. **For Session 6**, you *will* be permitted to use (a) Rolex trade-in sales promotions, (b) Rolex inventory balancing, (c) the “Other” merchandise off-price sale, and/ or (d) headcount reductions. ***Don’t* use them in the Session 3 write-up.**

1. *To demonstrate the impact of the Swatch initiative, you should project the cash flows of the Base Case forward ONE FULL YEAR.* (Subsequent Bonne Chance write-ups will be easier if you build the FULL YEAR of cash flow forecasting—ending December 31, 2016—for this iteration of the Bonne Chance series. Further instructions are contained on the Bonne Chance drop box. NO Swatch, NO Rolex trade-in sales promotions, NO Rolex inventory balancing, NO other merchandise off-price sale, and NO headcount reductions for this first iteration. Show what the situation is and evaluate.

2. Submit *FULL-YEAR pro forma Financial Statements for 2015* (and 2016) as you would to persuade the work-out officer at bank. (You will use the 2016 projections for Session 6 assignment)

Read the *Bonne Chance* assignment in CANVAS for additional instructions.

**B7511 Session 4: Turnaround Managers (Distressed Firms Everywhere)**

***Assignments due for Session #4 (Remember to check CANVAS for updates***:

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Cases:**

**“Lyric Dinner Theater”** [9-386-056] [***An*** ***Optional Write-up***: If you choose to write on this case, submit your *optional* analysis in CANVAS’s “*Lyric Dinner Theater”* drop box. ***Read the CANVAS assignment for further instructions***]

**“Transformation of NCR,”** [9-715-438]

***Possible Guest Lecturer(s)***

**Required Reading Assignments Due:**

Bibeault, D.[[6]](#footnote-6)\*\*\* 1985. “Feed the Winners…, Starve the Losers,” Boardroom Reports, August 1, 1985.

Longville, E. 2015. “Finding the Best Path Forward during a Contractor Turnaround,” Journal of Corporate Renewal, March 2015, pp.4-9.

McKinley, W., Latham, S. & Braun, M. (2014), “Organizational Decline and Innovation: Turnarounds and Downward Spirals,” Academy of Management Review, 39(1):88-110.

Harrigan, K.[[7]](#footnote-7)\*\* 1984. "Managing Declining Businesses," Journal of Business Strategy, Vol. 4, No. 3 (Winter), pp. 74-78.

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Menu.**

**Topics from Core Courses:** *Management of operations; profitability analysis; management of organizational change; demand analysis; negotiation with organized labor*

**Comment concerning *Lyric Dinner Theater* optional assignment:**

Make some pragmatic suggestions for improvement that are backed by analysis. Prepare financial statements to demonstrate impact of your recommendations. Read the CANVAS assignment for additional instructions. ***This is one of three choices for fulfilling the optional case write-up that is required. Others are due for session 7 or session 10. Look at your schedule of deliverables for other courses and choose which analysis to write up.***

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**B7511 Session 5: Repercussions of Restructuring**

***Assignments due for Session #5 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Required Case Materials**:

**“Solo Cup in 2007”** [KEL505]

**“Al Dunlap at Sunbeam**,” [9-899-218]

**Required Reading Assignments Due:**

Bourne, D.S. & Welborn, S.M. 2012. “Nailing Down a Turnaround,” Journal of Corporate Renewal, January/February 2012, 4-8.

Robertson, D. & Hjuler, P. 2009. “Innovating a Turnaround at LEGO,” Harvard Business Review, September 2009

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Menu.**

**Topics from Core Courses**: *Integrating acquisitions; rationalizing product lines; role of consulting firms in turnarounds; recovering from fraud, extortion, illegality*

**B7511 Session 6: Feed the Winners, Starve the Losers**

***Assignments due for Session #6 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Cases**: **“Bonne Chance 2016”[[8]](#footnote-8)\*** CaseWorks #160420 [Submit your analysis in CANVAS’s “*Bonne Chance* 2016” drop box. ***Read the CANVAS assignment for further instructions regarding this REQUIRED write-up***]

**“Cleveland Twist Drill (A) and (B)”** [9-384-083 and 9-384-163] *Read these cases to understand the video that will be shown (about operating turnarounds)*

**Required Reading Assignments Due:**
“How Don Bibeault Uses the 80%-20% Rule” (1998). Bottom Line. Vol 27(5), May 1998, pp 1-2.

