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ABSTRACT

When a firm is liquidated, creditors receive distributions based on the "absolute priority rule" to the extent assets are available. In liquidations, the absolute priority rule generally holds, but in the reorganization under Chapter 11, it is often violated. In this paper, we present evidence of the extent of violation of the absolute priority rule among three broad groups: secured creditors, unsecured creditors and equity holders, and also among various types of debt or equity securities for publicly-traded firms that emerged from Chapter 11 between September 1, 1988 and April 1, 1990. We also determine which asset class bears the cost of violations of absolute priority and derive an initial estimate of total distributed value relative to liquidation value.

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1. INTRODUCTION

When a firm files a bankruptcy petition, it will generally either be liquidated under Chapter 7 of the Bankruptcy Code or be reorganized under Chapter 11. (Occasionally, a debtor will liquidate under Chapter 11.) Once a company files for protection under the Bankruptcy Code, the company generally becomes a "debtor-in-possession," and continues to operate its business under the supervision of the court. The purpose of the Bankruptcy Code is to give the debtor: (1) time to decide whether to reorganize or liquidate; and (2) time to formulate a plan of chosen action.

When a firm is liquidated, creditors receive distributions based on the "absolute priority rule" to the extent assets are available. The absolute priority rule is the principle that senior creditors are paid in full before junior creditors are paid anything.[1] For secured creditors and unsecured creditors, the absolute priority rule guarantees their seniority to equity holders.

In liquidations, the absolute priority rule generally holds,

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[1] The absolute priority rule was named for the first time by Bonbright and Bergerman (1928). There is a good body of literature that argues that strict absolute priority has not been upheld by the courts or the SEC. (See, for example, Meckling (1977), Miller (1977), Warner (1977) and Jackson (1986).) Failure of the courts to follow strict absolute priority has implications for the capital structure of a firm. In particular, the view by Black and Scholes (1973) that the firm is effectively owned by the creditors who have sold the shareholders a call option on the firm's assets is not sustainable if the stockholders are not viewed as residual claimants.

but in the reorganization under Chapter 11, it is often violated. Past studies have found that the violation of absolute priority is common. Franks and Torous (1989) examine 30 firms and found 21 out of 27 firms breach the absolute priority rule among debt securities. Weiss (1989, 1991) also reports that out of 37 firms, 26 exhibit violation of absolute priority among three classes of secured creditors, unsecured creditors, and equity holders.

In this paper we continue with this investigation of the extent of violation of absolute priority for publicly-traded firms that emerged from Chapter 11 between September 1, 1988 and April 1, 1990. We also determine which asset class bears the cost of violations of absolute priority and derive an initial estimate of total distributed value relative to liquidation value.

Before we discuss our sample and empirical evidence, we review the five hypotheses suggested in the literature to explain why one might expect a violation of absolute priority in reorganizations. We also include the suggestion of a sixth hypothesis.

2. EXPLANATIONS FOR THE VIOLATION OF ABSOLUTE PRIORITY

Five hypotheses have been suggested in the literature to explain why the distribution patterns will diverge from that required by the absolute priority principle: (1) creditors' incentive to reduce costs of bankruptcy, (2) recontracting process between senior creditors and stockholders, (3) stockholders' influence on reorganization plan, (4) strategic bargaining process, and (5) stockholders' contribution.

From the sample we selected for our study, it appears that no one hypothesis is correct. Rather, the relative importance of different hypotheses depends on the specifics of the reorganization. Unless one is a member of the negotiating team that formulates the plan, it is impossible to specify which of the five hypotheses is the dominant contributor to the outcome. It is sometimes possible, however, to identify which hypothesis is likely to be dominant because of the specifics of the case.

For example, the creditors' incentive hypothesis was likely the dominant force in the Allis Chalmers reorganization, one of the firms in our study. The debtors formulated and confirmed a plan in 16 months. Absolute priority was violated, however, as unsecured creditors were impaired while old equity holders received 19% of the equity of Reorganized Allis-Chalmers. In this case, it appears as though equity holders' speed was rewarded.

According to the creditors' incentive hypothesis, the longer the negotiation process among the parties, the greater the bankruptcy costs and the smaller the amount to be distributed to all parties. Since all impaired classes including equity holders generally must approve the plan of reorganization, creditors often convince equity holders to accept the plan by offering to distribute some value to them. An exception to this rule occurs when a plan is confirmed under the cram-down provisions of the

Bankruptcy Code.[2] However, as the implementation of the cram-down provisions generally takes time, the creditors' incentive hypothesis supports avoiding the use of these provisions. The implementation of the cram-down provisions also entails added costs because of the valuation hearings required by these provisions. These hearings are held to ensure that dissenting classes receive at least as much as they would be entitled to receive under a liquidation proceeding. Franks and Torous (1989) explain the associated bankruptcy costs in terms of options theory. Management, by obtaining Chapter 11 protection, can protect the interest of equity holders by exercising its option to delay the repayment of debt. To avoid future bankruptcy costs, creditors may be willing to buy back management's option.

The recontracting process hypothesis, suggested by Baird and Jackson (1988), suggests that violation of absolute priority reflects a recontracting process between stockholders and senior creditors. To illustrate, suppose that a firm's value is less than the amount owed to senior creditors, and, at the same time, senior creditors believe management does have the ability to increase the future value of the firm. Senior creditors then have reason to join forces with stockholders and share the assets they acquired.

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[2]A plan can be confirmed under the cram-down provisions even if the required number of creditors do not approve the plan. To be approved under these provisions, a plan must meet certain requirements. These requirements include the determination that each dissenting class must receive at least as much as it would be entitled to receive under a liquidation. (For an overview of the bankruptcy process, see Howe (1991).)

As a result of the recontracting process, intermediate creditors are often frozen out or given only a small portion to relinquish their claims.

Negotiation in a reorganization inevitably includes the preliminary process of estimating the size and relative priority of claimholders. The reorganization process often produces a distribution that substantially deviates from the claimholders' entitlements. Because no objective and indisputable figure is available for the reorganized firm's value, claimholders may advance different estimates of the value of the firm. If all claimholders could be expected to advance the same estimate, the question of the distribution would be straightforward: their common estimate could be used to divide the reorganized firm's value. According to the stockholders' influence on reorganization plan hypothesis, suggested by Bebchuk (1988), creditors are less informed about the true economic operating conditions of the firm than management. As the distribution to creditors in the plan of reorganization is based on the valuation by the firm, creditors without perfect information easily suffer the loss. Even if all claimholders actually share the same estimate of the reorganized firm's value, they may have strategic reasons for advancing different estimates. In the bargaining between any class and the classes preceding it, the preceding classes have an incentive to advance a low estimate whereas the junior class has the opposite incentive. Senior creditors have an incentive to advance a low valuation, because a low valuation would entitle them to a larger fraction of the reorganized firm. For a similar reason, equity holders have an incentive to advance a high valuation. In this situation, management can overstate the value of the firm so that the new securities are worth less than anticipated by creditors and the court. Another possibility is that management may overstate the value of the firm to increase its share of the distribution (stockholders' contribution hypothesis discussed below). This influence of stockholders on a reorganized plan can be one of the factors that forces the violation of the absolute priority rule.

To be accepted, a plan of reorganization must be approved by at least two-thirds of the amount and a majority of the number of claims voting and at least two-thirds of the outstanding shares of each class of interests. Consequently, a long-lasting bargaining process is expected. Since the outcome of a Chapter 11 reorganization is a function of this negotiation process, all players and their relative bargaining positions can be viewed as an input of the function. Negotiation theory suggests that the greater the number of players who have different interests, the more difficult it is to reach an agreement. Consequently, within a Chapter 11 context, the number of different classes of claims (i.e., the complexity of financial claims) would influence the outcome of the final reorganization plan. Moreover, negotiation theory suggests that fewer creditors could result in more frequent bargaining deadlocks, if the small number of creditors makes creditors feel themselves more powerful. This is the essence of the strategic borrowing process hypothesis. It is likely that the increasing complexity of firms which declare bankruptcy will accentuate the negotiating process and result in an even higher incidence of violation of the absolute priority rule. The likely outcome is further supported by the increased number of official committees in the reorganization process as well as the increased number of financial and legal advisors.

The stockholders' contribution hypothesis, as set forth by Baird and Jackson (1988), is based on the ability of management to preserve the firm's value. A renegotiation will occur only when the junior claimholders will receive less than their share, or nothing at all, in the event of a distribution, but have something with which they can bargain. The ability of junior claimholders to bargain may derive from the fact that they have something to contribute to the firm's future. When stockholders are the managers of a firm, they may be able to run the firm better than anyone else because they may have better information about the firm than others and may be willing to add new capital when others are not. In these cases, stockholder-oriented managers have the power to renegotiate the original priority position.

Another contribution by stockholders is the net operating loss carryovers. As Bulow and Shoven (1977) argue, the lack of symmetry in the tax system (negative taxes are not permitted, although loss deductions may be carried forward) results in situations in which the only way to use all current loss deductions is to merge. The tax system may encourage continuance or merger and discourage bankruptcy. A corporate tax is imposed on income less depreciation and interest. The amount of tax paid in a period may not be negative, but loss carryovers are permitted. Although this loss deduction cannot be sold, it can be assumed by a merger partner. Firms that finally file with the court for bankruptcy have usually experienced deteriorated cash flow or financial loss for years prior to the filing. Because of the poor income history, the firm need not pay corporate taxes. For the preservation of the loss deduction, the firm is worth keeping as a going concern. The loss deduction is the intangible asset which will disappear when the firm is dissolved. With the ability to preserve the firm's value and the loss deduction as the intangible asset, the distribution to the stockholders can be considered as a payment for their contribution to the reorganized firm. This contribution by the stockholders may be one of the factors which results in the violation of the absolute priority rule.

The preservation of net operating losses and other tax attributes can also affect the percent distribution of equity in the reorganized company to unsecured creditors. Companies have to abide by stringent change of control tests of the IRS to preserve net operating losses. Adherence to these control tests may violate absolute priority. For example, in the Coleco Industries bankruptcy (another firm in our study), holders of "qualifying" debt received at least 50% of the value and voting power of the total outstanding stock of Ranger Industries while holders of similar unsecured, but not qualifying debt, received less than

50%.[3] The reorganization of McLean Industries is another example from our study where the shell of the corporation was retained to preserve net operating losses. McLean reorganized as Lancer Industries, a shell corporation.

