turnarounds & workouts

News for People Tracking Distressed Businesses

July 15, 1996 Volume 10, Number 12

Who are Independent Auditors?

SEC Concerned with KPMG Peat Marwick at Porta

by Debra Brennan

Porta Systems Corp., a public company based in Syosset, New York, designs, manufactures and markets communications equipment used in voice, video and data networks. In late June, Porta was advised by the Securities and Exchange Commission that the independence of its current auditors, KPMG Peat Marwick LLP, is adversely impacted by relationships involving Edward R. Olson. Olson is Porta Systems' interim president and chief operating officer. He is also president of KPMG BayMark Strategies.

Porta Systems said in a press release that the SEC is concerned with the independence of the auditors in connection with its 1995 financial statements although the SEC did not claim that Porta acted improperly in preparing its 1995 financial statements. Porta is having its 1995 financial statements audited again by another national accounting firm

continued on page 2

Prepetition Severance Pay-Due Later?

New York Court Says "Yes" in Bidermann

by Debra Brennan

Whether severance pay will be paid as an administrative expense to employees terminated subsequent to the filing of a bankruptcy petition is one question which has financial advisors and executive officers of troubled companies biting their nails. In the United States Bankruptcy Court for the Southern District of New York, the Court has determined that these professionals who may be out of work may not be out of money.

In January 1993, Bidermann Industries U.S.A. Inc., parent company of Ralph Lauren Womenswear (RLW) asked Stuart Kreisler, once president and chief executive officer of RLW, to return to RLW as a full-time "consultant." Despite a dramatic turnaround with an operating profit of over $11 million credited to Kreisler's expertise, the financial condition of Bidermann was shaky, and a sale of RLW was probable. Bidermann and

continued on page 2

Home Theater Products Hits Snag

Fee Arrangements Questioned

by Nina Novak

"I'm the only professional who is officially employed in this case so far," proclaimed Howard S. Levine, a partner with the Los Angeles law firm of Weinstein & Eisen. As of late June, Levine had been formally retained to represent the creditors' committee in the Home Theater Products Chapter 11 case. Other professionals, such as investment bankers, special corporate counsel, and special litigation counsel, face an array of objections in their quest to gain Court approval.

Opposition to the debtor's hiring of Barrington Associates as its investment banker and financial advisor was interposed by the creditors' committee. Services by Barrington would include marketing the debtor's assets and canvassing the country for potential buyers to purchase the company as a going concern.

continued on page 2

Auditors, *from page 1*

even though it does not believe another audit will result in any change from the financial statements previously filed in its 10-K report. For 1995, Porta reported a loss from continuing operations of over $29 million or $4.01 per share on sales of $61.2 million.

There are connections between KPMG Peat Marwick and KPMG BayMark. KPMG Peat Marwick licensed its name to sister companies KPMG BayMark Strategies LLC and KPMG Bay Mark Capital LLC. Under the terms of the original agreement with KPMG Peat Marwick, BayMark had the right to tap into Peat's wider resources and expertise by sub-contracting with Peat's divisions.

KPMG Peat Marwick may be unique in this case due to the layered relationships involved. However, when clients are forced to pay for a second annual audit, all of "the Big Six" accounting firms may find themselves restrained from diving into those gray areas with unrestrained zeal.

According to Alan Alpert, a senior bankruptcy tax specialist at Deloitte & Touche, "There has been a highlighted sensitivity for accountants to the issue of independence, and an increased amount of attention to the appearance of independence over the last five years by the SEC." Although there are very explicit standards regarding the definition of the independence of accountants, Alpert said, "there does exist a certain gray area with respect to auditors making final decisions that impact the financial direction of a business without making operational business decisions."

Bettina White, a partner at Price Waterhouse, has not seen increased interest by the SEC in the area of independence, but she did say that independence is continually an area of concern and ongoing diligence is required. She maintained that the preparation of projected financial information by accounting firms is one of the most complex gray areas for accountants.

Does this incident trouble a client using a large accounting firm and its overwhelming spectrum of financial services? If accountants are comfortable with the distinction between financial advice and business decisions, the appearance of giving operational advice may not be quite as clear. With the SEC breathing fire and basking in its role as the advocate of public shareholders, a little conservatism could be appropriate.

Bidermann, *from page 1*

Kreisler entered into a severance agreement to compensate Kreisler in the event of his termination.

The severance benefit amounted to approximately $1.75 million. After Bidermann and its related corporations filed Chapter 11 petitions, RLW's assets were sold and Kreisler's employment agreement was rejected. Kreisler went to court and argued that his postpetition termination resulted in an administrative expense claim for the full amount due him under the severance agreement.

