This is a SURVEY course that takes the manager’s perspective on a wide range of turnaround topics. The order of the sessions (and paper due dates) may change—if the EMBA schedule changes once guest speakers are set.

CASES: Cases are linked through “Calendar” within CANVAS. There are folders within each Session folder for everything else.

OPTIONAL TEXTS
Donald B. Bibeault* (1998) Corporate Turnaround: How Managers Turn Losers into Winners

Library Reserves: https://www1.columbia.edu/sec-cgi-bin/cul/respac/respac?CRSE=20203MGMT7511B001

Join the Turnaround Management Association (In 2020, TMA offers 1-year free student rate for students of this course.) https://turnaround.org/join

COURSE DESCRIPTION
This Management juxtaposes three turnaround perspectives: (a) the owner/shareholder, (b) the consultant/turnaround manager/CEO, and (c) the creditor/vulture/financial arbitrageur. (“No Money? No Mission!”) At its heart, the course is about the turnaround specialist and how distressed companies may be saved. Although we will seek to avoid bankruptcy, some of the restructuring cases consider how to use court protection to best advantage. Managers must understand the restructuring process.

A turnaround specialist assists a company either by consulting on a short-term-project basis or by acting as interim chief executive (if a CEO must be replaced). In their consulting capacity, restructuring and turnaround experts help management to stabilize finances and improve operations in order to reassure all parties-in-interest that proactive steps are being taken to enhance firm value. A turnaround specialist may be employed by the Board of Directors, an investment group, or creditors; the restructuring plan implemented may (or may not) involve a bankruptcy filing—whichever is the better solution to returning the firm to solvency.

Point allocations are at end of document.

1 Materials from Whitney, Bibeault, Resnikoff, Buckfire, Harrigan, Manning, and Mestre are from professionals who were all educated at or employed by Columbia Business School. CaseWorks materials indicated by *
COURSE OUTLINE AND MATERIALS LIST FOR AUTUMN 2020
B7511 Turnaround Management

Here is the “planned” session sequence. The order or content of sessions may be re-arranged to accommodate the schedules of guest speakers once the meetings of the EMBA menu are set. Always check with CANVAS for any updates. Answer the CANVAS survey questions by 7:30 AM on the day when a session meets.

Part I: Sink or Swim

Part I emphasizes basic tools and terminology. Since Turnaround Management integrates the functional disciplines of the core curriculum, an understanding of accounting and corporate finance is mandatory to do the Part I exercises that use tools such as ratio analysis and 13-week cash flow projections. These are expected to earn the Turnaround Management Association’s Certified Turnaround Analyst (CTA) and Certified Turnaround Professional (CTP) credentials, if that is your desire.

Answer Case-Related Questions on CANVAS by 7:30 AM
B7511 Session 1: Distressed Companies – Cash Flow Is King!
Assignments Due for Session #1 (Remember to check CANVAS for updates):
Cases:
“Nadir Publishing”** Columbia CaseWorks #160421. [A copy of the case is at the end of this syllabus.] Due in CANVAS drop box before class begins. Volunteer to present.

“Bonne Chance 2015”** Columbia CaseWorks #160420. Familiarize yourself with Bonne Chance’s problems. The 13-week cash flow assignment is due for Session 4, but you can ask any clarifying questions in Sessions 1, 2, and 3 as you work on solutions.

Readings:


Topics from Core Courses: Change management; product line selection; releasing cash from assets; ratio analysis; pro forma analyses
**Nadir Publishing** *Write-up [Required—100 points]:*  
Make recommendations concerning how to handle Nadir Publishing’s note that is due. Suggest ways of improving cash flow and include a recommendation about the opportunity to distribute the proposed new line of titles (*include persuasive evidence*). You could offer 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 pro forma cash flows (*at least one week hence*) or other pro forma financial statements, or a candid assessment of Nadir’s liquidation value if it is useful to the issue at hand.