In 1986, the Internal Revenue Code was amended substantially. Among the changes incorporated in the Internal Revenue Code was Section 382 which deals with the treatment of net operating losses (NOLs) for companies which have had an ownership change. These changes are important for companies which are formulating a plan of reorganization because the changes determine whether and/or to what extent a reorganized company can use its pre-petition NOLs. In some reorganizations, the magnitude of these NOLs dictates a careful adherence to the IRS rules in order to preserve the NOLs and thereby preserve their value in the reorganized company. Outlined below are the basic IRS provisions that deal with NOLs for companies which have had an ownership change. Also outlined are the basic provisions of Section 382 (1) (5) which includes specific treatment of companies in reorganization. This treatment provides an exemption, the Bankruptcy Exception, to companies in reorganization if certain conditions are met.

In general, NOLs can be carried forward for fifteen years to offset taxable income. However, if there is an ownership change,

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[3]Qualifying refers to debt that:

a) has been held continuously for 18 months prior to the Petition Date through the confirmation; and

b) arose in the ordinary course of business and has been held continuously by the original beneficial owner.

the Code imposes limitations on the amount of NOLs that can be used. (For this purpose, ownership change is defined as a change of ownership of more than 50% of a company's equity during a three year period.) Generally, a company which has had an ownership change is limited in the annual amount of NOLs which it can use. This limitation is generally equal to the federal prescribed long-term tax exempt rate times the fair market value of the stock at the time of the ownership change.

A major exception to this limitation on the use of NOLs is available to corporations which undergo a change of ownership as the result of reorganization. In order for the bankruptcy exception to apply, the corporation must meet two requirements. First, the corporation must be under the jurisdiction of a bankruptcy court immediately preceding an ownership change. Secondly, shareholders and holders of qualifying debt must hold at least 50% of the total value of stock and at least 50% of the voting power immediately after the ownership change. In order for stock received by debtholders in satisfaction of their claims to be counted toward the 50% level, creditors must have held the debt for at least eighteen months prior to the petition date or the creditors must be the original holder of the debt and the debt must have arisen in the ordinary course of the debtor's business. The importance of the Bankruptcy Exception is twofold. First, the Bankruptcy Exception exempts reorganized companies, under certain circumstances, from the Section 382 limitation. Secondly, the value of the Bankruptcy Exception may be sufficient to encourage debtors to deviate from absolute priority in order that the exception is retained. For example, assume that old debt holders are scheduled to receive all of the stock in a reorganization and that the reorganized company plans to use the Bankruptcy Exception in order to maximize its use of its NOLs. In this circumstance, if all of the debtholders have held the debt for at least eighteen months prior to the bankruptcy petition, the qualifying debtholders will hold 100% of the stock and the Bankruptcy Exception should apply. However, if only 45% of the creditors hold qualifying debt, the plan of reorganization is likely to give these 45% of holders 50% of the stock and the remaining 55%, the other 50% of the stock. Although this distribution gives relatively more stock to holders of qualifying debt, the holders of the nonqualifying debt are unlikely to reject the plan on the basis of their receiving less than holders of qualifying debt. Their acceptance of the plan is likely to be based on the maximization of the firm through the retention of the NOLs and therefore the improved prospects for the stock they do receive.

Only five hypotheses are presented in the literature of absolute priority to explain the occurrence of violations of absolute priority. Our estimates of total distributed value relative to liquidation value reported later suggest an additional hypothesis to explain the occurrence of violation of absolute priority in reorganization. Often plans of reorganization are presented with a section entitled Alternatives to Confirmation. In this section, proponents of the plan generally cite data which indicates that creditors and holders of interests will receive a higher value in reorganization than they would in liquidation. Our preliminary investigation in this area suggests that the aggregate magnitude by which distributions in reorganization exceed what they would be in liquidation may be a powerful incentive for impaired classes to approve the plan in order to capture this differential.

3. SAMPLE SELECTION AND DATA

3.1 Sample Selection Criteria

The firms included in this study are publicly-traded companies that emerged from Chapter 11 between September 1, 1988 and April 1, 1990.[4] By "emerged" we mean that the final plan of reoganization was confirmed. Companies were identified by searching The Wall Street Journal, Dow Jones News Wire, and other publications such as "Turnarounds and Works" by Beard Group, Inc., and by reviewing SEC filings, mainly the 8-K's. To be included in our study, a company had to be publicly traded and have total assets of at least $25 million as reported in the 10-K prior to filing for Chapter 11 protection. Our final sample consists of 26 firms.[5]

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[4] The restriction of our sample period was due to financial constraints.

[5] All previous studies that have examined the distribution patterns from reorganization, suffer from the same problem -- namely, a small sample size. For example, there were 37 reorganizations studied by Weiss (1991) for publicly-traded firms which filed for Chapter 11 protection from 1980 to 1986. The sample of Franks and Torus (1989) included 30 reorganizations from 1970 to 1984. Gilson, John and Lang (1990) investigated 89 publicly-traded firms which attempted private debt restructuring

3.2 Sample Characteristics

Table 1 lists filing date, confirmation date, effective date, the trading location, asset size, and SIC code for each firm. Asset size is obtained from the 10-K prior to the Chapter 11 filing. Twenty-three firms filed for Chapter 11 protection due to financial distress and 3 firms (Manville, UNR Industries, and Zenith Laboratories) did so as an escape hatch from product liabilities and related law suits. Both Manville and UNR Industries were the subject of numerous asbestos-related suits. The operation of Manville was profitable before and after filing.

PLACE TABLE 1 HERE

Table 1 also gives the court district for the firms in our sample. Our sample includes bankruptcy petitions that were filed in 14 different federal court jurisdictions. Weiss (1991), faced with the same budget and time constraints for collecting court documents where the bankruptcy petition was filed, restricted his study to seven jurisdictions. Half of our sample is from four of the seven jurisdictions included in his sample.

Table 2 presents the outcome of Chapter 11 reorganizations in our sample. Twenty-four companies continued operating, 3 emerged as different entities and 2 (Coleco and Mclean Industries) sold all

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but ended up filing for Chapter 11 protection between 1978 and 1986.

assets and reorganized as shell corporations. For all 26 firms, the sum of distributed value to all claimants (secured and unsecured creditors, and old equity holders) is greater than the liquidation value under Chapter 7. The distributed value-liquidation value ratio varies from 1.018 to 3.54 and averages 1.782. Therefore, on average, the on-going concern value of a firm in our sample is 1.782 times as large as its liquidation value. The last column of Table 2 will be explained in Section 4.1.

PLACE TABLE 2 HERE

It makes sense that the distributions to the sample exceed liquidation value for legal as well as economic reasons. It also is logical to compare reorganization distribution with liquidation values rather than historical values. Although liquidation values are subject to criticism because they are put together by management, historical values of a debtor are likely to be significantly overstated. This overstatement will come from several sources. However, the largest source of overstatement will probably be in fixed assets and related goodwill. This overstatement will often be a function of assets acquired (and booked) at a time when the particular industry assets were highly valued by the market. (For example, real estate in Texas acquired during the height of the oil boom would be booked at prices which would significantly overstate its value in liquidation.)

The Bankruptcy Code ensures that the distributions under a reorganization to impaired claimants will at least equal the distributions under a liquidation; economics dictates that the distributions under a reorganization should be greater than under a liquidation. The Bankruptcy Code requires that distributions to impaired classes of creditors and holders of interests must at least equal what they would receive in liquidation. This requirement is dictated by Section 1129 (a)(7) of the Code. Pursuant to this section, the Bankruptcy Court must independently determine that each impaired creditor or interest will receive at least as much value under the reorganization as it would under a liquidation. Given this rationale for distributions from reorganizations to be at least equal to distributions under a liquidation, there are many reasons for the distributions from reorganizations to exceed the respective liquidation distributions.

First, the fact that the majority of firms in the sample continued their operations means that the plan is ascribing some value to the continuing operation of the firm and its potential for generating a profit. In this sense, the value of distributions under a reorganization should always exceed liquidation value. The degree to which distributions will exceed liquidation values will be heightened by the attribution of value to NOLs for a firm that is continuing in business. Second, asset prices of a firm in bankruptcy are going to be depressed by the fact that the company has publicly stated by its filing that it is in financial distress. Therefore, potential buyers are likely to delay making an offer in the hope that they will be able to acquire assets at a lower price. As a result, net prices that can be realized in a short period of time (i.e. liquidation values) will likely be lower than net prices that could be realized if the debtor were able to take more time in selling the assets. Third, bankruptcies are often related to industry factors such as overexpansion in the face of declining demand or changes in exogenous factors relating to an industry. In this scenario, the assets of a bankrupt company may represent redundant assets in an industry for which no one is willing to bid. Fourth, the debtor's disclosure statement, which accompanies and explains a plan, often outlines the liquidation value of a firm. (The U.S. Trustee's Office requires a liquidation analysis although the Bankruptcy Code specifically requires the disclosure statement to only provide sufficient information to allow a hypothetical investor to make a reasonable decision on whether to accept or reject a plan.) Although a liquidation analysis is the function of many significant variables such as the time during which assets are to be liquidated, it presents a reasonable estimate of the net proceeds that could be obtained from a fairly rapid sale of assets. Often, the commission charged on the sale could be as much as 20% of the assets. The avoidance of such fees by continuing a business rather than liquidating and the magnitude of the fees further supports the fact that distributed values will exceed liquidation values. Fifth, the liquidation of an estate would be further diminished if the estate were liquidated under Chapter 7 of the Bankruptcy Code rather than under Chapter 11 because Chapter 7 creates an additional layer of priority claims and thereby reduces the amount distributable to other creditors. Under Chapter 7, an impartial trustee is appointed to liquidate the estate. It is likely that the Chapter 7 trustee will have no knowledge of the business of the debtors and will appoint attorneys and accountant to assist him. In addition, the Chapter 7 trustee is entitled to receive fees which are administrative costs. At a maximum, these fees are 15% of the first $1,000, 6% on amounts over $1,000 but less than $3,000, and 3% on any amounts in excess of $3,000. Sixth, unsecured claims in a liquidation are often higher than those in a reorganization. Total liquidation costs can be significant. A study by Barsotti and Urbano (1990), for example, found that liquidation costs averaged 17.9%. These increased claims can come from several sources including claims arising from rejected leases and contracts that would otherwise be assumed in a reorganization. Increased claims could also come from the rejection of employee benefit plans.