Immediately prior to the court's rendering its decision, Bob Lapowski, attorney for the debtors, was reportedly shocked by a settlement offer supported by the creditors committee of $1.8 million saying it was "an obscene amount." It is now estimated that Kapowski's clients will be paying more like $2.1 million including bonus payments to Kreisler and his attorney fees.

This court found (in the context of an estimation for voting purposes) that Kreisler's claim was entitled to administrative priority, higher than those of general unsecured creditors. Despite the fact that a 1992 bankruptcy decision in the same district (In re Hooker Investments, Inc.) held to the contrary, Judge Brozman skirted facing the ultimate issue by finding it "indisputable that a claimant is entitled to a quantum meruit recovery for benefit conferred postpetition." Furthermore, Judge Brozman pointed out that Bidermann could have fired Kreisler prior to filing, thus avoiding payment.

Brian Kogan of Stroock & Stroock & Lavan who represented Kreisler admitted, "This was the easy case. Kreisler had an agreement for value, and what he did worked." It is unclear whether Judge Brozman would find a postpetition severance obligation due as an administrative claim if an officer entered a company for three months and added no substantial value to the company.

This case may serve as more than a precedent in the Southern District of New York, as companies on the brink of filing petitions in Chapter 11 will now be looking very carefully at those employees with severance contracts.

And as for those twitchy CEO's and CFO's of troubled companies with potential severance pay, they will no doubt be smiling at Stuart Kreisler as they begin seriously documenting the value of their contributions to their company.

Home Theater, *from page 1*

Barrington's employment application asked the court to bless its engagement letter, which asked for minimum fees and success fees. The committee objected on the basis that, on the whole, the engagement was too rich and, as structured, the court, the committee, the U.S. Trustee, and other interested parties would have been precluded from scrutinizing the compensation at a later time.

Opposition has been filed to the employment of special litigation counsel, Rosen & Associates. The creditors' committee believes the deal that firm cut with the debtor was also too costly: a forty percent contingency fee. Not only is that figure unusually high for a bankruptcy matter, but the committee is especially concerned because one of the pools of assets that will be available to pay unsecured creditors is a pool that will be created by prosecuting claims of the estate against former officers and directors of the company. According to Levine, "We believe the recovery on those claims will be in seven figures, and to give away forty percent to the litigation attorney is not in the best interests of the estate."

Perhaps the most serious objection filed so far is to the debtor's application to employ the law firm of McKenna & Stall to serve as special corporate counsel. This application has been objected to by both the creditors' committee and the Securities and Exchange Commission for reasons related to prepetition activities. Specifically, there are outstanding allegations that former Home Theater officers and directors Paul Safronchik and Jerome Adamo had grossly overstated the company's sales and revenues and that they embezzled some $1 million from the company. McKenna & Stall had filed 10K and 10Q forms with the SEC on behalf of the company and had performed estate planning services for Safronchik and Adamo. The committee and SEC believe that the cloud of suspicion that hangs over the McKenna firm as a result of its involvement in the prepetition activities should preclude the law firm from further involvement in the bankruptcy case.

Finally, the U.S. Trustee has objected to the employment of debtor's counsel, Joseph A. Eisenberg P.C., on the basis that the fees which he requested are too high.

A hearing scheduled for July 18 should determine which advisors will be retained and what fees are deemed reasonable.

Research Report

Who's Who In Rickel Home Centers, Inc.

by Nancy L. Wolfe

Rickel Home Centers, Inc., a home improvement retailer, filed for Chapter 11 protection on January 10, 1996, in the District of Delaware. The New Jersey company cited its desire to undertake a restructuring plan reached with holders of its senior notes as its reason for filing.

In the quarter ending October 28, 1995, Rickel reported that same store sales had declined 21.3 percent because of the soft retail economy and the strong competition Rickel faced within its markets. At this time, the company had consolidated assets of approximately $260 million and consolidated liabilities of $268 million. It was also in noncompliance with several of its financial covenants.

Rickel obtained commitments for $97 million in post-petition financing, including $80 million in secured revolving credit from Congress Financial Corp. and $17 million in secured leasehold financing from West Windsor Holding Corp. The financing was approved by the Bankruptcy Court on February 13, 1996. Rickel's restructuring plan is aimed at lowering its debt, reducing interest costs, and enabling trade creditors to receive full value for their claims.The company is hoping to implement its restructuring plans.

