

**Cumberland Worldwide Corporation (A): Suggested Questions**

1. Describe the financial problems facing the management of CW. What is the source of the problems (e.g. bad luck?)
2. Are the financial markets accurately assessing the value of the company's assets? Can money be made by investing in the firm's securities? Specifically, does the market value of the right hand side of the holding company's balance sheet fully reflect the liquidation value of its assets? If not, why not?
3. CW management seems to believe that the best way to create value for CW's claimants is to invest significant amounts in the rejuvenation of Cross River. What are the value implications for the claimants if the rejuvenation plan is successfully implemented? What risks are involved in the plan to rejuvenate Cross River? At the time of the case, the yield on long-term Treasury securities was 8%; As an independent company, Cross River's long-term borrowing rate would have been 10% and its equity beta would have been 1.1.
4. Would you support management's plan for Cross River as a bank lender? As Sam Adams? As a preferred stockholder? As a common stockholder?
5. If CW files for Chapter 11 protection, how would you expect its business and prospects to be affected? How would you expect to fare in the bankruptcy proceeding as a bank lender? As Sam Adams? As a preferred stockholder? As a common stockholder?
6. Evaluate Morton's recapitalization plan. Would it, if implemented, result in a capital structure that meets the ongoing needs of the business? Which claimants would find it appealing? Which claimants would find it unappealing? Assume that the value (today) of a warrant to purchase 2.5 shares of common stock in 10 years with a strike price of \$5.00 is \$1.02.
7. If you were advising Morton on the restructuring effort, what changes, if any, would you recommend in his recapitalization proposal? How would you recommend that he deal with the problem of getting Sam Adams to waive or modify its covenants?