

## REFEREE'S REVIEW

<b>Program:</b>	MCF
<b>Student:</b>	Alexandra Ershova
<b>Title of thesis:</b>	The Role of Bankruptcy Legislation for Survival of a Company: Real Options Approach

<b>Justification of the topic choice. Accuracy in defining the aim and objectives of the thesis.</b> Justification of the topic choice; accuracy in defining the aim and tasks of the thesis; originality of the topic and the extent to which it was covered; alignment of the thesis' topic, aim and objectives.	4		
<b>Structure and logic of the text flow.</b> Logic of research; full scope of the thesis; alignment of thesis' structural parts, i.e. theoretical and empirical parts.	5		
<b>Quality of analytical approach and quality of offered solution to the research objectives.</b> Adequacy of objectives coverage; ability to formulate and convey the research problem; ability to offer options for its solution; application of the latest trends in relevant research are for the set objectives.	4		
<b>Quality of data gathering and description.</b> Quality of selecting research tools and methods; data validity adequacy; adequacy of used data for chosen research tools and methods; completeness and relevance of the list of references.	5		
<b>Scientific aspect of the thesis.</b> Independent scientific thinking in solving the set problem/objectives; the extent to which the student contributed to selecting and justifying the research model (conceptual and/or quantitative), developing methodology/approach to set objectives.	4		
<b>Practical/applied nature of research.</b> Extent to which the theoretical background is related to the international or Russian managerial practice; development of applied recommendations; justification and interpretation of the empirical/applied results.	4		
<b>Quality of thesis layout.</b> Layout fulfils the requirements of the Regulations for master thesis preparation and defense, correct layout of tables, figures, references.	5		

Each item above is evaluated on the following scale, as applicable: 5 = excellent, 4 = good, 3 = satisfactory, 2 = poor.

### Additional comments:

Master's thesis consists of three chapters. The first chapter describes general re-organization procedures under Chapter 11 and other restructuring possibilities. It also compares bankruptcy laws cross-country. The second chapter describes a number of selected cases of companies that experienced bankruptcies and conducted some restructuring activities. The first two chapters are organized and structured very well and give the reader a decent background on bankruptcy laws and some exposure to practice. However, I would like to draw author's attention to the mistake on page 13. The figure 4 and the description of the figure contradict the rest of the text. Specifically, the sentence under the picture description "... *the management team ensures that debt gets paid down and ...*" contradicts the description of the LBO procedure given by the author: "*LBO is primarily a financing technique, involving the use of debt for purchase of the corporation's stock*". The figure may describe some late part of an LBO, another restructuring possibility, or something else (it is hard to say). In any case, the description is incorrect.

The third chapter attempts to model bankruptcy procedure with or without possibility of restructuring. I do not find the model very appealing. The most important drawback with the model is that there is no goal that this model perceives. In addition, the analyzed model is one-sided and does not consider incentives of the creditor. According to the author, the two conclusions that the model allows to draw are as follows: "*First of all, availability of Chapter 11 helps to preserve value of companies and provides conditions for survival of the troubled companies. Second, among two explored reorganization methods, asset sales and costs reduction, the former leads to higher survivability.*"

The first conclusion is a direct consequence of the fact that bank's incentives are not taken into account. In general, we do not need a model to explain that if we give party A (firm) an additional opportunity (to restructure under chapter 11) without checking for incentives of party B (bank), it will be beneficial for party A.

The second conclusion is a result of parameters choice in the model. If we make cost-adjustment faster or minimum cost lower we will get a different result.

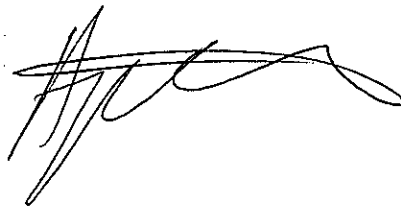
Two assumptions that are made in the model, in my opinion, are contradictory. First, it is assumed that there is no minimum payment, at the same time the company has to pay all the retained earnings to the bank until debt is positive. The company could have kept some of retained earnings to cover for negative profits in the future and avoid bankruptcy altogether. Second contradictory assumption is the possibility of costless cost-reduction while only under Chapter 11. The analyzed company can gradually reduce costs under chapter 11, and this is allowed under no fixed or variable costs to the management. I do not see any reasons why the same company should not do it while not under Chapter 11.

At the same time, the thesis is well structured, the questions that are raised in the text are quite interesting, and the technique that is used to complete the thesis is advanced. Overall, master thesis of Alexandra Ershova meets the requirements of MCF program, and deserves a **good** grade, thus the author can be given the desired degree.

Date

June 15, 2013

Referee: (*academic title, name*)



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