Rickel Home Centers, Inc. is a full service home improvement retailer with outlets in the northeastern U.S. It is the largest non-warehouse home center operator within its markets. The company offers national and private-name brands to do-it-yourself customers and must compete with warehouse type home improvement stores. Rickel stores are located mainly in New Jersey, eastern Pennsylvania and southern New York. As of October, 1995, it operated 92 stores and employed 5,500 people.

The company was incorporated in 1994 in Delaware as RC Acquisition Corp. It was formed for the purpose of acquiring the assets of the Rickel Home Centers division of Plainbridge, Inc. and certain assets of Channel Home Centers, Inc., a subsidiary of the General Electric Capital Corp.

In early March, 1996, Rickel Home Centers revealed its intention to close up to 13 stores in Pennsylvania, New York, New Jersey, and Maryland. Later in the month, the Bankruptcy Court approved the sale of 20 unprofitable stores. The Court also approved the retention of the Schottenstein and Bernstein Capital Group LLC to liquidate the inventory at eight of the stores. The remaining 66 stores will remain open.

On May 10, 1996, the Bankruptcy Court extended Rickel's exclusivity period to August 7, 1996.

The Debtor

Among the officers of the company, **Steven M. Friedman** is Chairman of the Board of Directors; **Jules A. Borshadel** is the President, Chief Executive Officer and Director; **Douglas R. Korn** is Vice President and Director; and **John K. Henry** is the Executive Vice President and Chief Financial Officer.

Counsel to the debtor is **Fried, Frank, Harris, Shriver & Jacobson** in New York City. Senior partner **Brad Eric Scheler** heads the firm's efforts in the Rickel case along with partners **Robert E. Gerber** and **Daniel P. Schechter.** Associates **Judy Zecchin** and **Rachael Fink** also work on the case. Other bankruptcy cases the firm has handled include representing the debtors in McCrory Corp. and Bill's Dollar Store, and the bondholders' committee in Hemmeter Enterprises, Inc.

Co-counsel to the debtor is **Young, Conaway, Stargatt & Taylor** in Wilmington, Delaware. Partner **Laura Davis Jones** heads the firm's work in the case. She is assisted by associate **Brendan Shannon**. The firm has also represented the debtors in Columbia Gas System, Inc., Continental Airlines and Edison Brothers.

Arthur Andersen LLP in New York City is the debtor's auditor and financial advisor. Partner **James Lukenda,** of Andersen's Corporate Recovery Practice, handles the case there.

West Windsor Holding Corp. in Saddle Brook, New Jersey, an affiliate of Vornado Realty Trust, provides leasehold financing for the debtor.

Congress Financial Corp. in New York City provides debtor-in-possession financing to the debtor.

The **Schottenstein and Bernstein Capital Group, LLC** in Great Neck, New York, handles certain liquidation proceedings for the company. **James Schaye** and **David Bernstein** head the group's efforts in the case.

The Official Committee of Unsecured Creditors

The members of the creditors' committee are: **American Bank, Black & Decker** (co-chair), **CIBC Wood Gundy Argosy Merchant Fund II, Foreign & Colonial Management Corp.** (co-chair), **Philips Lighting Co., RIT Capital Partners, PLC,** and **Sherwin-Williams Co.**

The firm of **Wachtell, Lipton, Rosen & Katz** in New York City is the counsel for the creditors' committee. Partner **Chaim Fortgang** heads the firm's efforts in the case along with partner **Scott Charles.** Other bankruptcy cases the firm is involved in include the bank groups in Color Tile and Ithaca Industries and the creditors' committee in Leslie Faye.

Morris, Nichols, Arsht & Tunnell in Wilmington, Delaware is the local counsel to the committee. Partner **William H. Sudell** heads the firm's efforts in the Rickel case. He is assisted by associate **Derek Abbott.**

Ernst & Young in New York City provides accounting services for the creditors' committee. Partners **Benjamin Evans** and **Al Jacobs** are in charge of the case there.

The Trustee

M. Scott Michel is in the Office of the U.S. Trustee in Philadelphia.

The Judge

The judge in the Rickel case is **The Honorable Helen S. Balick** in the District of Delaware.

Tracking

Kmart

Less than one year ago a popular sport was predicting the exact date that Kmart would file a petition in Chapter 11. Investors are now keenly interested in the company's preferred stock offering and the common stock jumped more than nine percent to a 1996 high of $13.875.

Trading on a when-issued basis on the New York Stock Exchange, the preferred stock has gone from an initial price of $50 a share to about $57.50 a share, in less than three days.