While not quantified in our study, there is a hidden value of the net operating tax loss carry forwards of the firm. An interesting pattern of liquidation worth noting is that exemplified by Coleco Industries, Inc. The company sold substantially all of its non-cash assets which were associated with its toy and game businesses to Hasbro in July 1989. Coleco concomitantly changed its name to Ranger Industries. Ranger Industries conducts no business but plans to acquire some in the future to take advantage of its tax carry forward. This is evidence that a corporate entity may be worth more than its liquidation value. Its original equity was cancelled, but equity holders received some cash. Unsecured creditors and members of the buyout group hold all new equity and will be able to take advantage of the tax loss carry forwards. Effectively, the unsecured creditors receive the value of an intangible asset: tax loss carry forward. The amount of the net operating loss carry forward is approximately $170 million. A similar event occurred in the case of McLean Industries.

3.3 Claimants and Securities Distributed to Claimants

For each firm in our sample, we obtained information on all publicly traded securities outstanding prior to Chapter 11 filing from The Bankruptcy DataSource. The Bankruptcy DataSource is a monthly reference service published by New Generation Investments, Inc., Boston, Massachusetts. It provides detailed information on all bankruptcies of publicly traded companies with more than $10 million in assets. This database -- which includes common stock, preferred stock, convertible debt, straight debt and notes-- was culled from the 10-Ks, Standard & Poor's Corporation Record, Moody's Industrial Manual, National Stock Market Summary, National Bond Summary, Capital Changes Reporter, and "Pink Sheets and Yellow Sheets" from the National Quotation Bureau.

We collected the following information for each sample firm. The Disclosure Statement and the Plan of Reorganization were obtained. These documents provide information on the definition and treatment of each creditor class, recovery analysis of creditors (i.e., the distribution value), and liquidation value.

The liquidation value has a specific meaning in these documents. It is an estimate of the amount that each class of claims and interests could expect if the proceeding is converted to a Chapter 7 liquidation under the Bankruptcy Code. In some instances, the appraised value of newly issued securities is given in these documents.

The market price of newly-issued securities on the effective date of the plan of reorganization was obtained from the S&P Daily Stock Price Record, if available.

4. RESULTS

4.1 Examination of Absolute Priority Rule

To describe the distribution to different classes of creditors and interest holders, we used the classification introduced by Weiss (1991) in which all claimants are classified into three groups: secured creditors, unsecured creditors and equity holders. He assigned each firm to one of three classes according to the following distribution among the three groups:

Class 1: Absolute priority holds
Secured: 100% Unsecured: 100% Equity: > 0%
or Secured: 100% Unsecured: balance Equity: 0%

Class 2: Absolute priority is violated; priority held only for secured creditors
Secured: 100% Unsecured: < 100% Equity: > 0%

Class 3: Absolute priority is violated, priority did not hold for secured creditors
Secured: < 100% Unsecured: > 0% Equity: $\geq$ 0%

Table 3 presents a summary of bankruptcy resolution in our sample. Absolute priority was maintained in only 4 of the 26 cases (15.4%). Thus, we can conclude from our sample that violation of absolute priority is not an exception but a rule. These results are consistent with Weiss' results (1989, 1991). Weiss found that absolute priority was maintained in only 22% of his sample (8 out of 37 cases).

PLACE TABLE 3 HERE

When the priority for secured creditors is maintained, in most cases they receive cash (including deferred payments) or a cash equivalent note. In terms of present value, the claim is not recovered 100% due to an extension of maturity or reduction of the interest rate. In contrast, when priority is violated secured creditors received cash (equivalent) and equity securities (preferred stock, common) or equity warrants.

Within the unsecured creditors classes, absolute priority was seldom found to hold. In 2 cases, all unsecured claims were aggregated and treated equally. In 2 other cases, unsecured claims were aggregated into only two classes: convenience (small) claims and general unsecured claims (the rest). Of the 26 sample firms, 13 established a convenience claim class and distributed cash equal to approximately 24 to 100% of the allowed claims in the class. This treatment was granted to make the administration of small claims easier. Although the distribution generally equalled 24 to 100% of the claim, the actual percentage distribution was often lower. The lower return is the result of the method for inclusion in a convenience class. Generally, convenience classes are established for unsecured claims of a certain maximum amount or unsecured claims reduced to the maximum amount by the creditor. To the extent holders reduce their claims to the maximum amount but receive the distribution only on the reduced amount, the percentage distribution is lower than the percentage cash distributed. The maximum amount of a convenience claim varied widely and was correlated with the size of the debtor. For example, in Pettibone, convenience claims consisted of unsecured claims of $150 or less while in the Manville bankruptcy, they included unsecured claims of $10,000 or less. Even if several classes were established, absolute priority did not hold among them. The senior classes tended to receive a higher payout percentage but all the unsecured classes received something even though a senior unsecured claim was not satisfied in full. In Section 4.2 we will discuss the treatment of bonds and debentures with different seniority.

In 4 cases (15%), equity holders received no distribution and the equities were cancelled. This is consistent with Weiss' study which found that equity holders received no distribution in 19% of the cases. There was one case in which equity holders received cash while the old equity was cancelled. Of the remaining 20 cases, there was only one case in which equity holders retained their rights and in other cases old equity holders received new shares of the emerged companies. We did notice that the ownership of old equity holders was significantly diluted because a large number of shares of new stock was distributed mainly to unsecured creditors, and sometimes to secured creditors and sources of new money. Consequently, old equity holders were often left with a significantly diluted share of the new company which usually had a much smaller market capitalization. In addition, frequently 5 - 10% of the new equity was reserved for management under stock option programs.

Among equity classes (preferred and common), absolute priority rules seldom hold. Out of 13 firms which had both preferred stock and common stock, there were 3 cases in which preferred stock and common stock were treated equally. In the other 10 cases, while preferred stock was treated favorably compared to common stock, strict liquidation preference seldom held. For example, in the Kaiser case preferred stock holders received new common stock of the emerged company but common holders received no distribution. At the time of its filing, Kaiser had two issues of preferred outstanding. The Series A had a redemption value of $13 per share while the Series B had a redemption value of $17 per share. These issues were treated differently in the plan with the Series A receiving .035 shares of new common per preferred share while the Series B received .045 new common per preferred share.

The resolution of bankruptcy indicates that equity holders in over 75% of our sample receive some distribution in violation of absolute priority. This high percentage supports Eberhart, Moore, and Roenfeldt's (1990) hypothesis that equity holders are paid for forfeiting their delay option.

We had only 5 cases of warrants and stock options in our sample. In 4 of these cases, the warrants and stock options were cancelled.

4.2 Examination of Distribution to Securities

In this section, we report the violation of the absolute priority rule among securities of the debtor-in-possession: secured bonds, senior subordinated debentures, debentures, notes, subordinated debentures, subordinated notes, convertible subordinated debentures, preferred stock, and common stock.

4.2.1 Measuring the deviation from absolute priority

To quantify the deviation of securities from the absolute priority, we employed the following measure, the index of deviation, suggested by Franks and Torous (1989):

$$\text{index of deviation} = (S_i - W_i)/U$$

where S_i is the distributed value for the i-th security; W_i is the value for the i-th security under the absolute priority rule (which is the smaller of the claim amount of the i-th security and the value available for the i-th creditors after distribution to more senior creditors by the absolute priority rule), and; U is the total value distributed to security holders in Chapter 11 reorganization.

The index of deviation allows us to document the existence of the deviation from the absolute priority rule among distributions to securities and determine which types of securities bear the cost of deviation and which types realize additional value.[6] A positive value for the index of deviation means that the security holders received more than they would have obtained under the absolute

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[6] Only the deviation among security holders are considered here, therefore general claims such as trade claims are excluded.

priority rule; a negative value means that they received less.

The index of deviation is constructed to permit a comparison across firms. For a firm, this is done by squaring and summing up all the deviations of securities and then dividing by two. Since the index of deviation has a range between -1 and 1, and the sum of all deviations in a firm equals zero, the index calculated as above will have a value between 0 and 1. The larger the value of a firm's index of deviation, the relatively larger the deviation from absolute priority among the treatment of securities in the firm's reorganization.

4.2.2 <u>Violation of absolute priority among securities</u>

Table 4 shows the claim amount of old securities and the market value of what was received in exchange for the old securities. By "old securities" we mean the securities of the bankrupt firm which were outstanding at the time of filing. The figure below the line in the table is the amount of the claim stated in the disclosure statement, and the figure above the line is the market value of what was received. The figure at the right is the total value of what was received in exchange for the old securities.

PLACE TABLE 4 HERE

Table 4 shows that the absolute priority rule is violated among securities holders of the debtor-in-possession. If the absolute priority rule holds, unsecured creditors - holders of senior subordinated debentures, debentures, notes, subordinated debentures, subordinated notes, and convertible subordinated debentures - should receive as much as possible based on their seniority before equity holders receive any distribution. However, the table shows that 12 cases violate this rule: equity holders receive a distribution before unsecured creditors receive 100% of their claim.

Table 5 shows the deviation of securities from absolute priority. The values in this table show which type of securities bears the cost of deviation and which type benefits from the deviation. Negative values indicate that although these creditors did not receive full payment, junior creditors received some of their claim. Holders of one out of 2 secured bonds, all senior subordinated debenture, debentures, notes, 5 out of 8 subordinated debentures, and subordinated notes bear the cost of the deviation: before they received the full payment, the junior creditors received a distribution. On the other hand, holders of 3 subordinated debentures, 3 out of 7 convertible subordinated debentures, and 12 out of 26 equity holders received more than the distribution that would result under the absolute priority rule. Buttes Gas & Oil and Pettibone each have an index of deviation greater than 0.3. In the Buttes Gas & Oil case, holders of old senior subordinated debentures lost a large portion of their claims, and holders of old subordinated debentures received extra. In the Pettibone case, holders of old subordinated debentures received much less than what they would have obtained under the absolute priority rule, and old common stock holders received much more than the distribution that would result under absolute priority.

PLACE TABLE 5 HERE

4.2.3 <u>Treatment of debt securities holders</u>

Table 6 shows the type and the value of what was received in exchange for the old debt securities. When a firm had more than one debt security outstanding with the same seniority and they are treated equally in the plan of reorganization, we treat it as one group. Figures in brackets show the return (in cents) per dollar of claim amount of old bonds and notes.