Goldblatt, T. 2012. “Alternative Financing Sources,” Journal of Corporate Renewal, April 2012, pp. 4-9.

**Topics from Core Courses:** *Forecasting weekly cash flows from operations; timing of payables; profitability of product lines; situation assessment; strategy implementation; leading transformations; downsizing; clearance sales, discounting and pricing strategy*

**Comment concerning full *Bonne Chance 2016\** series assignment:**

Build on your analysis of **Bonne Chance\*** asyou project cash flows for fifteen months into the future**.** Use any of the solutions reserved for **Bonne Chance 2016\*** -- e.g., (a) Inventory Balancing, (b) Rolex Trade-in Sales, (c) 40%-Off-Price Sale of Other Merchandise, (d) Factoring, or (e) any other solution needed to meet 2005 End of Year goals.  Submit both full-year *pro formas*, 2015 and 2016 Profit & Loss, Balance Sheet, and Sources & Uses. Comment on the impact of “extraordinary fixes.”

***Also*** submit report on the impact of adding a Swatch dealership.  Be sure to include the impact of Rolex's required purchases policy in your analyses and recommendations. (***Read the CANVAS assignment for further instructions regarding this REQUIRED write-up***.)

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**Part II: Restructuring Basics**

**B7511 Session 7: Serial Corporate Restructuring**

***Assignments due for Session #7 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Required Case Materials**:

**“Arch Wireless, Inc.,”** [9-205-024] [**Optional case write-up:** Submit your optional analysis in CANVAS’s Arch Wireless drop box. *Read the CANVAS assignment for further instructions*]

**“Thomas Cook on the Brink (A)”** [9-215-008]

**“History of Johns-Manville Corporation”\*** CaseWorks#170401

**Required Reading Assignments Due:**

Bankruptcy Judges’ Division. 2011. “Bankruptcy Basics,” Administrative Offices of the U.S. Courts, *Only read* *these pages*: 5-42, and pp. 71-76.

SEC.gov, 2009. “Bankruptcy: What Happens When Public Companies Go Bankrupt,”

<https://www.sec.gov/reportspubs/investor-publications/investorpubsbankrupthtm.html>

Akin, Gump (2011) “Pathology of Section 363 Transactions”

Pomerantz, J. 2014. “Tectonic Changes Impact Evolving Turnaround Industry,” Journal of Corporate Renewal, Nov/ Dec 2014, pp. 10-15.

Hazzard, B. 2014. “New Players, New Normal Shape New World of Bankruptcy Lending,” Journal of Corporate Renewal, Nov/ Dec 2014, pp. 16-18.

Chessen, M.E. & Will, T.E. 2014. “Riding the Waves of an Ever-Changing Restructuring Market,” Journal of Corporate Renewal, Nov/ Dec 2014, pp. 19-21.

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**A Folder of Technical Readings Is offered in CANVAS. Check the FILES Menu.**

**Technical Readings in CANVAS address**: Successor liability, Credit bidding; Preference actions; Fulcrum security; Debtor-in-possession financing; Second-lien financing

**Topics from Core Courses**: *Creditor priority; pre-emptive filing of bankruptcy; strategic inaction and competitive response; leading organizations through bankruptcy*

**Comment concerning optional *Arch Wireless* assignment:**
If you submit the optional write-up, you should opine whether the prepackaged bankruptcy plan submitted by **Arch Wireless** seems reasonable (*i.e.,* Arch Wireless is more valuable as a going concern than if it is liquidated and the distribution of value seems fair). *Reasonableness* is a relative matter, depending upon whose viewpoint you assume.  Please render your assessment from the sometimes-conflicting, diverse points of view of the several creditors who will be involved in any restructuring agreement. Use appropriate tests and make recommendations if you modify or reject **Arch Wireless’** proposal. ***(See the CANVAS assignment for further instructions.) No need to do this write-up if you already wrote up “Lyric Dinner Theater” from Session 4 or will fulfill this requirement during Session 10.***

***Assignments due for Session #8 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**B7511 Session 8: Bankruptcy versus Out-of-Court Restructuring**

**Cases**:

**“Allegheny International”\*** CaseWorks #170402. *Read the CANVAS assignment for write-up instructions if you are doing this* ***CHOICE A*** *case write-up. This is a simple debt-for-equity swap proposal without benefit of bankruptcy filing.*

**“GT Advanced Technologies,”\*** CaseWorks #160408

**Required Reading Assignments Due:**

Harris, JW. 2010. “Preparation of the Liquidation Analysis”

Sugden, W. & Hembree, K. 2013. “Despite Bankruptcy's Appeal, Alternatives May Entice More,” Journal of Corporate Renewal, March 2013, pp.4-8

Simon, R.A. 2013. “Distressed Debt 101: Know Your ABCs and Other Options,” Journal of Corporate Renewal, March 2013, pp. 10-13.)