Kmart's lead underwriters in the offering, Morgan Stanley Group Inc.'s Morgan Stanley & Co. unit and Merrill Lynch & Co. exercised their overallotment option to issue as much as $1 billion of the convertible preferred shares from $870 million. Each of the shares is convertible into 3.33 shares of Kmart common, equivalent to a conversion price of $15 a share. While most viewers agree that Kmart has successfully avoided its immediate liquidity problems, whether or not Kmart can catch up to Wal-mart and Target, both of whom have packed six times the amount that Kmart has spent in capital improvements remains a question.

Caldor

Caldor Corp. announced that it is shifting to a regional distribution system in August by opening a new automated facility in Westfield, Massachusetts. According to Don Clarke, chairman and chief executive officer, "By converting to a regional distribution process the company will generate significant, long-term cost savings." The company's distribution center in Newburgh, N.Y. will close later this year, and the company will phase out 175 positions in Newburgh.

Caldor opened four stores in April capitalizing on its new urban/suburban strategy, mixing the locations of the stores between densely populated urban areas and suburban areas.

In its first quarter results, Caldor reported net sales of $569 million compared to $564 million for the first quarter of 1995. Comparable store sales decreased by .7 percent. Clarke stated that Caldor's operating results were better than planned for the first quarter.

Discovery Zone

Donna Moore, the chief executive of Discovery Zone, is straining to develop a new image for her indoor playgrounds. Kidwatch, an ongoing program which provides two hours of supervised play (no parents) for $16 is a popular concept, although a bit pricey for baby-sitting. Another idea is "Nitezones" aimed at entertaining preteens at night with music videos and light shows, for $8.95. Theme rooms for parties, new junk food ideas and better security are being added for the benefit of both kids and parents.

Some analysts are saying that the concept of Discovery Zone is a good one, but the upkeep of the equipment is a major headache and expense. There is no denying that the idea is clever, at least once, but the question remains whether kids will exert pressure to keep returning with new playlands like *Tech Trek* and *Imagine That* cropping up.

The numbers have been in a pretty steep decline. In 1994, $21 million was lost on revenue of $163 million. In 1995, $70 million was lost on revenue of $258 million. So far, Moore has reduced the number of locations from 300 to 260 with plans to close 40 more. There are rumors of a takeover bid with a recent jump in traders of bank debt.

Morrison Knudsen

Morrison Knudsen Corp. filed a prepackaged Chapter 11 bankruptcy as part of its plan to be bought by Washington Construction Group. The company plans to continue business as usual and says it should emerge from bankruptcy by September 30.

Washington Construction announced about a month ago that it had reached a definitive merger agreement to buy Morrison Knudsen for about $260 million in cash and stock. Morrison, one of the nation's oldest engineering construction specialists had liabilities of $821 million and assets of $628 million last year. Robert A. Tinstman, president and chief executive officer said, " With strong core operations and a $60 million working capital facility in place, Morrison Knudsen will continue to honor all contract commitments and obligations to clients, joint venture partners, subcontractors and suppliers and pay employees on time and in full."

Morrison Knudsen has announced that it entered into a contract to provide management and technical services during construction of the $700 million Pinglin Tunnel, a major segment of a new four lane expressway on Taiwan's Pacific coast. This is the largest underground construction project currently under way in the world.

continued on page 6

Calendar

Northeast Bankruptcy Conference
July 25-28,1996
Mt. Washington Resort
Bretton Woods, New Hampshire
Sponsor: American Bankruptcy Institute
Contact:(703) 739-0800

American Bar Association
Annual Convention
August 2-6,1996
Disney Contemporary Resort
Orlando, Florida
Contact: American Bar Association
Diane Maytum
(312) 988-5587
Fax (312) 988-5578

Southeast Bankruptcy Workshop
August 22-25, 1996
Westin Resort
Hilton Head Island, South Carolina
Contact: American Bankruptcy Institute
(703) 739-0800

Workshop on Bankruptcy & Business Reorganization (Basic and Advanced)
August 27-29, 1996
New York University School of Law
40 Washington Square South, New York
Contact: (212) 998-6415 or 6417
FAX: (212) 995-4037

Turnaround Management Association
Annual Conference
November 8-12
J.W. Marriott, Washington, D.C.
Contact: Joseph Carol
(312) 857-7734
FAX: 312-857-7739

ABI Winter Leadership Conference
December 5-7, 1996
Westin Mission Hills Resort
Rancho Mirage, California
Sponsor: American Bankruptcy Institute
Contact: (703) 739-0800

Strategic Research Institute
3rd Annual Conference
Distressed Debt
December 9-10, 1996
The Helmsley Park Lane Hotel, N.Y.
Contact: (212) 247-2653

Special Report

Profile: Anacomp, Inc.