Regarding all debt securities, the old debt securities holders most often received new common stock of the reorganized firm in exchange for the old debt securities. The second most frequent distribution was cash. In four cases, the old bond/debenture holders received new debt securities.

The second column of Table 7 presents the summary statistics of the return (in cents) per dollar of claim amount of all debt securities (including secured bonds) in Table 6. On average, the holders of debt securities received 26.2% of the claim amount. Table 7 also presents summary statistics of return (in cents) per dollar of claim amount for each kind of debt security in Table 6. On the average, the holders of secured bonds, senior subordinated debentures, subordinated debentures, and convertible subordinated debentures received 80.3%, 19.7%, 17.2%, and 8.8% of the claim amount, respectively.

PLACE TABLE 7 HERE

Below we briefly discuss the treatment of the various debt claimholders.

(1) Treatment of the secured bondholders. In the Allis-Chalmers case, old secured bond holders received the full claim amount in cash. In the Beker Industries case, however, old secured subordinated debenture holders received new preferred stock and new common stock of the reorganized firm. Since these secured subordinated debenture holders have the lowest priority among the secured claimholders in the plan of reorganization, they received equity.

(2) Treatment of the debentures and notes. There are 5 old senior subordinated debentures among our sample. In 3 cases, creditors of senior subordinated debentures received new common stock of the emerged/subsidiary firm. In the BASIX Corp. case, they obtained new preferred stock. In the Global Marine case, they received new common stock and new warrants. There are only old debenture and old notes in the Manville bankruptcy. All holders were treated equally and received a combination of cash, new notes, new debentures, new common stock, and new warrants. In 5 cases out of 8, old subordinated debenture holders received new common stock of the emerged/subsidiary firms. In the Coleco case, they received cash and new common stock. In the McLean Industries, Inc. reorganization, holders of subordinated debentures and subordinated notes were treated equally and received new preferred and new

common stock. In the Pettibone case, subordinated debenture holders received new notes and new common stock. There are 7 old convertible subordinated debentures. In 2 cases, old convertible subordinated debenture holders received new common stock. In the Coleco case, they received cash, new common stock, and warrants to buy Hasbro common stock. (Hasbro acquired essentially all of Coleco's assets which were associated with the operation of its toy and game businesses.) In the Global Marine case, new common stock and new warrants were distributed. In the Pettibone case, they received new notes and new common stock. In the Po Folks case, they received cash and new notes. In the Worlds of Wonder case, they received cash and new preferred stock.

Table 8 summarizes the return (in cents) per dollar of claim amount of all unsecured debentures and notes. On average, the unsecured debenture holders received 21.5% of the claim amount.

PLACE TABLE 8 HERE

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(3) Treatment of debentures and notes of different seniority within a firm. When a firm had more than one kind of old debentures and notes of different seniority, we can compare their treatment using the information in Table 3. As figures in brackets are return (in cents) per every dollar of claim amount, we can find the recovery ratio of each debt security. In 4 cases, the debtor-in-possession had both senior subordinated debentures and junior debentures outstanding. In 3 cases out of 4, senior subordinated debenture

holders received more than junior debenture holders and maintained their seniority to the junior debenture holders. In the Global Marine case, holders of senior subordinated debentures received the same amount as holders of convertible subordinated debentures.

Table 8 gives summary statistics of return (in cents) per dollar of claim amount for senior debentures and junior debentures when a firm had issued both types of debentures. There are 4 firms that had issued both senior subordinated debentures and junior subordinated debentures. When a firm had issued both senior debentures and junior debentures, on average, senior subordinated debenture holders received 21.8% of their claims, and junior subordinated debenture holders received 18.5% of their claims.

(4) <u>Treatment of debentures and notes of the same seniority when issued by the same firm</u>. In 4 cases, the debtor-in-possession had issued two kinds of old debentures, notes, subordinated debentures, or convertible subordinated debentures with the same seniority. In all cases, the holders are treated equally. This treatment is in accordance with the seniority rule.

Table 8 summarizes the return (in cents) per dollar of claim amount statistics for subordinated debentures and convertible subordinated debentures when one firm had issued both debentures. There are 2 firms that had issued both subordinated debentures and convertible subordinated debentures. The holders of subordinated debentures and convertible subordinated debentures were treated equally, receiving, on the average, 13.4% of their claims.

As we described in this section, the absolute priority rule among debt securities is violated. The junior creditors often received something before the senior creditors obtain 100% of their claims. When a firm had more than one kind of old debentures or notes with different seniorities, all debenture holders are sometimes treated equally. However, in most cases, the senior holders received more than the junior creditors. In comparing the recovery ratio of each bond, the senior creditors tend to receive a higher percentage of their claims than the junior creditors in the plan of reorganization.

4.2.4 Treatment of equity holders

Table 9 shows the type and the value of what was received in exchange for the old equity. In this case, "old equity" means the preferred stock and common stock which the debtor-in-possession had outstanding at the time of its filing its bankruptcy petition. To calculate the market value of preferred stock and common stock, we used the closing trading price of each stock on the effective date of the confirmed plan of reorganization as reported in Table 1. When the trading price of preferred stock or common stock is not available, we used either the appraisal value contained in the disclosure statement or the equity value from the pro forma balance sheet contained in the disclosure statement. Figures in brackets have two meanings: one is the value (in cents) per share of preferred stock and common stock outstanding at the filing of bankruptcy, and the other is the value (in cents) per dollar of liquidation value of preferred stock. The liquidation value of preferred stock is not always mentioned. These cases are denoted by "N/A" in Table 9. Since there is a difference between per dollar and per share values, the figures in brackets are not comparable to those of bonds in Table 6.

In 13 of 26 cases, debtors-in-possession had old preferred stock. In 7 of these cases, old preferred stock holders received only new common stock of the reorganized firm. In 3 cases, they received only cash. In the Allis Chalmers case, preferred stock holders received cash and new common stock. In the Global Marine case, they received new common stock and new warrants. In the Manville case, they received new preferred stock and new common stock of the reorganized firm. As far as the liquidation value is available, only the preferred stock holders of Pettibone received a distribution equal to the liquidation preference. (It was a small amount.) In other cases, preferred stock holders received much less than the liquidation value.

PLACE TABLE 9 HERE

Table 10 presents summary statistics of value per share of old preferred stock outstanding at the filing for bankruptcy in Table 9. On the average, the old preferred stock holders received $3.411 per share of old preferred stock.

Of the 26 cases, old common stock holders of 6 cases received no distribution. In 16 cases, old common stock holders received new common stock of the reorganized firm. In the All Seasons Resorts case, common stock holders retained their rights and kept their old common stock. However, their ownership was significantly diluted because of the issuance of common stock to general unsecured creditors. In the Global Marine case, old common stock holders received new common stock and new warrants. In the Coleco and McLean Industries cases, old common stock holders obtained cash, but the amount was insignificant.

Table 10 also provides summary statistics of value per share of old common stock outstanding at the filing for bankruptcy in Table 9. Holders of old common stock received, on average, 49.7 cents per share of old common stock.

With respect to the recovery per share, holders of preferred stock received more than holders of common stock in 10 cases. In 3 cases, preferred stock holders were treated equally with common stock holders. (In the Coleco case, each preferred stock was converted to one common stock and treated equally.) With some exceptions, the preferred stock holders tend to receive more than the common stock holders.

PLACE TABLE 10 HERE

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5. SUMMARY

In this study, we investigated the patterns of distribution to creditors and security holders for 26 firms which emerged from Chapter 11 reorganization between September 1, 1988 and April 1, 1990. We present evidence of violation of the absolute priority rule among three broad groups: secured creditors, unsecured creditors and equity holders, and also among various types of debt or equity securities. We also determined the recovery ratio of individual classes and securities.

Violation of the absolute priority rule was found in 22 out of the 26 cases. In 10 of the 22 cases violation between secured creditors and unsecured creditors was observed; in 20 of the 22 cases there was a violation between unsecured creditors and equity holders.

The violation of absolute priority was also commonly observed among the treatment of various types of securities outstanding prior to the Chapter 11 filing. Among unsecured securities, senior debt tended to receive a higher pay-out percentage than junior debt. Within a firm, senior debenture holders tended to be paid 3.3% more than junior debentures on average. The average recovery ratio of the various debt securities was as follows: secured bonds 80.3%; senior subordinated debentures, 19.7%; subordinated (junior), 17.2%; convertible subordinated debentures, 8.8%.

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Table 1
Characteristics of Sample Firms

Firm	Filing Date	Confirmation Date	Effective Date	Ex-change	Assets prior to filing ($mil.)	SIC	Court District	Comment
Allis Chalmers	6/29/87	10/31/88	12/2/88	NYSE	417.08	3559	NY-SD	
All Seasons Resorts	2/19/87	11/21/88	N.A.	OTC	37.08	7033	CA-CD	
American Healthcare	8/7/87	10/6/89	12/29/89	AMEX	518.26	8062	TX-ND	
BASIX Corp.	2/29/88	10/20/89	11/17/89	NYSE	172.61	6711	NY-SD	
Beker Industries	10/21/85	10/7/88	11/2/88	NYSE	142.26	2874	NY-SD	
Bercor	6/23/88	7/27/89	8/31/89	OTC	63.76	5064	CA-CD	
Buttes Gas & Oil	11/15/85	12/20/88	2/16/89	OTC	389.52	1381	NY-SD	
Cardis Corp.	5/25/88	11/17/89	12/15/89	OTC	160.35	5013	CA-CD	
Coleco[a]	7/12/88	2/2/90	N.A.	NYSE	535.56	3944	NY-SD	
DeltaUS	1/31/89	12/15/89	1/12/90	OTC	79.65	1382	TX-ED	
Global Marine	1/27/86	2/3/89	2/28/89	NYSE	1,573.00	1381	TX-SD	
Heck's	3/5/87	5/24/89	9/29/89	OTC	261.88	5311	WV-SD	
Kaiser Steel	2/11/87	9/27/88	11/16/88	OTC	621.46	3312	CO-D	
Manville[b]	8/26/82	10/28/88	11/28/88	NYSE	2,236.10	3296	NY-SD	P/L Asbestos
McLean Industries	11/24/86	5/16/89	7/27/89	NYSE	1,811.75	6719	NY-SD	
Melridge, Inc.	12/14/87	1/31/89	7/27/89	OTC	79.10	0181	OR-D	
Newbery Corp.	6/9/87	12/19/89	1/12/90	OTC	37.42	1731	AZ-D	
Pengo Industries	4/27/88	10/3/89	4/30/90	OTC	29.81	1389	TX-ND	
Pettibone	1/31/86	12/9/88	1/3/89	OTC	155.05	3531	IL-ND	
Po Folks	12/30/87	1/31/89	3/20/89	OTC	50.77	5812	TN-MD	
Radice	2/25/88	4/3/89	6/19/89	NYSE	288.92	1531	FL-SD	
Ramtek	9/29/88	12/1/89	12/18/89	OTC	12.01[c]	3672	CA-ND	
UNR Industries[b]	7/29/82	6/2/89	6/2/89	OTC	232.63	3312	IL-ND	P/L Asbestos
Western Co.	2/2/88	3/27/89	5/12/89	NYSE	542.52	1389	TX-ND	
Worlds of Wonder	12/22/87	5/3/89	5/25/89	OTC	272.99	3942	CA-ND	
Zenith Labs[b]	5/4/88	10/3/89	12/21/89	NYSE	61.87	2834	NJ-D	P/L Environment

[a] Reorganized as Ranger Industries
[b] Filed for protection from product liability-related law suit
[c] According to the 10-K available at the time of filing, assets were $35.86 (6/30/87). 10-K on 6/30/88 became available after 1989.