D. Shefter, “Note Regarding Preparation of Case: Allegheny International (AI),” TA prepared for B7511 – Turnaround Management course to explain valuation and Absolute Priority Rule for Creditors

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**A Folder of Technical Readings Is offered in CANVAS. Check the FILES Menu.**

**Technical Readings in CANVAS address**: Reform of Chapter 11 and Successor liability, Credit bidding; Preference actions; Bankruptcy Abuse Prevention and Consumer Protection Act of 2005; Fulcrum security; Debtor-in-possession financing; Second-lien financing;

**Topics from Core Courses:** *Corporate governance, divestiture, financial restructuring; debt-for-debt swaps, debt-for-equity swaps; shareholder dilution; role of investment bankers in turnarounds and restructurings; valuing an ongoing firm*

**Comment concerning optional *Allegheny International\** CHOICE A exchange offer assignment:** There are rival factions that want Allegheny International’s capital structure to be restructured in a way that favors their situation. You must make a recommendation among rival exchange offers with supporting analysis and a memo detailing your conclusions concerning how Allegheny International should be restructured.

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**Part III: Saving Distressed Companies – CEOs and Investors**

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**B7511 Session 9: Restructuring Distressed Companies**

***Assignments due for Session #9 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Required Cases due:**

**“Foamex International Inc. Operating Performance”\*** CaseWorks #080313 and **“Foamex International Inc. Capital Structure”\*** CaseWorks #080312 [**CHOICE B case write-up:** Submit your optional analysis in CANVAS’s Foamex International drop box. *Read the CANVAS assignment for further instructions concerning this* ***CHOICE B*** *write-up.*]

***Possible Guest Lecturer(s)***

**Required Reading Assignments Due:**

Spector, M. 2012. “Keeping Mum about the ‘B’ Word.” Wall Street Journal. November 7.

Economist (2007), “Vultures Take Wing,” March 31, pp.77-79

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**Topics from Core Courses:** *Corporate governance, divestiture, financial restructuring; debt-for-debt swaps, debt-for-equity swaps; shareholder dilution; price-cost squeezes; role of investment bankers in turnarounds and restructurings; valuing an ongoing firm*

**Comment concerning *Foamex International* CHOICE B exchange offer assignment):** Like the Allegheny International\* case, there are rival factions that want Foamex to be restructured in a way that favors their situation. You must make a recommendation among rival reorganization plans and exchange offers with supporting analysis and a memo detailing your conclusions concerning how Foamex should emerge from bankruptcy. ***(See the CANVAS assignment for further instructions concerning this CHOICE B write-up.)***

**B7511 Session 10: Restructuring Out of Bankruptcy**

***Assignments Due for Session #10 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Case Assignments Due:**

**“International Steel Group” [9-803-162]**

**“PRG-Schultz International (A)”** [9-807-126] [***OPTIONAL CASE WRITE-UP*:** Submit your analysis in CANVAS’s *PRG-Schultz International* drop box. ***Read the CANVAS assignment for further instructions if you choose to do this write-up***]

**Required Reading Assignments Due**:

Cohen (2006), “Pension Benefit Guaranty Corporation – Paying Owed Pensions While Maintaining Liquidity,” The American Lawyer, March

Rosenberg (2006), “Understanding Pension Benefit Guaranty Corporation’s (PBGC’s) Role in Bankruptcy, Turnaround Management Association, August, pp. 30-35

Kajon, N.F. & Buchwald, L.E. 2016, “Independent Directors Can Be Potent Vaccine against Creditors Losing Confidence,” Journal of Corporate Renewal, May 2016, pp. 10-13

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**Topics from Core Courses**: *Compensation schemes, competitive bench-marking; financial restructuring; declining demand businesses; introducing new product lines; valuing an ongoing firm*

**Comment about *optional* PRG-Schultz International write-up:**

Vultures are encircling PRG-Schultz International and the firm has just engaged Rothschild to evaluate financing alternatives for it (including bankruptcy). If you submit this ***optional write-up*,** please figure out how PRG-Schultz International can service its debt by paying the interest due to bondholders in November 2005.  How can PRG-Schultz International pay off the bonds completely in November 2006?  Should PRG-Schultz International seek the protection of Chapter 11 of the Bankruptcy Code?  Is this company worth saving?  If your analysis indicates that it is worth saving, please explain how you would save it. (***Read the CANVAS assignment for further instructions***.)

