



Cort Business Services*

* This case was prepared by Professor Sandeep Dahiya and Professor Lee Pinkowitz with assistance from David Carter as the basis for class discussion rather than effective or ineffective handling of an administrative situation.
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Cort Business Services

Read the following Washington Post article about Cort Business Services. Using it and the subsequent exhibits, prepare answers for the following case questions. It will probably help to read the case questions prior to the article and exhibits so you have a direction on which to focus.

Case Questions

1. What is the job of the Board of Directors of a corporation? What is the job of management in a corporation?
2. Have the company's operations been performing well over the last few years? How do you know? What about the company's stock? Are the two related? How?
3. Who are the major players involved in this case? Which are in favor of the takeover bid? Which are against it? Why?
4. Is the takeover bid in shareholders' best interests? Why or why not?
5. Who stands to gain if the buyout succeeds?
6. Do you believe that management's takeover proposal on March 26th was a surprise to the market? Why or why not?
7. What value did management put on the preferred stock components of its bid(s)? Do you think the market agreed with their assessment? Support your reasons.
8. Do you believe that Cort management acted appropriately in this case? Do you believe the Board of Directors acted appropriately?
9. What sort of problems, if any, does this case shed on the relationship between management and shareholders? How might these be resolved in other companies?
10. What sort of problems, if any, does this case shed on the composition of the Board of Directors? How might these be resolved in other companies?

Exhibit 1Board of Directors and Significant Shareholders as of May 31, 1998

Board Members

Keith E. Alessi (outside interest)	President, Chief Executive Officer and Chairman of the Board of Directors of Telespectrum Worldwide, Inc.
Paul N. Arnold (inside interest)	President and Chief Executive Officer CORT Business Services Corp.
Bruce C. Bruckmann (inside interest)	Managing Director of Bruckmann, Rosser, Sherrill & Co., Inc. and a former Vice President of Citicorp Venture Capital Ltd.
Michael A. Delaney (inside interest)	Managing Director of Citicorp Venture Capital Ltd. and a former Vice President of Citicorp Venture Capital Ltd.
Charles M. Egan (inside interest)	Chairman of CORT Business Services Corp. and former President of CORT Furniture Rental Corp.
Gregory B. Maffei (outside interest)	Chief Financial Officer of Microsoft Corp.
James A. Urry (inside interest)	Vice President of Citibank, N.A. and a former Vice President of Citicorp Venture Capital Ltd.

Significant Shareholders

Citicorp Venture Capital, Ltd.	44.5%
The Kaufmann Fund, Inc.	6.2%
T. Rowe Price Associates, Inc.	5.7%
All Directors and Executive Officers as a group	6.6%

Exhibit 2

Common Stock Price History (monthly except shaded regions)

31-Jan-97	21.63	
28-Feb-97	24.13	
31-Mar-97	22.88	
30-Apr-97	25.63	
30-May-97	27.75	
30-Jun-97	29.50	
31-Jul-97	33.75	
29-Aug-97	38.31	
30-Sep-97	39.94	
31-Oct-97	36.38	
28-Nov-97	33.31	
31-Dec-97	39.81	
30-Jan-98	38.44	
27-Feb-98	40.19	
31-Mar-98	47.50	
30-Apr-98	39.94	
29-May-98	39.00	
30-Jun-98	31.50	
31-Jul-98	30.69	
31-Aug-98	24.44	
30-Sep-98	26.31	
30-Oct-98	19.63	
30-Nov-98	22.69	
31-Dec-98	24.25	
29-Jan-99	18.75	
26-Feb-99	16.56	
22-Mar-99	15.875	
23-Mar-99	15.625	
24-Mar-99	15.563	
25-Mar-99	16.750	
26-Mar-99	22.750	
29-Mar-99	23.000	
30-Mar-99	23.125	
31-Mar-99	23.13	
30-Apr-99	23.06	
28-May-99	24.19	

Offer #1: \$24 per share
in cash and \$2.50 in
preferred stock

30-Jun-99	23.94	
30-Jul-99	24.19	
9-Aug-99	23.813	
10-Aug-99	23.688	
11-Aug-99	23.813	
12-Aug-99	23.750	
13-Aug-99	24.563	
16-Aug-99	25.000	Offer #2: \$25 per share in cash and \$3 in preferred stock
17-Aug-99	25.000	
18-Aug-99	24.750	
19-Aug-99	24.875	
20-Aug-99	25.000	
31-Aug-99	25.06	
30-Sep-99	23.13	
29-Oct-99	20.31	
30-Nov-99	19.50	
31-Dec-99	17.44	