Case No. 96-16; SIC 3861, 3577, 3695

U.S. Bankruptcy Court for the District of Delaware

The Honorable Helen S. Balick, presiding

Filed: January 5, 1996

Emerged from Chapter 11: June 4, 1996

Time in Chapter 11: five months

Background: Anacomp provides micrographics products and services, magnetic products and electronic image management systems for customers worldwide. Through acquisitions, Anacomp became the world leader in COM systems, a portion of the micrographics industry, and has developed new data retrieval and storage methods through joint ventures. The company serves customers who have various information storage needs, using microfiche, CD-R, CD-ROM and writable/erasable magneto-optical disks. Anacomp produces 95 percent of the world's supply of open reel tape. The company provides services either on-site or through one of its 47 service centers, which operate 24 hours a day, seven days a week, and can convert customers' documents to microfiche in hours. It also provides maintenance for 98 percent of its customers' equipment.

For the year ended September 30, 1995, Anacomp reported a net loss of $238.33 million, or $5.22 a share on revenues of $591.19 million. For the quarter ended December 31, 1995, the company reported net income of $1.05 million on revenues of $130.27 million, compared with net income of $0.28 million on revenues of $151.81 million for the first quarter a year earlier. The quarter results included a $6.2 million pretax gain from the sale of its Image Conversion Services division and a $2.8 million pretax charge for financial restructuring fees.

Filing: Saddled with a highly leveraged balance sheet and restrictive debt covenants due to its recent acquisitions, Anacomp filed for bankruptcy protection under Chapter 11 on January 5, 1996. The filing included a pre-negotiated reorganization plan based on a restructuring agreement between the company and holders of its 15 percent Senior Subordinated Notes. The plan provided for a reduction of the company's approximately $457 million in debt, by about $173 million. Trade creditors were to be paid in full.

By February, the company announced that it had reached an agreement-in-principle with its major creditor groups in regard to the terms of an amended reorganization plan. On March 28, 1996, the Bankruptcy Court approved Anacomp's Disclosure Statement relating to the Second Amended Plan of Reorganization and the plan's confirmation hearing was May 7.

When-issued Offer: According to Anacomp's bankruptcy counsel Barry J. Dichter of Cadwalader, Wickersham & Taft of New York, prior to filing for bankruptcy, Anacomp met with Questor Partners Fund, L.P. in connection with structuring a refinancing to avoid the filing. Principals of Questor Partners include Dan W. Lufkin, cofounder of Donaldson, Lufkin & Jenrette Securities Corp., turnaround specialist Jay Alix, merchant banker Melvyn N. Klein, and Edward Scarff, former president of Transamerica Corp. Questor was established in 1995 to acquire troubled companies, and has approximately $300 million in commitments from its limited partners.

Questor eventually extended a tender offer to purchase up to 4.4 million of the new shares to be issued pursuant to Anacomp's Second Amended Plan of Reorganization. According to Jay Alix, principal of Questor, this was the first ever "when-issued" tender offer for a company that issues new stock as it emerges from bankruptcy. The new common stock was to be issued to the holders of the company's debt securities. Questor even took the step of requesting a hearing in chambers with Judge Balick to inform the Judge that they intended to make such a tender offer. Anacomp's creditors took no official stance on the tender offer, however, and company creditors and Questor could never seal a deal. According to Dichter and Robert E. Shields of Questor, company creditors and Questor deadlocked over an anti-takeover provision under Delaware and Indiana law.

Plan Confirmation: On April 29, 1996, Anacomp reported net income of $1.17 million on total revenues of $44.03 million for March. Anacomp's emergence from Chapter 11 came on June 4, 1996. As a result of its reorganization, Anacomp's current debt and accrued unpaid interest and dividends, including preferred stock, have been reduced by approximately $175 million. Ownership of Anacomp has been transferred to holders of its old public debt. "We were able to fashion an economic deal that made sense to all parties," noted Dichter. Emerging from bankruptcy protection in five months, Anacomp avoided costly litigation and managed to provide its own financing to fund the reorganization. According to Dichter, an appeal to the company's creditors through "reason and threats" pulled everyone together to redistribute the company.