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**B7511 Session 11: Noteworthy Turnaround Managers I**

***Assignments Due for Session #11 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Case Assignments Due:**

**“Parmalat USA Turnaround”** [KEL356]

 **“Sharp Electronics in 2013”\*** [CaseWorks #150401]

***Possible Guest Lecturer***

**Optional Reading Assignments Are Offered in CANVAS.** **Check the FILES Tab.**

**Topics from Core Courses**: *Leading change; motivating organizations; performance measures; turnaround managers; organizational change; managing operations*

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**B7511 Session 12: Noteworthy Turnaround Managers II**

***Assignments Due for Session #12 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Case Assignments**

**Due: “Kmart, Sears, and ESL: How a Hedge Fund Became One of the World’s Largest Retailers,”** [KEL133]

 **“Cumulus Media”** [Caseworks #TBA, *it is being written*]

**Reminders:**

1. Complete *all parts* of the TMA entry form that must accompany submission of your Final Project
2. Final Project is due at NOON on Friday, December 15th of 2017 with TMA form
3. The typical all-inclusive page limit is 30 PDF pages (and that includes *legible* financials). Use 12 pt. typeface and 1-inch margins. TMA judges want to see the details.

**Articles in the OPTIONAL READINGS Folder for each Session:**

**Optional Session 1:** Collard (2006), “Mining Value from Distressed Companies,” Turnaround Management Association, November, pp. 4-6.

The Big Number: 24 Days of Working Capital, 2012, Wall Street Journal, July 23, page B4

**Optional Session 2:** Samples of “Moody’s B3 Negative and Lower Corporate Ratings” and Database

 2013 Comment on Moody’s B3 Negative and Lower Corporate Ratings

2014 Comment on Moody’s B3 Negative and Lower Corporate Ratings

S. Biswas (2004), “The Creditor’s Cudgel,” The Deal, October 18th.

Emergence of Default Swap Index Products [F-268]

T. Sasso (2005), “Make It New,” The Deal, May 16th

S. Ng & H. Sender (2007), “Easy Money: Behind Buyout Surge, A Debt Market Booms,” Wall Street Journal, June 26, page 1.

Lucchetti & Ng (2007), “How Rating Firms’ Calls Fueled Subprime Mess,” Wall Street Journal, August 15, page 1.

M. Grynbaum (2008), “Study Finds Flawed Practices at Ratings Firms,” New York Times, July 9, page 1.

**Optional Session 3:** J. Alix & J. Marshall, 2003, “Learning Success from Distress,” Strategy + Business, Issue 33

R. Kanter, 2003, “Leadership and the Psychology of Turnarounds,” Harvard Business Review, June, pp. 3-11.

**Optional Session 4:** Hagerty, JR. 2012. “Harley Goes Lean to Build Hogs.” Wall Street Journal. September 12.

J. Willoughby (1987), “Endgame Strategy,” Forbes, July 13, 1987, pp. 181-182

Byron (2007), “How to Turn Trash into Treasure,” Wall Street Journal, April 13, pp. B1

K. Harrigan\*\* (1981), “How Managers Fool Themselves As Conditions Worsen,” Boardroom Reports, March 9, 1981.

**Optional Session 5:** Bower & Gilson (2003), “The Social Cost of Fraud and Bankruptcy,” Harvard Business Review, December, 2003.

Motorola: Internal Turnaround slides (2005).

Redmond, C.J. 2013. “Global Markets Carry International Recovery Challenges,” Journal of Corporate Renewal, June 2013, pp. 4-9.

**Optional Session 6:** J. Gabarro (1985), “When a New Manager Takes Charge,” Harvard Business Review, May-June, pp. 48-61.

M. Gerstein & H. Reisman, (1983). “Strategic Selection: Matching Executives to Business Conditions,” Sloan Management Review, Winter, pp. 33-49.