Table 2
Outcome of Chapter 11 Reorganization

Firm	Result	Secured	Unsecured	Equity	Weiss's Class
Allis Chalmers	Cont. Op.	Cash	Cash,Equity	Cash,Equity	2
All Seasons Resorts	Cont. Op.	Cash	Stock	Retention	2
American Healthcare	Cont. Op.	Cash,Notes,Equity	Cash,Notes,Equity	New Stock	3
BASIX Corp.	Cont. Op.	Cash	Cash,Equity	New Stock	2
Beker Industries	Emerged[a]	Cash,Equity	Cash,Equity	New Stock	3
Bercor	Emerged[a]	Cash	Cash	New Stock	2
Buttes Gas & Oil	Cont. Op.	Cash,Equity	Cash,Equity	New Stock	3
Cardis Corp.	Cont. Op.	Cash,Equity	Cash,Equity	New Stock	3
Coleco	Liquidation,Emerged[a]	Cash	Cash,Equity	Cash	2
DeltaUS[b]	Cont. Op.	Cash	Cash	Cancelled	3
Global Marine	Cont. Op.	Cash,Equity	Cash,Equity	New Stock	2
Heck's	Cont. Op.	Cash,Notes,Equity	Cash,Equity	New Stock	3
Kaiser Steel	Cont. Op.	Cash	Cash,Equity	New Stock	2
Manville	Cont. Op.	Cash	Cash,Notes,Equity	New Stock	1 (2)[c]
McLean Industries	Emerged[a]	Cash	Cash,Equity	Cash,Equity	2
Melridge, Inc.	Cont. Op.	Cash	Cash,Equity	Cancelled	1
Newbery Corp.	Cont. Op.	Cash	Cash,Equity	New Stock	3 (2)[d]
Pengo Industries	Cont. Op.	Cash,Equity	Cash	New Stock	3
Pettibone	Cont. Op.	Cash,Equity	Cash,Equity	Cash,Equity	3
Po Folks	Cont. Op.	Cash	Cash,Notes	Cancelled	1
Radice	Cont. Op.	Cash	Cash,Equity	New Stock	2
Ramtek	Cont. Op.	Cash	Cash,Equity	Cancelled	1
UNR Industries	Cont. Op.	Cash	New Stock	New Stock	2
Western Co.	Cont. Op.	Cash	Cash,Equity	New Stock	2
Worlds of Wonder	Cont. Op.	Cash,Equity	Cash,Equity	Cancelled	3
Zenith Labs	Cont. Op.	Cash,Warrant	Cash,Equity	New Stock	2

(Cont. Op. = Continue Operation)

a Beker Industries emerged as Nu-West, Bercor emerged as Newco, Coleco emerged as Ranger (no business), and Mclean Industries emerged as Lancer Industries (no business).
b Delta US's stock was cancelled and Gordon P. Getty acquired 100% of the newly issued stock of the Debtor.
c Though total liability is not known, estimated amount will be satisfied.
d One class is under litigation to decide whether they are secured or unsecured.

Table 3
Summary of Bankruptcy Resolution(*)

Class	Description	No. of cases	% of total
1	absolute priority holds	4	15.39%
2	absolute priority is violated; priority held only for secured creditors	12	46.15
3	absolute priority is violated, priority did not hold for secured creditors	10	38.46
	Total	26	100.00%

* See Table 2 for the classification of individual companies.

Table 4
Claim Amount of Old Securities
and Market Value of What was Received in Exchange for Old Securities ($million)

Firm	Secured Bond	Sr. Sub. Deb.	Deb.	Notes	Sub. Deb.	Sub. Notes	Cv. Sub. Deb.	Pref. Stock	Common Stock	Total Value
Allis Chalmers	9.3 / 9.3							11.86	0.62	21.78
All Seasons Resorts									4.9	4.9
American Healthcare					31.81 / 93.5				2.17	33.98
BASIX Corp		15.54 / 31.08			8.25 / 18.21			0.06	2.5	26.35
Beker Industries	39.35 / 65							0.33	3.36	43.04
Bercor									2.43	2.43
Buttes Gas & Oil		3.57 / 35.99			4.28 / 72.23			0.38	1.33	9.56
Cardis Corp		2.8 / 25							1.9	4.7
Coleco					48.8 / 216.2		18.27 / 80.96	0.025	0.2	67.3
DeltaUS									0	0
Global Marine		14.03 / 277.9					6.122 / 121.3	2.1	5.45	27.7
Heck's									4.4	4.4
Kaiser Steel								0.02	0	0.02
Manville			74.03 / 75	98.7 / 100				118.5	21.6	312.5
McLean Industries					0.895 / 103.7	0.945 / 109.3		0.01	0.03	1.85
Melridge Inc.							1.27 / 30		0	1.27
Newberry Corp									0.04	0.04
Pengo Industries								0.18	0.11	0.29
Pettibone					0.849 / 20		0.157 / 3.7	0.05	1.2	2.256
Po Folks							1.89 / 16.91		0	1.89
Radice					1.58 / 23.6			0.001	0.609	2.19
Ramtek							1.35 / 11.5		0	1.35
UNR Industries									27.65	27.65
Western Co.		7.55 / 33.7			6.58 / 37.4			3.3	2.39	19.82
Worlds of Wonder							2.802 / 105.6		0	2.802
Zenith Labs									0.25	0.25

* Figures above the line is Market Value, and figures below the line is claim amount.
** Abbreviations : Cv. = Convertible, Deb. = Debenture, Sr. = Senior
Sub. = Subordinated, Pref. = Preferred

Table 5
Index of Deviations of Securities from Absolute Priority

Firm	Secured Bond	Sr. Sub. Deb.	Deb.	Notes	Sub. Deb.	Sub. Notes	Cv. Sub. Deb.	Pref./ Common Stock	Index of Deviation
Allis Chalmers	0							0	0
All Seasons Resorts								0	0
American Healthcare					-0.06			0.06	0.004
BASIX Corp		-0.41			0.313			0.097	0.138
Beker Industries	-0.09							0.086	0.007
Bercor								0	0
Buttes Gas & Oil		-0.627			0.448			0.179	0.313
Cardis Corp		-0.404						0.404	0.163
Coleco					-0.275		0.271	0.003	0.075
DeltaUS								0	0
Global Marine		-0.494					0.221	0.273	0.184
Heck's								0	0
Kaiser Steel								0	0
Manville			-0.003	-0.004				0.379	0.065
McLean Industries					-0.524	0.503		0.021	0.264
Melridge Inc.							0	0	0
Newberry Corp								0	0
Pengo Industries								0	0
Pettibone					-0.624		0.07	0.554	0.351
Po Folks							0	0	0
Radice					-0.279			0.279	0.078
Ramtek							0	0	0
UNR Industries								0	0
Western Co.		-0.619			0.332			0.287	0.288
Worlds of Wonder							0	0	0
Zenith Labs								0	0

* Abbreviations : Cv. = Convertible, Deb. = Debenture, Sr. = Seni. Sub. = Subordinated, Pref. = Preferred

Table 6
Type and Value of What was Received in Exchange for Old Debt Securities ($million)

Firm	Old Bonds/Notes	Cash	New Notes	New Deb.	New Pref. Stock	New Common Stock	New Warrant	Total Value
Allis Chalmers	Secured Bond	9.3 (100.0¢)						9.3 (100.0¢)
All Seasons Resorts	No Old Bonds							
American Healthcare	Sub. Deb.		16.5 (17.6¢)			15.305 (16.4¢)		31.805 (34.0¢)
BASIX Corp	Sr.Sub.Deb.				15.54 (50.0¢)			15.54 (50.0¢)
	Jun.Sub.Deb.					8.25 (45.3¢)		8.25 (45.3¢)
Beker Industries	SecuredSub.Deb.				29 (44.6¢)	10.35 (15.9¢)		39.35 (60.5¢)
Bercor	No Old Bonds							
Buttes Gas & Oil	Sr.Sub.Deb.					3.57 (9.9¢)		3.57 (9.9¢)
	Sub. Deb.					4.28 (5.9¢)		4.28 (5.9¢)
Cardis Corp	Sr.Sub.Deb.					2.8 (11.2¢)		2.8 (11.2¢)
Coleco	Sub.Debenture	43.53 (20.1¢)				2.93 (1.4¢)	2.34 (1.1¢)	48.8 (22.6¢)
	Cv.Sub.Deb.	16.3 (20.1¢)				1.1 (1.4¢)	0.87 (1.1¢)	18.27 (22.6¢)
DeltaUS	No Old Bonds							
Global Marine	Sr.Sub.Deb.					12.4 (4.5¢)	1.63 (0.5¢)	14.03 (5.0¢)
	Cv.Sub.Deb.					5.41 (4.5¢)	0.712 (0.5¢)	6.122 (5.0¢)
Heck's	No Old Bonds							
Kaiser Steel	No Old Bonds							
Manville	Debenture	26.73 (35.6¢)	24.36 (32.5¢)	12.29 (16.4¢)		8.88 (11.8¢)	1.77 (2.4¢)	74.03 (98.7¢)
	Notes	35.63 (35.6¢)	32.47 (32.5¢)	16.39 (16.4¢)		11.84 (11.8¢)	2.37 (2.4¢)	98.7 (98.7¢)
McLean Industries	Sub.Debenture				0.895 (0.9¢)			0.895 (0.9¢)
	Sub. Notes				0.945 (0.9¢)			0.945 (0.9¢)
Melridge Inc.	Cv.Sub.Deb.					1.27 (4.2¢)		1.27 (4.2¢)
Newberry Corp	No Old Bonds							
Pengo Industries	No Old Bonds							
Pettibone	Sub.Debenture		0.326 (1.6¢)			0.523 (2.6¢)		0.849 (4.2¢)
	Cv.Sub.Deb.		0.06 (1.6¢)			0.097 (2.6¢)		0.157 (4.2¢)
Po Folks	Cv.Sub.Deb.	0.39 (2.3¢)	1.5 (8.9¢)					1.89 (11.2¢)
Radice	Sub.Debenture					1.58 (6.7¢)		1.58 (6.7¢)
Ramtek	Cv.Sub.Deb.					1.35 (11.7¢)		1.35 (11.7¢)
UNR Industries	No Old Bonds							
Western Co.	Sr.Sub.Deb.					7.55 (22.4¢)		7.55 (22.4¢)
	Sub.Debenture					6.58 (17.6¢)		6.58 (17.6¢)
Worlds of Wonder	Cv.Sub.Deb.	2.155 (2.0¢)			0.647 (0.6¢)			2.802 (2.6¢)
Zenith Labs	No Old Bonds							