In the executive office at Anacomp, P. Lang Lowrey III, the company's President and Chief Executive Officer, has been named Chairman of the new Board of Directors. Richard D. Jackson has been named Vice Chairman. New directors also were recently appointed. Questor spokesman Shields noted his optimism about Anacomp's future and its new leadership found in Lowrey. Shields remarked that Lowrey is "a good man and businessman" who now has the cash to move the company forward. Lowrey noted that the company's five months in bankruptcy was "a challenging period," and that the company now plans to add complimentary products and services to the business, including digital formats.

Worth Reading

The 1996 Bankruptcy Yearbook and Almanac

New Generation Research, Inc.

Editor: Christopher M. McHugh
Publisher: George Putnam III

Soft Bound - 624 pages
Cost: $175. pre-paid; $195. billed

by Debra Brennan

This new, sixth edition of the Bankruptcy Yearbook and Almanac is *the* source book for bankruptcy and troubled company professionals. The almanac takes off with an impressive array of statistics. There is comparative court data, by circuit and district. There are bankruptcy filings by chapter for the past five years. Filing trends and filings relative to population include summaries, graphs, and geographic maps. Corporate statistics break down public company bankruptcies by the amount of their assets. There is a list of the largest pending bankruptcies, bankruptcies by court district and duration of bankruptcies. There is a list of the largest public bankruptcies of all time by assets, a list of the largest public bankruptcies of all time by revenues, a listing of largest of all time excluding financial companies, a listing of largest public bankruptcies of all time excluding financial companies, inflation adjusted. There are notable private bankruptcies, and a good chronology of the largest corporate bankruptcies of 1995.

In the section entitled Corporate Restructuring there is a listing of Distressed Offers, Outstanding Defaults and Other Out-of-Court Restructurings of 1995. In addition there is a current and historical analysis of prepackaged bankruptcies.

There are many articles of interest throughout the almanac including *Bond Defaults Escalated on Schedule in 1995* by Martin S. Fridson; *Financial Fiasco of 1995: Philanthropic Organization Mishandles Funds* by Courtney E. Weiner; *Bankruptcy Investing 1995* by George Putnam III; *Chapter 11 Alternative: Using Section 363 to Maximize "Going Concern" Value by Selling All the Debtor's Assets Outside a Plan of Reorganization,* by Ida L. Walters and Robert W. Kamphuis, Jr.; *Bankruptcy as a Business Tool; The One-Day Prepack Beckons* by Jay Goffman and Matthew Herenstein; and *Bankruptcy on the Internet* by Peter A. Chapman.

A thorough examination of distressed securities markets and trading is included in the almanac with a listing of the public bankruptcies by exchange, prices of exchange-listed stocks, common stock recovery rates in reorganizations, a listing of public bankruptcy debt from 1987-1995, prices of selected bonds, the Altman-NYU Salomon Center Index of Defaulted Debt and the Correlation of the Altman Index and Volume of Distressed Debt.

Lists of judges, trustees, examiners and mediators, accounting firms and law firms in major bankruptcies together with guidelines for fees and disbursements for professionals provide practical and useful information. There is also a summary of bankruptcy legislation in the 104th Congress, and important developments in bankruptcy case law. There are tables of international bankruptcies of 1995 and a complete listing of every U.S. Bankruptcy Court district, with names addresses and telephone numbers of clerks and judges, and maps showing the location of each bankruptcy court site.

There is little missing from this source book. It is an unparalleled resource for the bankruptcy and troubled company professions. The format is simple and the articles, lists, charts and graphs are easily understood without being overly simplistic.

New Generation Research, Inc, is located at 225 Friend Street, Suite 801
Boston, Massachusetts

Tracking, *from page 4*

Rockefeller Center

Rockefeller Center Properties, Inc. announced today that it has agreed with the Goldman Sachs-led investor group to extend the outside date for the closing of the $8 per share merger to July 19, 1996. As part of the extension agreement Goldman Sachs has once again agreed to make an additional loan, this time for over $2 million to keep Rockefeller Center afloat for July. A significant penalty is attached to the extension agreement in the event that the merger is not concluded.

Hamburger Hamlet

The common stock of Hamburger Hamlet Restaurants, Inc. was delisted from the Nasdaq Small Cap Market, and the company was informed by Nasdaq that the delisting was a result of the recent Chapter 11 filing followed by a failure to provide financial statements to Nasdaq since the time of filing. Hamburger Hamlet announced that it would not appeal this decision.

Mike Recca, one of the directors of Hamburger Hamlet Restaurants recently announced his resignation from the Board of Directors.