J. Kotter (1995), "Leading Change: Why Transformation Efforts Fail," Harvard Business Review, 73(2): March-April, pp.59-67.

 Kulla (2006), “Employees Can Make or Break Reorganizations,” Turnaround Management Association, pp. 8-10

**Optional Session 7:** Maynard, M. 2009. “Automakers’ Swift Cases in Bankruptcy Shock Experts,” New York Times, July 7.

Leach (2006), “Speed, Certainty of Close Are Critical to Success,” Turnaround Management Association, pp. 12-17

**Optional Session 8:** “Investment Banking: Complexity Muddies Restructuring Process” (2003), The Banker, May, pp. 59-62.

**Optional Session 9:** McKinsey (2006), “Learning to Let Go: Making Better Exit Decisions,” McKinsey Quarterly, no. 2

Goel, V. 2017. “Apple Gives Corning $200 Million to Invent Better Phone Glass,” New York Times, May 12, 2107, p. B6

“Vulture Capitalists,” EMBA legacy

H. Miller,\*\*\*[[9]](#footnote-9)\* M. Jacob, A. Bauer & G. Johnson (1999), “Insolvency: A Legal Guide,” International Financial Law Review, London, January, pp. 25-31.

**Optional Session 10:** Portfolio Media (2008) “Free and Clear Issue in Section 363 Transactions”

Houser & Carvell (2002) “Section 363 Issues (Part 1),” ABA-ALA Business Law Course Materials Journal, February.

Deloitte, 2012, Corporate restructuring and the role of the Chief Restructuring Officer (CRO) slides.

Bossi (2006), “Are CROs More Powerful Than Turnaround Consultants?” Turnaround Management Association, pp. 4-8.

Leitch & Eldredge (2006), “Successful Restructuring Requires a Hard Look at Legacy Costs,” Turnaround Management Association, August, pp. 24-28

**Optional Session 11:** Pfanner, E. & Fukase, A. 2015. “Sharp President to Ask Lenders for Fresh Financial Support,” Wall Street Journal, March 3, 2015,

Scott Paper Company (9-296-048)

“What Happened When Marissa Mayer Tried to Be Steve Jobs,” 2014, New York Times, December 14.

H Sender (2005), “Hedge Fund Lending to Distressed Companies Makes for Gray Rules and Rough Play,” Wall Street Journal, July 18, C1

Eisenbiegler, et al., (2007), “Gravitating to Turnaround Investing,” Turnaround Management Association, March pp. 10-16

“Remarks by Elizabeth Warren regarding the Citibank Bailout in Cromnibus Bill” 2014, Washington Post.

**The TECHNICAL BACKGROUND articles address financial and legal topics**

**Articles in the TECHNICAL BACKGROUND Folder for each Session:**

**Technical Session 2:** “Fulcrum Security and Private Equity” (2005), Investing in Distressed Companies, McGuire Woods LLP, March, p. 1

T. Rosenthal (2005), “Debtor-in-Possession Financing: Opportunities, Risks and Rewards,” The Secured Lender, 61(3): May/ June, pp. 8-13

P. Brusiloff & G. Woods (2005), “Second Lien Financing: A Ten Point Primer for the Borrower (and Its Sponsor) on Intercreditor Dynamics,” The Debevoise & Plimpton Private Equity Report, Summer, pp. 30-32.

R. Bochicchio (2005), “Lender Acceptance Fuels Explosion in Second-Lien Market,” Turnaround Management Association, May, pp. 12-15.

 “B. Credit Derivatives” (2005), Toward Greater Financial Stability: A Private Sector Perspective, July 27, pp. A3-A14.

Weil, Gotshal & Manges (2005), “Section 507(a)(4) of the Bankruptcy Code,” Bankruptcy Bulletin, June

S.D. Longhofer & C.T. Carlstrom, (2005), “Absolute Priority Rule Violations in Bankruptcy, Federal Reserve Bank, Cleveland.

**Technical Session 7:** SEC.gov Definition of “Corporate Bankruptcy”

Guy, B. 2015. “Avoiding Successor Liability in Distress Sales,” Journal of Corporate Renewal, October 2015, pp. 45-47.

Leake, P.D. 2015. “Risk of Limits on Credit Bidding in Bankruptcy May Be Overstated,” Journal of Corporate Renewal, October 2015, pp. 6-11.