Exhibit 3
Historical Balance Sheets

Year ended December 31,	1995	1996	1997	1998	1999 September 30 (unaudited)
Assets:					
Cash and equivalents	\$ 379	\$ 123	\$ --	\$ 703	\$ 1,210
Accounts receivable	6,019	11,011	13,521	14,585	19,801
Prepaid expenses	3,973	4,224	4,127	5,918	6,172
Rental furniture, net	103,741	147,161	164,323	189,059	212,487
Property, plant and equipment, net	31,044	35,667	38,777	43,861	43,163
Investment	\$ --	\$ --	\$ --	3,000	18,246
Other receivables, net	3,814	3,815	3,183	3,048	3,032
Goodwill	24,752	45,198	53,910	72,722	76,438
	<u>\$173,722</u>	<u>\$247,199</u>	<u>\$277,841</u>	<u>\$332,896</u>	<u>\$ 380,549</u>
Liabilities:					
Accounts payable	\$ 3,597	\$ 4,157	\$ 5,551	\$ 3,417	\$ 6,912
Rental security deposits	5,761	7,184	7,978	9,581	note 1
Accrued expenses	19,096	27,491	27,936	21,076	29,887
Deferred rental revenue	5,425	7,174	9,239	11,541	23,260
Long-term debt	53,800	65,600	63,132	90,800	93,800
Deferred income taxes	10,622	10,441	14,673	20,819	20,574
	<u>98,301</u>	<u>122,047</u>	<u>128,509</u>	<u>157,234</u>	<u>174,433</u>
Stockholders Equity:					
Common stock, voting, \$.01 par value	104	127	129	131	131
Additional paid-in capital	67,383	101,155	103,007	105,940	106,100
Accumulated earnings	7,934	23,870	46,196	69,591	99,885
Total stockholders' equity	<u>75,421</u>	<u>125,152</u>	<u>149,332</u>	<u>175,662</u>	<u>206,116</u>
	<u>\$173,722</u>	<u>\$247,199</u>	<u>\$277,841</u>	<u>\$332,896</u>	<u>\$ 380,549</u>

note 1: balance added to deferred rental revenue

Exhibit 4
Historical Income Statements

Year ended December 31,	1995	1996	1997	1998
Revenue:				
Furniture rental	\$141,988	\$191,560	\$237,212	\$265,871
Furniture sales	37,321	42,589	50,006	53,093
Total revenue	<u>179,309</u>	<u>234,149</u>	<u>287,218</u>	<u>318,964</u>
Operating costs:				
Cost of furniture rental	27,950	36,958	45,634	47,863
Cost of furniture sales	22,203	25,207	30,257	32,354
Employee, delivery and advertising	72,379	95,204	114,674	128,710
Occupancy, utilities and nonrental depreciation	16,724	22,722	27,747	32,496
Amortization of goodwill	662	961	1,546	1,935
Other operating expenses	12,670	17,649	21,052	22,959
Total costs and expenses	<u>152,588</u>	<u>198,701</u>	<u>240,910</u>	<u>266,317</u>
Operating earnings	26,721	35,448	46,308	52,647
Interest expense, net	15,917	8,251	8,374	7,837
Income before income taxes and extraordinary loss	10,804	27,197	37,934	44,810
Income tax expense	4,586	11,261	15,608	18,907
Income before extraordinary loss	6,218	15,936	22,326	25,903
Extraordinary loss on early retirement of debt	4,143	--	--	2,508
Net income	<u>\$ 2,075</u>	<u>\$ 15,936</u>	<u>\$ 22,326</u>	<u>\$ 23,395</u>
Earnings per common share before extraordinary loss	\$ 1.26	\$ 1.40	\$ 1.74	\$ 1.99
Extraordinary loss per common share	0.62	--	--	0.19
Earnings per common share	<u>\$ 0.64</u>	<u>\$ 1.40</u>	<u>\$ 1.74</u>	<u>\$ 1.80</u>
Weighted average number of common shares used in computation	<u>6,688</u>	<u>11,416</u>	<u>12,804</u>	<u>13,019</u>
Earnings per common share before extraordinary loss--assuming dilution	\$ 1.11	\$ 1.31	\$ 1.67	\$ 1.92
Extraordinary loss per common share--assuming dilution	0.55	--	--	0.19
Earnings per common share--assuming dilution	<u>\$ 0.56</u>	<u>\$ 1.31</u>	<u>\$ 1.67</u>	<u>\$ 1.73</u>
Weighted average number of common shares used in computation--assuming dilution	<u>7,578</u>	<u>12,144</u>	<u>13,378</u>	<u>13,491</u>

Exhibit 5
Historical Income Statement (9 month)