New Era

A partial refund is planned under the terms of the proposed settlement by the trustee in the Foundation for New Era Philanthropy bankruptcy case. Under the terms of the proposal, the charities, churches, colleges and other participants that lost money would receive a minimum of "between 62 and 64 cents" for each dollar of their losses.

By the terms of the agreement, those early participants in the New Era scheme who came out with more money than they put into the foundation would have to pay back at least 65 percent of their money, for a total of $39 million. In addition, the participating philanthropists would not receive any money back. The proposed settlement has not yet been approved by the judge or the required 80 percent of philanthropists and those who lost money.

Turnaround & Workouts subscribers are invited to visit our Web site at:
http://bankrupt.com
or subscribe to the T& W newswire by sending a subscription message to:
listserve @ bankrupt.com

Special Report

Internet Bankruptcy Resources

The Internet contains a wealth of information on bankruptcy and insolvency topics. A valuable starting point for research is the InterNet Bankruptcy Library, which contains up-to-date information on corporate reorganizations, bankruptcy filings and news, and also includes U.S. and international bankruptcy and insolvency resource materials. Currently, more than 150 links are provided at the InterNet Bankruptcy Library to enable the reader to easily locate other related bankruptcy, financial, investment, legal, and government Internet and World Wide Web sites. The address of the InterNet Bankruptcy Library is http://bankrupt.com.

Selected Features of the InterNet Bankruptcy Library	Section	Content
	Hot News in the Bankruptcy World	Corporate bankruptcy news arranged by date; corporate reorganization information listed by company name; selected bankruptcy petitions.
	Worldwide Directory of Bankruptcy Professionals	Including law, accounting, financial, crisis management & public relations firms.
	Bankruptcy & Insolvency Resource Materials	U.S. and international bankruptcy codes, civil rules & other general information.
	Directory of U.S. Bankruptcy Clerks	Addresses of Bankruptcy Court Clerks' offices by district plus contact information.

Selected Internet Sites Linked at the InterNet Bankruptcy Library	Site Sponsor	Content
	American Bankruptcy Institute	Calendar of ABI events & legislative news. ABI Online for ABI members.
	American Bar Association's LAW Link	Comprehensive links to other Internet legal research & information resources.
	Bankruptcy Lawfinder	Directory of bankruptcy-related resources.
	Bloomberg Personal	News & information on world markets, financial analysis, money & credit markets.
	Cornell University's Legal Information Institute	Law primer of the bankruptcy code by section & recent Supreme Court decisions.
	CNN Financial News	Market news, business almanac, business & money management articles.
	Internet Lawyer	Internet links for legal resources.
	InvestorWeb	Index of news and financial information on public companies.
	New Generation Research	Information on distressed securities & excerpts from the Turnaround Letter.
	Office of the U.S. Trustees	Trustee Office announcements & 1996 guidelines for review of fee applications.
	U.S. Securities & Exchange Commission	Access to EDGAR database of electronic filings, SEC news digests & rulemakings.

Discussion Groups Listed at the InterNet Bankruptcy Library	Title	Title
	AIA: discussion list for the Association of Insolvency Accountants.	BANKRLAW, mailing list for general bankruptcy law discussions.
	CLLA: open list on business bankruptcy & commercial collections maintained by the Commercial Law League of America.	CREDITWORTHY-L: for discussion of U.S. & international business credit topics & weekly CreditWorthy News.
	IWIRC: open list for the International Women's Insolvency & Restructuring Confederation.	NET-LAWYERS: for sharing of information on lawyers & the Internet.
	ROUNDTABLE: open discussion of case specific bankruptcy issues for bankrtuptcy professionals.	STATE: open list for discussion by the Association of State Attorneys General.
	T&W NEWSWIRE: a mailing list of information for bankruptcy & troubled company professionals & investors.	TAX.ORG: open list for discussion of the interplay between bankruptcy & taxation.

Access and subscription information to these Internet discussion groups and mailing lists is provided at the InterNet Bankruptcy Library. Information compiled by Susan R. Heylman, email susan@bankrupt.com.

Gnome de Plume

Diamonds Are Forever

by Christopher Beard

Pan American Diamond was a major manufacturer of gold and diamond jewelry with world-wide operations. The jewelry business has been difficult recently, and, as usual, a bad market brings out the gremlins. There were allegations of fraud at Pan American, an involuntary petition was filed on May 22, 1995, and the Bankruptcy Court appointed a trustee almost immediately.

Under the best of circumstances, major management changes spook the old-timers. And this was the diamond business built on lifetime relationships usually cemented by religious bonds, where significant transactions are done on a handshake. Further, diamonds are small and value depends upon grading, a black art to the uninitiated.