* Figures in brackets are return(¢) per every US$ of claim amount of old bonds and notes
** Abbreviations : Cv. = Convertible, Deb. = Debenture, Sr. = Senior
Sub. = Subordinated, Pref. = Preferred

Table 7
Summary Statistics for Debt Securities

	All Debt Securities	Sr. Bond	Sr. Sub.Deb.	Deb.	Notes	Sub. Deb.	Sub. Notes	Cv. Sub.Deb.
Mean	26.23¢	80.3¢	19.7¢	98.7¢	98.7¢	17.2¢	0.9¢	8.8¢
Median	11.2	80.3	11.2	---	---	12.2	---	5.0
Minimum	0.9	60.5	5.0	---	---	0.9	---	2.6
Maximum	100.0	100.0	50.0	---	---	45.3	---	22.6
Sample size	25	5	5	1	1	8	1	7

Table 8
Summary Statistics for Unsecured Debentures

	Unsecured Debentures	Senior Sub.Deb.	Junior Sub.Deb.	Sub.Deb.	Convertible Sub.Deb.
Mean	21.5¢	21.8	18.5¢	13.4	13.4¢
Median	11.2	16.2	11.8	13.4	13.4
Minimum	0.9	5.0	5.0	4.2	4.2
Maximum	98.7	50.0	45.3	22.6	22.6
Sample size	23	4	4	2	2

Table 10
Summary Statistics for Equity Securities

	Preferred Stock	Common Stock
Mean	341.1	49.7
Median	47.5	7.8
Minimum	0.1	0.0
Maximum	2,558.7	747.3
Sample size	13	26

Table 9
Type and Value of What was Received in Exchange for Old Equity ($million)

Firm	Old Stock	Cash	New Notes	New Deb.	New Pref. Stock	New Common Stock	New Warrant	Total Value
Allis Chalmers	Pref. Stock	10.91				0.95		11.86
	(per share)*	(138.5¢)				(12.1¢)		(150.6¢)
	(per US$)**	(3.1¢)				(0.3¢)		(3.4¢)
	Common Stock					0.62		0.62
	(per share)*					(4.3¢)		(4.3¢)
All Seasons Resorts	Common Stock					4.9(old)		4.9(old)
	(per share)					(125.0¢)		(125.0¢)
American Healthcare	Common Stock					2.17		2.17
	(per share)					(17.9¢)		(17.9¢)
BASIX Corp	Pref. Stock					0.06		0.06
	(per share)					(27.3¢)		(27.3¢)
	(per US$)					N/A		N/A
	Common Stock					2.5		2.5
	(per share)					(25.7¢)		(25.7¢)
Beker Industries	Pref. Stock					0.33		0.33
	(per share)					(28.7¢)		(28.7¢)
	(per US$)					N/A		N/A
	Common Stock					3.36		3.36
	(per share)					(28.7¢)		(28.7¢)
Bercor	Common Stock					2.43		2.43
	(per share)					(56.5¢)		(56.5¢)
Buttes Gas & Oil	Pref. Stock					0.38		0.38
	(per share)					(47.5¢)		(47.5¢)
	(per US$)					(3.2¢)		(3.2¢)
	Common Stock					1.33		1.33
	(per share)					(32.4¢)		(32.4¢)
Cardis Corp	Common Stock					1.9		1.9
	(per share)					(32.8¢)		(32.8¢)
Coleco	Pref. Stock	0.025						0.025
	(per share)	(112.5¢)						(112.5¢)
	(per US$)	N/A						N/A
	Common Stock	0.2						0.2
	(per share)	(1.1¢)						(1.1¢)
DeltaUS	Common Stock	No Distribution						0
	(per share)							
Global Marine	Pref. Stock					1.65	0.45	2.1
	(per share)					(35.9¢)	(9.8¢)	(45.7¢)
	(per US$)					(29.5¢)	(8.0¢)	(37.5¢)
	Common Stock					4.28	1.17	5.45
	(per share)					(12.9¢)	(3.5¢)	(16.4¢)
Heck's	Common Stock					4.4		4.4
	(per share)					(49.4¢)		(49.4¢)
Kaiser Steel	Pref. Stock					0.02		0.02
	(per share)					(0.1¢)		(0.1¢)
	(per US$)					(0.01¢)		(0.01¢)
	Common Stock	No Distribution						0
	(per share)							

* value(¢) per share of preferred and common stock outstanding at bankruptcy
** Value(¢) per every US$ of liquidation value of preferred stock
*** Figures in brackets are not comparable to those of in Table 5-9
****Abbreviations : Cv. = Convertible, Deb. = Debenture, Sr. = Senior
Sub. = Subordinated, Pref. = Preferred

Table 9
(continued)

Manville	Pref. Stock		43.5	74.97	118.47
	(per share)		(939.5¢)	(1,619.2¢)	(2,553.7¢)
	(per US$)		(14.5¢)	(24.9¢)	(39.4¢)
	Common Stock			21.6	21.6
	(per share)			(90.0¢)	(90.0¢)
McLean Industries	Pref. Stock	0.01			0.01
	(per share)	(2.9¢)			(2.9¢)
	(per US$)	N/A			N/A
	Common Stock	0.03			0.03
	(per share)	(0.2¢)			(0.2¢)
Melridge Inc.	Common Stock	No Distribution			0
	(per share)				
Newberry Corp	Common Stock			0.04	0.04
	(per share)			(2.4¢)	(2.4¢)
Pengo Industries	Pref. stock			0.18	0.18
	(per share)			(120.0¢)	(120.0¢)
	(per US$)			(1.0¢)	(1.0¢)
	Common Stock			0.11	0.11
	(per share)			(2.2¢)	(2.2¢)
Pettibone	Pref. Stock	0.05			0.05
	(per share)	(1,000.0¢)			(1,000.0¢)
	(per US$)	(100.0¢)			(100.0¢)
	Common Stock			1.2	1.2
	(per share)			(43.1¢)	(43.1¢)
Po Folks	Common Stock	No Distribution			0
	(per share)				
Radice	Pref. Stock			0.001	0.001
	(per share)			(10.5¢)	(10.5¢)
	(per US$)			N/A	N/A
	Common Stock			0.609	0.609
	(per share)			(10.5¢)	(10.5¢)
Ramtek	Common Stock	No Distribution			0
	(per share)				
UNR Industries	Common stock			27.65	27.65
	(per share)			(747.3¢)	(747.3¢)
Western Co.	Pref. Stock			3.3	3.3
	(per share)			(330.0¢)	(330.0¢)
	(per US$)			(6.6¢)	(6.6¢)
	Common Stock			2.39	2.39
	(per share)			(5.1¢)	(5.1¢)
Worlds of Wonder	Common Stock	No Distribution			0
	(per share)				
Zenith Labs	Common stock			0.25	0.25
	(per share)			(1.2¢)	(1.2¢)

APPENDIX: CASELETS

Allis Chalmers

Business: Various businesses including air filter products, lift trucks, agricultural machinery, and material handling.
Filing Date: 6/29/87
Confirmation Date: 10/31/88
Court: New York, Southern District
Time in Bankruptcy: 16 months
Assets Prior to Filing: $417 million

Reason for Filing: Allis Chalmers' financial parameters began to deteriorate in the early 1980's as a result of severe price discounting, a sluggish economy, and heightened competition. In the mid-1980's Allis Chalmers restructured it operations by selling major assets including the major components of its agricultural business and its industrial lift truck business. These sales were insufficient to return Allis Chalmers to profitability. The company next completed two financial restructurings. By 1987, another restructuring was necessary to preserve the firm. As no agreement could be reached, Allis Chalmers filed a bankruptcy petition.

Resolution: Firm reorganized around a smaller base of businesses. Violation of absolute priority. Secured claims were unimpaired. However, equity holders received a distribution while unsecured creditors were impaired.

All Seasons Resorts

Business: Ownership and operation of private resort camps.
Filing Date: 2/19/87
Confirmation Date: 11/21/88
Court: California, Central District
Time in Bankruptcy: 21 months
Assets Prior to Filing: $37.1 million.

Reason for Filing: All Seasons Resorts' (ASR) financial decline was directly related to the debt it assumed in 1985 and 1986 to finance expansion. By late 1986, ASR had insufficient cash to both service its debt and operate its business. By the time of the filing, ASR's creditors were faced with repossession of numerous assets required for it to operate.

Resolution: Firm reorganized. Violation of absolute priority. Secured claims were unimpaired. However, old equity holders will retain their shares (but face potential dilution of up to 60%).

American Healthcare Management, Inc.