Nine Months Ended September 30,	1998	1999
Revenue:		
Furniture rental	\$196,356	\$219,243
Furniture sales	39,948	44,887
Total revenue	<u>236,304</u>	<u>264,130</u>
Operating costs:		
Cost of furniture rental	35,226	39,029
Cost of furniture sales	24,234	28,062
Selling, general and administrative	<u>137,034</u>	<u>155,960</u>
Total costs and expenses	<u>196,494</u>	<u>223,051</u>
Operating earnings	39,810	41,079
Interest expense, net	<u>6,164</u>	<u>4,259</u>
Income before income taxes	33,646	36,820
Income tax expense	14,140	15,494
Income before extraordinary loss	<u>19,506</u>	<u>21,326</u>
Extraordinary loss on early retirement of debt	<u>2,508</u>	<u>--</u>
Net income	<u>\$ 16,998</u>	<u>\$ 21,326</u>
Earnings per common share before extraordinary loss:		
Basic	\$ 1.50	\$ 1.63
Diluted	\$ 1.45	\$ 1.59
Earnings per common share:		
Basic	\$ 1.31	\$ 1.63
Diluted	\$ 1.26	\$ 1.59
Weighted average number of common shares used in computation:		
Basic	12,999	13,094
Diluted	13,486	13,423

Exhibit 6
Summary of Takeover Offers

Management Buyout #1

Date:	March 26, 1999
Price per share:	\$26.50: \$24 cash + \$2.50 preferred share
Premium to stock one-day prior:	58.2%
Premium to stock one-month prior:	60.0%
Premium to 52-week low:	87.6%
Premium to 52-week high:	-44.8%
Market value of firm*:	\$302.82M

Management Buyout #2

Date:	August 13, 1999
Price per share:	\$28.00: \$25 cash + \$3.00 preferred share
Premium to stock one-day prior:	17.9%
Premium to stock one-month prior:	17.9%
Premium to 52-week low:	98.2%
Premium to 52-week high:	-41.7%
Market value of firm*:	\$328.24M

*: Monthly market value from Research Insight

Exhibit 7

Summary of Cort Business Services Corp.

BUSINESS DESCRIPTION:

Cort Business Services Corp. provides rental furniture, accessories and related services in the growing and fragmented "rent-to-rent" segment of the furniture rental industry.

The Company serves corporate customers by offering office and residential furniture and related accessories through a direct sales force. Cort sells its previously rented merchandise through a network of company-operated clearance centers, thereby enabling it to regularly update its inventory with new styles and new merchandise.

The Company also provides trade show furnishings that serve trade show contractors and corporate exhibitors nationwide providing specialty rental furniture for use at conventions and trade shows.

The Company maintains Relocation Central, a website that provides information about cities such as apartment finders, school systems, movers and local recreation for relocating individuals. Relocation Central provides the Company with an additional marketing tool while also providing valuable information to potential customers.

HISTORY:

1972 – Cort Furniture Rental Corporation was formed in by Consolidated Furniture as a combination of six separate businesses.

December 31, 1988 – Cort Holdings Corp. acquired all the common stock of CFR.

June 1992 – Cort Holdings was merged into CFR as a result of economic downturn, and Westinghouse Credit Corporation agreed to forgive a portion of the debt for a controlling equity interest in CFR.

March 29, 1993 – Cort Business Services was Incorporated for the purpose of obtaining the common stock of CFR in a reorganization transaction.

March 31, 1993 - Cort acquired 100% of the outstanding common stock of CORT Furniture Rental Corp. for \$86.2 million.

September 1, 1993 - Cort acquired General Furniture Leasing Company for \$28.9 million. General Furniture was merged with and into Cort Furniture Rental Corp.

Nov. 17, 1995 - 3,076,923 shares of Cort Business Services, Inc. are offered at \$12.00 per share through Smith Barney Inc., Montgomery Securities, and their associates.

April 24, 1996 - Cort acquired Evans Rents for approximately \$27,778,000.

August 5, 1996 - Cort acquired certain assets of AFRA Enterprises, Inc. and Apartment Furniture Rental Associates for \$9,384,000.

December 3, 1996 - Cort acquired the furniture rental contracts and certain other assets of Bel Style Corporation. Bel Style, a privately owned company, had annual rental revenues of approximately \$2.5 million. Terms were not disclosed.

March 6, 1997 - Cort acquired the stock of each of Levitt Investment Company and McGregor Enterprises, Inc. and certain assets of Alco Trade Show Services, Inc.

Exhibit 7 - continued**Summary of Cort Business Services Corp.**

November 1997 – Cort acquired the furniture rental contracts and certain other assets of Delta Furniture Rentals Inc.

March 1, 1998 - Cort acquired the furniture rental contracts and certain other assets of IS Furniture Rental Corp.

August 14, 1998 - Cort announced completion of the acquisition of Instant Interiors Corporation.

March 26, 1999 – Cort announced plans to go private in a buyout backed by Citigroup's venture capital division and New York based Bruckman, Rosser, Sherrill & Co. Shareholders offered \$24 cash plus \$2.50 of preferred stock.

August 13, 1999 – Cort announced it was raising its buyout offer. Shareholders offered \$25 cash plus \$3.00 of preferred stock.

November 1999 – Cort announced canceling plans to go private, citing, in part, shareholder opposition.

Information distilled from reports published by The Investext Group