The trustee took over, and the decision was made to start liquidating the inventories. Among the purchasers was the trustee himself who bought some jewelry. He also sold loose diamonds to the wife of a name partner in his firm, and other items to a friend of hers. Employees of his firm bought some goods, and a couple of lawyers at the debtor's bankruptcy law firm bought watches. Surprise. Word got around and a motion to remove him was filed. It's easy to see why creditors developed heartburn.

Appearances were bad, but it wasn't a rip-off. The debtor needed to move a ton of product. The inventory listing was 6" thick, including 117,000 pieces of finished jewelry. Everything was appraised before any sales, and the goods had been offered to others at lower prices than those at which they were sold to related parties. In the most egregious instance, the name partner's wife spent $23,461 on loose stones. The only reason for loading up on loose diamonds was she thought she had a dynamite deal. Fortunately, as it turns out, Yizhaq Dror, the diamond room manager, skinned her, charging her 99.8 percent of appraisal rather than the 70 percent to 90 percent he was getting from the trade. The rest of the sales were insignificant. The trustee purchased only $956 worth of presents for his wife and daughters. The lawyers bought a measly $56 worth of watches, and the employees spent only $227. The trustee gained the support of the U.S. Trustee and the Creditors Committee in his fight to retain his position. But the pressure was overwhelming, and he resigned.

Bad judgment? Certainly. Dumb? Yep. Small-time cowboys in over their heads? No. The firm caught up in this tragedy was Alvarez and Marsal, one of the most successful turnaround firms in the country. They've been involved in many of the biggest names among recent restructurings: Charter Medical, Republic Health, Alexander's, Gitano, Cherokee, Coleco, Timex, Resorts International, Integrated Resources, Phar-Mor, Western Union and Todd Shipyards.

Alvarez & Marsal is a first class firm with outstanding talent. They'll overcome this. It's embarrassing, but it's not fatal. Bankruptcy may be business as usual for the professionals, but it's trauma and pain for the parties. They're angry and they're likely to make the professionals pay full price for any lapse in judgment.

A bad fact or two could have made Pan American Diamond devastating for Alvarez & Marsal. A fortuitous turn of events, an insupportable sales price or an unfortunate remark, would have turned this into a disaster. They put a solid reputation, years of hard work and many brilliant successes at risk. The fates are not usually so kind.

Christopher Beard is the publisher of Turnarounds & Workouts

Future Issues:

- *Who's Who in Barney's*
- *Franco Harris Saves Parks Sausage*
- *DIP Financing Players*

Recent Filings

Galletti Brothers Foods, Inc., a privately held company, filed for Chapter 11 protection on April 19, 1996 in the Central District of California, Los Angeles. The company sells prepared fresh fish and frozen fish. Accounting services to the debtor are provided by **J.H. Cohn and Co.**

Work Recovery, Inc. filed for Chapter 11 protection on May 29, 1996 in the District of Arizona, Tucson. The company manufactures equipment and supplies for the rehabilitative healthcare industry. Accounting services to the debtor are provided by **Lavoie, Clark, Charvoz & May.**

Morrison Knudsen Corp. filed for Chapter 11 protection on June 25, 1996 in the District of Delaware, Wilmington. The company performs heavy industrial construction work. Accounting services to the debtor are provided by **Deloitte & Touche.**

The Bibb Co. filed for Chapter 11 protection in the District of Delaware on July 3, 1996. The company manufactures and sells textile products, principally bedding accessories and towels. Accounting services to the debtor are provided by **Arthur Andersen & Co.**

Braun's Fashions Corp. and Braun's Fashions Inc. filed for Chapter 11 protection in the District of Delaware on July 2, 1996. The company owns and operates a chain of women's retail apparel stores. Accounting services to the debtor are provided by **Price Waterhouse.**

Premium Standard Farms, Inc., and its affiliates, filed for Chapter 11 protection in the District of Delaware on July 2, 1996. The company is a joint venture that owns and operates a premium-class pork farm. Attorneys for the debtor are **Weil, Gotshal & Manges,** LLP of New York.

Turnarounds & Workouts is published semi-monthly (20 times a year) by Beard Group, Inc., P.O. Box 9867, Washington, D.C. 20016. (301) 951-6400. ISSN 0889-1699. Publisher: Christopher Beard. Editor: Debra J. Brennan. Associate editors: Susan R. Heylman, Nina Novak and Nancy Wolfe. Subscription Rate: $397/year. Send comments and coverage suggestions to above address or beard@access.digex.net