Roach, S.A. & Spinner, R.A. 2016. “Controlling Exposure in Preference Actions,” Journal of Corporate Renewal, March 2016, pp. 6-9.

Goffman, J.M. 2016. “Lessons from Marblegate, Caesars’ for Distressed Investors,” Journal of Corporate Renewal, pp.30-35, (Includes “Practical Alternatives to a Bankruptcy Filing”)

“A Strategic Perspective on Bankruptcy,” [9-407-035]

“Bankruptcy and Restructuring” Lecture – CANVAS PPT file [in “lectures” folder]

Rapisardi (2005), “Bankruptcy Practice – Second Liens and Bankruptcy: Part I,” New York Law Journal, March 30, pp. 3-8.

J. Rapisardi (2005), “Bankruptcy Practice – Silent Second Liens and Bankruptcy: Part II,” New York Law Journal, May 30, pp. 3-8.

**Technical Session 8** Transcript (2012) of ABI Hearing to Reform Chapter 11 Bankruptcy

ABI Commission Report to Study Reform of Chapter 11 (2012-2014)

A. Hahn (2005), “Winners and Losers in Bankruptcy Bill,” Investment Dealers’ Digest, May 2.

M. Hoffman, C. Chen & K. Rodden (2005), “Bankruptcy Abuse Prevention and Consumer Protection Act of 2005,” Current Issues in Restructuring and Reorganization, Bankruptcy Bulletin, Weil, Gotshal & Manges, April 2005.

D. Baker, M. Goldstein, G. Katz, & J. Sprayregan (2005), “The Effect of the New Code on Distressed Investors,” Twelfth Annual Conference on Distressed Investing, Renaissance American Management, Inc. & Beard Group.

**Technical Session 9**

“Chapter 11 – Reorganization,” Public Information Series of the Bankruptcy Judges Division, Supreme Court, 2012

RSM McGladrey and McGladrey & Pullen, 2012. “Deferred Tax Assets and the Need for a Valuation Allowance”

**HERE IS THE CASE FOR SESSION 1 WRITE-UP: NADIR PUBLISHING**

Make recommendations for Nadir Publishing that will make it more solvent (and keep it away from bankruptcy). Suggest ways of improving cash flow. Make a recommendation about the opportunity to distribute the new line of titles (include your persuasive evidence). Recommend how to handle future relationships with creditors. You could provide annotated ratio analysis (if it provides insights), a calculation of Nadir’s “burn rate,” an estimate of break-even levels of activity, some comparison with industry norms, projections of cash flows (at least one week hence), pro forma financial statements and analyses, and a candid assessment of Nadir’s liquidation value (if it were not a going concern). See CANVAS Session 1: *Nadir Publishing* assignment for additional instructions:

**NADIR PUBLISHING**

At 9:00 AM, you are appointed President of Nadir Publishing.  Seven days from now you must present a plan of action that will convince your bank to extend the $4 million note that was due today.

For your information, Nadir has 3,000,000 shares authorized and 1,000,000 shares issued and outstanding.  Current market price is 2–2.20.  The stock is widely held.  Trading volume is small and sporadic.  Half the sales for the year just ended are from book titles it publishes.  The other half is from book titles distributed for an overseas “packager.”

Bookstores as well as their on line competitors – together they comprise more than 80% of Nadir’s business – normally pay within 45 days of invoice. Invoices are usually sent within 15 days of shipment, and therefore, average A/R DSO is 60 days.  Both brick and mortar bookstores as well as online companies that maintain inventories have the right to return unsold books for credit.  Book sales vary widely from month to month, but for purposes of this analysis, assume that sales are evenly spread through the year.

At 4:00 pm, your marketing director came in with a proposed solution to last year’s revenue and income declines.  He has found a packager with an exciting new line of book titles that should add $5 million to annual sales.  With a 50% gross margin, the contribution of $2.5 million, less commissions of $500 thousands, will bring Nadir back to break even. Furthermore, he has negotiated favorable terms:  1/3 in each of 30, 60, and 90 days after date of delivery.