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**Answer Case-Related Questions on CANVAS by 7:30 AM**  
**B7511 Session 2: Legal and Economic Aspects of Capital Markets**  
**Assignments due for Session #2 (Remember to check CANVAS for updates):**  
Case: “J. Crew (A): How Private Equity Ruins Retail,”* Columbia CaseWorks #210401  

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

**Readings:**


Term Sheet (Redacted) from an EMBA Banker


**Topics from Core Courses:** *Balance sheet analysis, capital structure, ratings agencies and borrowing costs; subordinated debt; institutional/ legal background of restructuring*
Answer Case-Related Questions on CANVAS by 7:30 AM

B7511 Session 3: Out-of-Court Restructuring

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

Cases:
“Allegheny International”* Columbia CaseWorks #170402 as a **CHOICE A** case write-up. (You **MUST** write on one of the “debt-for-equity” swap cases—designated as **CHOICE A** or **CHOICE B** cases.) This one is a simple debt-for-equity swap proposal without the benefit of bankruptcy filing.

“Elan Corporation Turnaround,” [KEL 507]

**Guest Speaker Amin**

Readings:


“Strategic Decline,” [9-708-437]


D. Shefter,* “Note Regarding Preparation of Case: Allegheny International (AI),” [Use this note **IF** writing up assignment. A TA prepared this note for B7511—Turnaround Management—to explain valuation and Absolute Priority Rule concepts when analyzing case.]

**Allegheny International** Optional **CHOICE A** exchange offer assignment: Rival factions want Allegheny International’s capital structure to be restructured in a way that favors their respective situations. 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. This is an out-of-court restructuring.
Answer Case-Related Questions on CANVAS by 7:30 AM

B7511 Session 4: 13-Week Cash Flow Exercise—Making Trade-offs

Assignment Due for Session #4 (Remember to check CANVAS for updates):

Cases:
“Bonne Chance 2015”* Columbia CaseWorks #160420 [REQUIRED CASE]
“Masters’ Novelty” UVA-F-0956

Guest Speakers Manning and Halperin

Readings:


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

Bonne Chance 2015* Write-up [Required 200 points] Choose which creditors to pay.
Explain whether Bonne Chance should take Swatch deal (or not). Using NO sales deals, show (a) 4th Quarter Bonne Chance Base Case 13-week 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) AND (b) 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). Include Year End Financials for each case.

Many points are deducted for forgetting to include necessary details. It may be possible to redeem up to HALF of the deducted points by fixing Bonne Chance errors after they have been cited in the feedback. The redux will be due for Session 6.

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

B7511 Session 5: Turnaround Managers (Distressed Firms Everywhere)

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

Cases:
“Lyric Dinner Theater” [9-386-056] [Optional Write-up].
“Cleveland Twist Drill (A) and (B)” [9-384-083 and 9-384-163] Read both cases to understand the video that will be shown (about operating turnarounds)
Required Reading Assignments Due:


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

Lyric Dinner Theater [Optional Write-up—100 points]
Make some pragmatic suggestions for profitability improvement that are backed by analysis. Create financial statements to demonstrate impact of your recommendations.

Answer Case-Related Questions on CANVAS by 7:30 AM
B7511 Session 6: Feed the Winners, Starve the Losers
Assignments due for Session #6 (Remember to check CANVAS for updates):
Cases:
“Bonne Chance 2016” Columbia CaseWorks #160420 [REQUIRED WRITE-UP]
“Solo Cup in 2007” [KEL505]
“Teva’s Turnaround” [Columbia Caseworks 180410]

Readings:


* 15-month modeling of Bonne Chance’s cash flows in which one (or more) of the “sales” events may be used.


**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

**Bonne Chance 2016** Write-up [Required 100 points + Points for Corrections]
Project the 13-weeks of 4Q2015 ahead by one year to illustrate decisions taken. Explain what to do about Rolex. Include effects of Swatch (if taken). For this iteration, you may use the sales deals, i.e., use Rolex trade-in sales promotions, Rolex inventory balancing, Other Merchandise Off-Price Sale, and/or headcount reductions (if warranted). Include Year End Financials for both years.