Business: Acquisition, ownership, leasing, and operation of

hospitals.
Filing Date: 8/7/87
Confirmation Date: 10/6/89
Court: Texas, Northern District
Time in Bankruptcy: 26 months
Assets Prior to Filing: $518.3 million

Reason for Filing: American Healthcare Management's (AHM) bankruptcy was attributable to overexpansion during 1982 through 1985 coupled with government imposed price regulations. While overexpansion and regulation weakened American Healthcare, its bankruptcy was precipitated by the termination of a major lease coupled with a cash crisis brought about by AHM's bankers' freezing its credit facility.

Resolution: Firm reorganized around a smaller number of facilities. Violation of absolute priority. Secured creditors were somewhat impaired (including a pay-in-kind provisions included on their new notes), unsecured creditors were impaired, and old equity holders retained approximately 6.5% of the equity of Reorganized AHM on a fully diluted basis.

BASIX Corp.

Business: Various businesses including financial printing (Packard Press), computer leasing, and exploration and production of oil and gas.
Filing Date: 2/29/88
Confirmation Date: 10/20/89
Court: New York, Southern District
Time in Bankruptcy: 21 months
Assets Prior to Bankruptcy: $172.6 million

Reason for Filing: During the ten years ended 1985, BASIX expanded rapidly. Much of this growth was funded with debt. BASIX believed it could service its debt with continued growth. However, BASIX' financial parameters began to decline in 1985 because of four reasons. First, the price of oil declined sharply. This dramatic decline negatively affected profitability in the energy group. Losses were generated and the carrying value of the oil and gas assets were written down by $21.6 million in 1986. The second event negatively affecting BASIX during this time was the Tax Reform Act of 1986. The Tax Reform Act reduced municipal financing which had been a significant source of financing for the financial printing group. Another provision of the Act eliminated investment tax credits, a major source of equity funding for CRA, a computer leasing subsidiary. A third negative for BASIX were the cutbacks in federal funding for highways. These cutbacks had direct negative affects on the transportation group. A final negative development was the collapse of the power transmission group due to bonding difficulties and the resultant loss in contracts. Together these factors generated operating losses and BASIX'

Time in Bankruptcy: 19 months
Assets Prior to Filing: $160.4 million

Reason for Filing: The financial parameters of Cardis deteriorated during the fiscal year ended April 1988. The deterioration was the result of losses from operations because of excessive costs, high debt service, and concomitant liquidity problems. In turn, the liquidity problems resulted in inventory shortages which caused the order fill rate to decline to the low 80% range.

Resolution: Firm reorganized around the most profitable of its warehouses and retail stores. The remaining warehouses and retail stores are to be sold. In addition, Cardis sold Tuneup Masters with the proceeds used to repay debt. Absolute priority violated. Secured creditors were impaired while unsecured creditors and equity holders received distributions.

Coleco Industries, Inc.

Business: The design, manufacture, and distribution of toys, games, and other entertainment products. Prior to 1986, Coleco also produced and marketed a home computer system called "Adam". At the time of the bankruptcy filing, Coleco was the sixth largest domestic toy manufacturer.
Filing Date: 7/12/88
Confirmation: 2/2/90
Court: New York, Southern District
Time in Bankruptcy: 15 months (to Confirmation)
Assets Prior to Filing: $536.6 million

Reason for Filing: Coleco's financial deterioration was the result of the company the decline in sales of its major product, the Cabbage Patch Doll, as well as a high level of debt service resulting from Coleco's acquisitions of the North American distribution rights of Tomy Kogyo of Japan and Selchow & Righter Co. As result of its debt service and losses, Coleco had inadequate working capital to continue operations. Efforts to refinance were unsuccessful.

Resolution: Coleco sold substantially all of its non-cash assets which were associated with its toy and game business, including the name Coleco, to Hasbro, a major toy company. At the time of the sale to Hasbro, Coleco changed its name to Ranger Industries. Ranger distributed essentially all of the remaining assets to creditors and shareholders. Ranger continued in business with the rights to significant operating losses. Violation of absolute priority. Although secured creditors were paid in full, unsecured creditors were impaired while equity holders received a distribution.

Reason for Filing: Bercor's financial decline was the result of its aggressive expansion after it went public in 1985. The convergence of several negative trends in 1988 led to Bercor's bankruptcy filing. The negative trends included a weal toy market and problems in controlling SG&A expenses. These problems translated into reduced operating funds and reduced funding from banks and credit from suppliers.

Resolution: Bercor's distribution business will be sold to Tash, Inc. Its Craig Division was sold to a newly formed company (Newco). Other assets were liquidated. Violation of absolute priority. Secured claims were unimpaired. However, equity holders received a distribution while unsecured creditors were impaired.

Buttes Oil & Gas Company

Business: The exploration and development of domestic and foreign petroleum reserves. In addition, Buttes provided contract drilling services and was engaged in mineral exploration and certain agricultural operations.
Filing Date: 11/15/85
Confirmation: 12/20/88
Court: New York, Southern District
Time in Bankruptcy: 39 months
Assets Prior to Filing: $389.2 million

Reason for Filing: The financial parameters of Buttes Oil & Gas deteriorated as the result of the decline in oil and gas prices beginning in 1982. The deterioration was exacerbated by Buttes' high debt service requirements. Efforts at restructuring outside of bankruptcy were unsuccessful in part due to one unsecured creditor refusing to agree to refrain from enforcing an attachment lien on the stock of a Buttes wholly owned subsidiary. If such a lien had been perfected, the creditor would have been able to take control of the subsidiary and have received preferred status over other unsecured creditors.

Resolution: Firm reorganized around existing businesses. Violation of absolute priority. Secured creditors were impaired while unsecured and equity holders received a distribution.

Cardis Corporation

Business: The largest warehouse and retail distributor for Southern California of automobile parts in the domestic automotive aftermarket. Cardis also operated Tuneup Masters, Inc., which owned and operated 243 company owned automotive service centers.
Filing Date: 5/25/88
Confirmation: 11/17/89
Court: California, Central District

Time in Bankruptcy: 19 months
Assets Prior to Filing: $160.4 million

Reason for Filing: The financial parameters of Cardis deteriorated during the fiscal year ended April 1988. The deterioration was the result of losses from operations because of excessive costs, high debt service, and concomitant liquidity problems. In turn, the liquidity problems resulted in inventory shortages which caused the order fill rate to decline to the low 80% range.

Resolution: Firm reorganized around the most profitable of its warehouses and retail stores. The remaining warehouses and retail stores are to be sold. In addition, Cardis sold Tuneup Masters with the proceeds used to repay debt. Absolute priority violated. Secured creditors were impaired while unsecured creditors and equity holders received distributions.

Coleco Industries, Inc.

Business: The design, manufacture, and distribution of toys, games, and other entertainment products. Prior to 1986, Coleco also produced and marketed a home computer system called "Adam". At the time of the bankruptcy filing, Coleco was the sixth largest domestic toy manufacturer.
Filing Date: 7/12/88
Confirmation: 2/2/90
Court: New York, Southern District
Time in Bankruptcy: 15 months (to Confirmation)
Assets Prior to Filing: $536.6 million

Reason for Filing: Coleco's financial deterioration was the result of the company the decline in sales of its major product, the Cabbage Patch Doll, as well as a high level of debt service resulting from Coleco's acquisitions of the North American distribution rights of Tomy Kogyo of Japan and Selchow & Righter Co. As result of its debt service and losses, Coleco had inadequate working capital to continue operations. Efforts to refinance were unsuccessful.

Resolution: Coleco sold substantially all of its non-cash assets which were associated with its toy and game business, including the name Coleco, to Hasbro, a major toy company. At the time of the sale to Hasbro, Coleco changed its name to Ranger Industries. Ranger distributed essentially all of the remaining assets to creditors and shareholders. Ranger continued in business with the rights to significant operating losses. Violation of absolute priority. Although secured creditors were paid in full, unsecured creditors were impaired while equity holders received a distribution.

DeltaUS Corporation
Business: Contract drilling of onshore oil and gas wells.
Filing Date: 1/31/89
Confirmation: 12/15/89
Court: Texas, Eastern District
Time in Bankruptcy: 12 months
Assets Prior to Filing: $79.7 million

Reason for Filing: The financial decline of DeltaUS was the result of declining oil prices and the concomitant decline in its rig utilization to a level which generated a profit.

Resolution: The firm was reorganized around the business. The plan was funded with a capital contribution from PAJW Corporation and the sale of assets. Violation of absolute priority. Although the equity holders received no distribution, unsecured creditors received a distribution while the secured creditors were impaired.

Global Marine, Inc.

Business: Primarily engaged in offshore oil and gas drilling. To a lesser extent, also engaged in oil and gas exploration and development and production on shore.
Filing Date: 1/27/86
Confirmation: 2/3/89
Court: Texas, Southern District
Time in Bankruptcy: 37 months
Assets Prior to Bankruptcy: $1,573.0 million

Reason for Filing: Global Marine's financial deterioration was the direct result of aggressive, debt financed expansion which was followed by a significant decline in the price of oil and rig utilization rates.

Resolution: Continuation of the business. Violation of absolute priority. Secured creditors will be paid in full. However, unsecured creditors are impaired while equity interests receive a distribution.

Heck's, Inc.
Business: Operator of 120 discount department stores and one wholesale distribution center in a seven state region.
Filing Date: 3/5/87
Confirmation: 5/24/89
Court: West Virginia, Southern District
Time in Bankruptcy: 30 months
Assets Prior to Bankruptcy: $261.9 million

Reason for Filing: After many years of uninterrupted growth, Heck's experienced its first operating loss in 1984. In an effort to stem its losses, Heck's reduced its inventories. Heck's was unable to restore its profitability because its lines of bank and vendor credit tightened. Losses escalated to the point where a restructuring was required to preserve the franchise.

Resolution: Reorganized around a smaller base of business. Violation of absolute priority. Although some of the adequately secured creditors were unimpaired, other secured creditors received promissory notes in a principal amount equal to the value of their collateral. In addition, equity holders received a distribution while unsecured creditors were impaired.

Kaiser Steel Corporation

Business: Mining of steam and metallurgical coal from operations in Utah and New Mexico. Heavy steel fabrication and erection activities. Operation of a launch barge for transporting and launching deep-water, offshore platform jackets.
Filing Date: 2/11/87
Confirmation: 9/27/88
Court: Colorado
Time in Bankruptcy: 21 months
Assets Prior to Bankruptcy: $621.5 million

Reason for Filing: Prior to 1984, the stock of Kaiser Steel was publicly owned and traded. Beginning in 1984, there were significant structural and ownership changes. Over the next three years, major assets were sold to fund the changes.