Some industry norms are:
· 3 – 5 times inventory turns
· 30 – 40 % COGS for published book titles
· 50 – 60 % COGS for distributed book titles
· 20% SG&A expense/sales
· 8% sales representatives’ commissions

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| --- |
| NADIR PUBLISHINGCONDENSED INCOME STATEMENTFOR 12 MONTH PERIOD ENDING TODAY ($000) |
| Gross sales | $54,000 |
| Less returns and allowances | 4,000 |
| Net Sales | 50,000 |
| Less cost of goods sold | 27,500 |
| Gross profit | 22,500 |
|  |  |
| Operating Expenses |  |
|  Commissions | 5,000 |
|  SG&A | 14,500 |
|  R&D | 3,000 |
|  |  |
| Sub total | 22,500 |
| Operating Profit | 0 |
| Interest | 2,000 |
| Income (Loss) before taxes | (2,000) |
|  |  |

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| --- |
| NADIR PUBLISHINGBALANCE SHEET – TODAY ($000) |
| Current Assets |  |
| Cash | $250 |
| Accounts Receivable, net of reserves | 14,000 |
| Inventories, net of reserves | 20,000 |
| Subtotal current assets | 34,250 |
|  |  |
| Plant, property & equipment | 4,000 |
| Total Assets | 38,250 |
|  |  |
| Liabilities and Shareholders’ Equity |  |
| Current  |  |
| Notes payable\* | $4,000 |
| Current maturities of long term debt | 1,000 |
| Accounts payable | 15,000 |
| Other current | 2,000 |
|  Subtotal current liabilities | 22,000 |
| Long term debt | 10,000 |
| Shareholders’ equity | 6,250 |
| Total Liabilities and Shareholders’ Equity | 38,250 |

\*Outstanding $3,000 Letter of Credit is not shown on balance sheet. The Letter of Credit is used to purchase merchandise overseas where Nadir has not yet established creditworthiness

1. A good write-up of a second optional case is worth 100 potential extra credit points. A good write-up of a third optional case is worth another 100 potential extra credit points. A good write-up of a fourth optional case is worth another 100 potential extra credit points, et cetera. If everybody does the extra credit assignments, the grading curve must be adjusted accordingly to satisfy the Vice Dean/ Faculty grading curve guidelines. [↑](#footnote-ref-1)
2. Cover sheets, Tables of Contents, and Executive Summaries are not counted in the page limit. EMBAs may *also* submit their EXCEL files (in case clarification is needed) and any PowerPoint files prepared to illuminate daily class discussions. *The submitted documents should be self-sufficient*. The Professor will read supplementary materials that are offered to clarify confusing analyses or recommendations. [↑](#footnote-ref-2)
3. \* “Caseworks” indicates that it is a Columbia Business School case [↑](#footnote-ref-3)
4. \*\* In projecting 2016 Rolex revenues, assume the same weekly pattern of Rolex sales for 4Q16 as for 4Q15 and inflate the 4Q15 weekly pattern of “Other” sales by 1.5% in 4Q16. For the rest of 2016, assume that $300,000/39 = $7,692 will be the average Rolex sales per week with seasonal adjustments, as follows:

• April through mid-June: add $3,000 per week for graduations and gift-giving.

• Add $1,700 in sales for week ending June 18.

• For July through August: subtract $3,000 per week for vacations.

• Use the 2015 proportions of weekly charged purchases for 4Q16, but use 11% charged sales for the other quarters.

In projecting 2016 “Other” revenues, inflate 2015 “Other” sales 1.5% in the fourth quarter—using the same weekly pattern as for 4Q15 sales. For the rest of 2016, assume [$500,000/39]\*1.015 = $13,013 average “Other” sales per week with seasonal adjustments as follows:

• April through mid-June: add $6,000 per week for graduations and gift-giving.

• Add $3,400 in sales for week ending June 20.

• July through August: subtract $6,000 per week for vacations.

• Use the 2015 proportions of weekly charged purchases for 4Q16.

Assume a corporate tax rate of 39% when profits are reported and consider whether/ when to pay any taxes. [↑](#footnote-ref-4)
5. \*\*\* Columbia Business School faculty [↑](#footnote-ref-5)
6. [↑](#footnote-ref-6)
7. \*\*  Columbia Business School faculty

\*\*\* Columbia Business School-trained Ph.D. [↑](#footnote-ref-7)
8. \* 15-month modeling of Bonne Chance’s cash flows in which one (or more) of the “sales” events may be used. [↑](#footnote-ref-8)
9. \*\*\*\* Columbia Law School faculty [↑](#footnote-ref-9)