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**Part II: Restructuring Basics**

*Part II discusses restructuring through bankruptcy or “operating turnarounds.”*

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

**B7511 Session 7: Repercussions of Restructuring**

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

**Cases:**
“Arch Wireless, Inc..” [9-205-024] [OPTIONAL write-up]
“J. Crew (B): How Private Equity Ruins Retail,” Columbia CaseWorks [2104xx]
“GT Advanced Technologies,,”* Columbia CaseWorks #160408

**Readings:**


**Arch Wireless [Optional Write-up—100 Points]**
Explain whether the prepackaged bankruptcy plan submitted by Arch Wireless seems
reasonable (i.e., is Arch Wireless more valuable as a going concern than if liquidated and does the distribution of value to creditors seem 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.

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

**B7511 Session 8: Corporate Restructuring in Bankruptcy**

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

**Cases:**
- “Foamex International Inc. Operating Performance”* Columbia Caseworks #080313
- “Foamex International Inc. Capital Structure”* Columbia Caseworks #080312,

together they constitute a **CHOICE B** case write-up. (You MUST write on one of the “debt-for-equity” swap cases—designated as **CHOICE A or CHOICE B** cases.) This one is a debt-for-equity swap proposal in bankruptcy.

**Guest Speaker Wing**

**Readings:**

**Topics from Core Courses:** *Creditor priority; pre-emptive filing of bankruptcy; strategic inaction and competitive response; leading organizations through bankruptcy; successor liability, credit bidding; preference actions; fulcrum security; debtor-in-possession financing; second-lien financing*

**Foamex International Optional CHOICE B exchange offer assignment:** 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.

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

**B7511 Session 9: Bankruptcy versus Operating Turnaround**

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

**Cases:**
- “Thomas Cook on the Brink (A)” [9-215-008]
“History of Johns-Manville Corporation”* Columbia CaseWorks #170401

Readings:


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

PRG-Schultz International Write-up [Optional—100 Points]
Vultures are encircling PRG-Schultz International and the firm has just engaged Rothschild to evaluate financing alternatives for it (including bankruptcy). ? Is this company worth saving? How can PRG-Schultz International 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?

Part III: Saving Distressed Companies – Restructuring Officers
Part III emphasizes special situations involving “operating turnarounds.”

Answer Case-Related Questions on CANVAS by 7:30 AM
B7511 Session 10: Restructuring Distressed Companies
Assignments due for Session #9 (Remember to check CANVAS for updates):
Cases:
“Smithfield Foods, Inc.”* Columbia CaseWorks #2104xx [Required Write-up]
“International Steel Group” [9-803-162]
“Parmalat USA Turnaround” [KEL356]

Readings:
Freedman, R. 2020. “Sec. 363 bankruptcy sales may yield higher prices than Chapter 11.” CFO Dive, June 1, 2020.

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

**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.

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

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

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

Cases:
- “Kodak: The Rebirth of an Iconic Brand” [N9-519-051]
- “Al Dunlap at Sunbeam,” [9-899-218]
- “Scott Paper,” [9-296-048]

Readings:

**Topics from Core Courses:** Compensation schemes, competitive benchmarking; financial restructuring; declining demand businesses; introducing new product lines; valuing an ongoing firm; leading change; motivating organizations; performance measures; turnaround managers; organizational change; managing operations; recovering from fraud, extortion, illegality

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

**B7511 Session 12: Restructuring Out of Bankruptcy**

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

Cases:
- “Turnaround at Mattel,” [9-219-102]
- “Revitalizing Cumulus Media” [Columbia Caseworks #180403]

**Guest Speaker Thomas**

Readings:

**REMINDERS FOR FINAL PROJECT WHICH IS DUE DECEMBER 19th AT 8:30 AM:**
1. Complete all parts of the TMA entry form that must accompany submission of your Final Project and sign the entry form.
2. Final Project is due at 8:30 AM on Saturday, December 19th of 2020 with TMA form.
3. Everybody on your team must sign and provide an address (for money you win).
4. The typical all-inclusive page limit is 50 PDF pages (and that includes legible financials). Use 12 pt. typeface and 1-inch margins. TMA judges want to see the details. (May be less than 50 pages.)