Resolution: Reorganization around the continuation of Kaiser Fontana Properties and the liquidation of all other assets. Violation of absolute priority. Secured creditors generally receive the collateral securing their claims. However, equity interests receive a distribution while unsecured creditors are impaired.

Manville Corporation

Business: Manville operates in three segments: 1) The production of insulation fiber and continuous strand fiber filament. 2) The forest products segment which consists of timber plantations, lumber and plywood production, and paper and packaging products. 3) The Specialty Products Group manufactures and sells a variety of industrial products.
Filing Date: 8/26/82
Confirmation: 10/28/88
Court: New York, Southern District
Time in Bankruptcy: 75 months
Assets Prior to Bankruptcy: $2,236.1 million

Reason for Filing: Manville Corporation was profitable at the time of its bankruptcy petition. However, litigation relating to asbestos was escalating and threatened to dissipate the core of the Manville's business.

Resolution: Manville was restructured around its existing businesses. Pursuant to the restructuring, two trusts were established to satisfy the health claims and the property claims. The restructuring also contains an injunction barring the assertion of any future asbestos related claims against Manville Corporation. Absolute priority held. Absolute priority held. If it is assumed that the asbestos liabilities were correctly estimated, secured as well as unsecured creditors were satisfied in full before equity interests received any distribution.

McLean Industries, Inc.

Business: Prior to its bankruptcy filing, McLean was one of the largest containerized cargo shipping companies in the world. Continuing operations consist primarily of real estate development.
Filing Date: 11/24/86
Confirmation: 5/16/89
Court: New York, Southern District
Time in Bankruptcy: 31 months
Assets Prior to Bankruptcy: $1,811.8 million

Reason for Filing: McLean Industries' financial deterioration was the result of cash flow problems in the shipping subsidiaries and the risk of foreclosure against pledged stock and other collateral.

Resolution: McLean Industries emerged as Lancer Industries. It appears as though Lancer retained the Net Operating Loss benefits of McLean.

Melridge, Inc.

Business: Horticultural business including hybridization, the production and marketing of fresh cut flowers and bulbs, the distribution of fresh cut flowers, and the wholesale distribution of supplies and equipment to the ornamental horticulture industry.
Filing Date: 12/14/87
Confirmation: 1/31/89
Court: Oregon
Time in Bankruptcy: 20 months
Assets Prior to Bankruptcy: $79.1 million

Reason for Filing: For years, Melridge apparently had generated growth in revenues and earnings. However, an investigation uncovered fraud and deliberately falsified financial statements. Under new management, the company filed for bankruptcy because of concerns that financing would be curtailed.

Resolution: Essentially all of Melridge's assets were sold to Global Floral Holding Company. Pursuant to the acquisition, Global Floral assumed Melridge's secured debt. Unsecured creditors received a partial recovery while equity interests received no distribution. Absolute priority held.

Newbery Corporation

Business: Electrical and mechanical contracting. The majority of business was derived from the mining industry.
Filing Date: 6/9/87
Confirmation: 12/19/89
Court: Arizona
Time in Bankruptcy: 31 months
Assets Prior to Bankruptcy: $37.4 million

Reason for Bankruptcy: Newbery's financial deterioration was directly related to the company's debt financed unsuccessful diversification into oil and gas leasing as well as a general decline in the mining industry.

Resolution: Newbery liquidated its non-core subsidiaries and reorganized around its core contracting business. Under the plan, the secured creditors were impaired under a settlement agreement. Unsecured creditors and holders of interests received distributions. Violation of absolute priority.

Pengo Industries, Inc.

Business: The provision of a variety of ancillary products and services to heavy industries including oil and gas exploration, construction, and utilities. Products include special explosives, augers, and pipe inspection equipment.
Filing Date: 4/27/88
Confirmation: 10/3/89
Court: Texas, Northern District
Time in Bankruptcy: 24 months
Assets Prior to Bankruptcy: $29.8 million

Reason for Filing: Pengo's financial deterioration was the direct result of debt-financed expansion into the oil and gas well service industries in the late 1970's and early 1980's. The decline in oil prices led to losses and an inability to meet debt service charges.

Resolution: Pengo restructured around its existing operations. The funding for the reorganization was largely provided by Rundall Enterprises and Cardinal Holdings. In return for this funding, Rundall and Cardinal received 46% of the common stock of Pengo. Absolute priority violated. Secured claims received less than full recovery while both unsecured claimants and holders of equity interests received a distribution.

Pettibone Corporation

Business: The production of vehicles in the handling of bulk materials. The manufacture of automated foundry equipment. The manufacture and marketing of track components and track replacement materials.
Filing Date: 1/31/86
Confirmation: 12/9/88
Court: Illinois, Northern District
Time in Bankruptcy: 36 months
Assets Prior to Bankruptcy: $155.1 million

Reason for Filing: Pettibone's bankruptcy was the result of debt-financed expansion coupled with a recession in several of the industries which Pettibone served.

Resolution: Pettibone reorganized around its existing businesses. Violation of absolute priority. The large secured lenders were impaired while unsecured and holders of equity interests received a distribution.

Po Folks, Inc.

Business: The operation and franchising of a chain of family style restaurants.
Filing Date: 12/30/87
Confirmation: 1/31/89
Court: Tennessee, Middle District
Time in Bankruptcy: 15 months
Assets Prior to Bankruptcy: $50.8 million

Reason for Filing: Po Folk's financial deterioration was the result of an unsuccessful expansion. Po Folk's expansion failed because of the confluence of three negatives: a) a thin capitalization; b) a very competitive environment; and c) the launching of an unsuccessful breakfast program. Although Po Folks sold assets to remedy its financial situation, the sale did not provide sufficient liquidity.

Resolution: Po Folks reorganized around its existing businesses. Absolute priority held. Secured creditors were unimpaired. Unsecured secured creditors received a partial recovery while the equity interests were canceled. The plan was funded with new capital stock. Fifteen per cent of the new stock was to be issued to Po Folk employees. The majority of the remaining stock was to be issued to entities contributing the capital.

Radice Corporation

Business: Real estate development.
Filing Date: 2/25/88
Confirmation: 4/3/89
Court: Florida, Southern District
Time in Bankruptcy: 16 months
Assets Prior to Bankruptcy: $288.9 million

Reason for Filing: The financial deterioration of Radice was the direct consequence of the downturn in real estates markets.

Resolution: Reorganized around existing business. Absolute priority violated. Secured creditors were scheduled to receive a 100% recovery. However, equity holders received a distribution while unsecured creditors received less than a 100% recovery.

Ramtek Corporation

Business: The design, manufacture, marketing, and servicing of specialized computer display systems for imaging and graphics applications.
Filing Date: 9/29/88
Confirmation Date: 12/1/89
Court: California, Northern District
Time in Bankruptcy: 15 months
Assets Prior to Bankruptcy: $12.0 million

Reason for Filing: Ramtek's bankruptcy filing was the result of intense industry competition and poor management. As a result, Ramtek generated losses from 1983 through 1988. Ramtek's operational problems were exacerbated by significant downward revisions of its revenues and earnings. The revisions were met with a class action suit charging fraud.

Resolution: Ramtek hoped to reorganize around its existing business. Absolute priority held. Secured creditors were paid in full. Unsecured creditors received the balance of the distributions made while holders of equity interests received no distribution.

UNR Industries, Inc.

Business: Manufactures and sells a variety of industrial products including welded steel tubing. The original and leading U.S. manufacturer of shopping carts.
Filing Date: 7/29/82
Confirmation: 6/2/89

Court: Illinois, Northern District
Time in Bankruptcy: 82 months
Assets Prior to Bankruptcy: $232.6 million

Reason for Filing: UNR's filing was the direct result of the increasing cost and lawsuits relating to products containing asbestos.

Resolution: UNR was reorganized around its existing business. Pursuant to the plan of reorganization, asbestos-health claims received 64% of the ne stock. However, these creditors would be unable to assert further claims on UNR. Absolute priority violated. Secured creditors were paid in full. However, holders of equity interests received a distribution while unsecured creditors were impaired.

The Western Company of NA (WCNA)

Business: Oilfield services and offshore contract drilling.
Filing Date: 2/2/88
Confirmation: 3/27/89
Court: Texas, Northern District
Time in Bankruptcy: 15 months
Assets Prior to Bankruptcy: $542.5 million

Reason for Filing: WCNA's filing was the result of its debt-financed expansion during the late 1970's and early 1980's. This expansion was successful until the price of oil declined.

Resolution: Reorganized around existing businesses. Absolute priority violated. Secured creditors were paid in full. However, holders of equity interests received a distribution while unsecured creditors were impaired.

Worlds of Wonder, Inc.

Business: The design, manufacture, and marketing of toys and related children's products.
Filing Date: 12/22/87
Confirmation: 5/3/89
Court: California, Northern District
Time in Bankruptcy: 17 months
Assets Prior to Bankruptcy: $273.0 million

Reason for Filing: World of Wonder's (WOW's) filing was the result of financial deterioration caused by major delays in the engineering/development of toys for the 1986 Christmas season. The impact of the delays was compounded by WOW's overoptimistic projections for 1986. As a result of its overoptimism, WOW increased its hiring and advertising. Together, these factors led a liquidity crisis which was exacerbated by the hesitance of retailers to pay WOW in fear that they would have to bear the cost of defective products.

Resolution: Reorganized around its existing business. The plan was funded by Eli Jacobs who would own the common stock of WOW. Absolute priority violated. Secured creditors were impaired. However, unsecured creditors received a distribution. No distribution to holders of equity interests.

Zenith Laboratories, Inc.

Business: The manufacture and marketing of generic drugs.
Filing Date: 5/4/88
Confirmation: 10/3/89
Court: New Jersey
Time in Bankruptcy: 19 months
Assets Prior to Bankruptcy: $61.9 million
Reason for Filing: Zenith's financial deterioration was the result of slowdowns caused by investigations of the quality control of some of its facilities.

Resolution: Reorganized around some of the existing business. The plan was principally funded by Wyvern Partners and Mutual Series Fund. Absolute priority violated. Secured creditors were unimpaired. However, equity holders received a distribution while unsecured creditors were impaired.