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 as well as financing. EMBA teams have won money in both the New York Chapter of the Turnaround Management Association’s annual competition as well as the National Best Paper Competition on the basis of their Final Projects.

TIMING OF DELIVERABLES
REQUIRED WRITE-UPS: Sessions 1, 4, 6, 10
OPTIONAL WRITE-UPS (Choose ONE. Do more for extra credit): Sessions 5, 7, 9
CHOICE OF EXCHANGE OFFER WRITE-UP: Session 3 OR Session 8
FINAL PROJECT: Requires TMA permission form to compete. Session 13

CALCULATION OF THE FINAL GRADES
In practice, course grades will be calculated using point accumulation. Online delivery will entail many participations that carry points. Write-up points are awarded for:

- **Final Project (Analysis, Recommendations)**: 300 points
- **Individual Contributions to Class (Surveys, Participation, etc.)**: Up to 900 points
- **Required Write-ups (FOUR Exercises)**: Up to 500 points
- **Debt-for-Equity Swap (Choice A or Choice B)**: 100 points
- **Other Optional Write-up (Choose among three selections)**: 100 points

Assignments may be done solo or in teams of up to six persons; smaller teams are better. Final Projects that are submitted to the TMA may be done in groups of up to six persons; combine two three-person teams (if you wish) for the final. Presenting a case analysis in class earns the highest possible participation points for that particular Session. Individual work includes: 7:30AM surveys, Polls Everywhere, Lessons Learned, Participation, Break-Out Group Feedback, Zoom Room attendance, among other activities.

*Contributions to Break-out Session Feedback is lumped into this category although it is (in fact) done with a small group.

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

Make recommendations concerning how to handle Nadir Publishing’s note that is due. Suggest ways of improving cash flow and include a recommendation about the opportunity to distribute the proposed new line of titles (include persuasive evidence). You could offer 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 pro forma cash flows (at least one week hence) or other pro forma financial statements, or a candid assessment of Nadir’s liquidation value IF it is useful to the issue at hand.

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
### NADIR PUBLISHING
**CONDENSED INCOME STATEMENT**
FOR 12 MONTH PERIOD ENDING TODAY ($000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales</td>
<td>$54,000</td>
</tr>
<tr>
<td>Less returns and allowances</td>
<td>4,000</td>
</tr>
<tr>
<td>Net Sales</td>
<td>50,000</td>
</tr>
<tr>
<td>Less cost of goods sold</td>
<td>27,500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>22,500</td>
</tr>
</tbody>
</table>

**Operating Expenses**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions</td>
<td>5,000</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>14,500</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Sub total | 22,500  
Operating Profit | 0  
Interest | 2,000  
Income (Loss) before taxes | (2,000)  

### NADIR PUBLISHING
**BALANCE SHEET – TODAY ($000)**

<table>
<thead>
<tr>
<th>Current Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$250</td>
</tr>
<tr>
<td>Accounts Receivable, net of reserves</td>
<td>14,000</td>
</tr>
<tr>
<td>Inventories, net of reserves</td>
<td>20,000</td>
</tr>
<tr>
<td>Subtotal current assets</td>
<td>34,250</td>
</tr>
<tr>
<td>Plant, property &amp; equipment</td>
<td>4,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>38,250</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders’ Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
</tr>
<tr>
<td>Notes payable*</td>
<td>$4,000</td>
</tr>
<tr>
<td>Current maturities of long term debt</td>
<td>1,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>15,000</td>
</tr>
<tr>
<td>Other current</td>
<td>2,000</td>
</tr>
<tr>
<td>Subtotal current liabilities</td>
<td>22,000</td>
</tr>
<tr>
<td>Long term debt</td>
<td>10,000</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>6,250</td>
</tr>
<tr>
<td>Total Liabilities and Shareholders’ Equity</td>
<td>38,250</td>
</tr>
</tbody>
</table>

*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*