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# turnarounds & workouts

**News for People Tracking Distressed Businesses**

September 15, 1996

Volume 10, Number 14

## **\$200,000,000 Credit Loss**

### **FoxMeyer Reluctantly Files Chapter 11**

*by Debra Brennan*

FoxMeyer Drug Company, a unit of FoxMeyer Health Corporation, and, by its own report, the fourth largest wholesale drug distributor in the United States, filed for Chapter 11 after a number of FoxMeyer's major suppliers tightened FoxMeyer's credit supply. In fact, the debtor suffered a credit loss of \$200 million which sent FoxMeyer Drug directly into bankruptcy court.

The debtor complained that, after entering into a pre-petition credit agreement in mid-June, with General Electric Capital Corporation wherein FoxMeyer Drug negotiated a \$475 million line of credit, secured by substantially all of its inventory and other assets (except real estate, fixtures, and machinery), the debtor thought that its financing needs were more than satisfied. As a condition precedent to the credit agreement and concurrent

*continued on page 2*

## **Creditors Want The Whole Truth**

### **WRT Energy's Creditors Seek Examiner**

*by Debra Brennan*

Gas and oil bankruptcies have the reputation as cases that are unique, particularly with respect to the valuation of assets. WRT Energy Corporation, a company in bankruptcy with \$100 million in unsecured bond debt, may be setting new standards of unusual valuation if one were to judge the case by the many motions and letters of its lien creditors.

The debtor is a Texas corporation engaged in the business of exploration, drilling and production of oil, gas and other petroleum products. WRT, once the darling of Wall Street, developed a seismic product that was purported to determine if old oil wells should be re-entered, an invaluable development, whose possibility of success led to the company's popularity with investors.

Since WRT has \$5 million in unsecured debt, excluding trade debt, the need for an

*continued on page 2*

## **Football Players Tackle Sausage Jobs**

### **Survival of Baltimore's Park Sausage Co. seen as "vital"**

*by Debra Brennan*

Some troubled companies are lucky. They receive an infusion of money great enough to relieve the pressure and to pave a new path of recovery. Some companies rely on the appeal of the rich and athletic to deliver a product. It looks like Park Sausage Co. is going to get lucky with some money and a lot of fame, when Pittsburgh Steeler's MVP Franco Harris and former Baltimore Colts player Lydell Mitchell join together to save what was once the premier minority-owned manufacturer in Baltimore.

After approval of the sale by the bankruptcy court, Judge James Schneider said, "This is a marvelous result that has been achieved in a miraculously short period of time by people who have not only their own interests, but those of the community at heart. This is an example of the government, private business and individuals working together to

*continued on page 2*

**FoxMeyer, from page 1**

with closing the credit agreement, a transfer agreement and an accounts receivables purchasing and servicing agreement, the debtor used funds provided by the agreements to repay outstanding amounts under its then existing unsecured credit facility, to retire \$198,000,000 of FoxMeyer's 7.09 percent unsecured senior notes, and to replace a \$200,000,000 receivables financing program. In addition, a dividend was declared and paid to FoxMeyer Health Corporation, its parent company.

The debtors claim that they were not insolvent when they entered into the agreements and it was not the refinance or the dividend that made them file a Chapter 11 petition.

William Estes, president and chief operating officer of FoxMeyer Drug said, "As we explained in several meetings with a number of our suppliers, we believe that we would have been able to operate successfully outside of Chapter 11 with the continuation of normal trade terms. Some suppliers, however, apparently preferred the certainty of a Chapter 11 where they knew that as post-petition suppliers they would receive priority status by the court for any new goods that were purchased."

Robert A. Peiser, formerly the executive vice president and chief financial officer of TWA was recently named the vice chairman and CEO of FoxMeyer. Peiser is widely recognized as the architect of TWA's successful 1995 financial restructuring.

For several weeks a team of experts from Jay Alix and Associates, including James Bonsall, Ken Koester, and Jack McGregor, have been meeting with management at FoxMeyer, and a planned meeting with the twenty largest creditors of the company may be productive in working out terms for a speedy reorganization.

On the drawing board is a deal offering those suppliers giving the first \$100 million of qualifying post-petition credit to the debtors, an administrative expense priority for 25 cents of such supplier's allowable pre-petition claim for every one dollar of qualifying post-petition credit extended to the debtor. It is rumored that the creditors are not very warm to the suggestion. But FoxMeyer has amassed some of the best professional advice available to a reorganizing business, and the final outcome may depend entirely on their creative abilities.

**WRT Energy, from page 1**

examiner was raised by several of the lien creditors through their attorney Stewart Peck, of Lugenbuhl, Burke, Wheaton, Peck et al. of New Orleans, Louisiana.

Baker Hughes, Inc., joined by Schlumberger Well Services, Inc., Double Eagle Marine, Inc., and Inland Marine Services, Inc., all lien creditors of WRT, sought the appointment of the examiner. The court found that there was a need for an examiner, and the court set specific parameters for the scope of the examination. The examiner is to investigate transfers of property within three years of the filing, between the debtor and "insiders", transactions related to the debtor's acquiring some of its mineral interests, the acquisition of claims in this Chapter 11 by Blue Light Investment Corp. and transactions related to the transfer of certain equipment.

William O'Connor, the Trustee in the case, appointed Postlethwaite & Nettleville, a very reputable accounting firm in New Orleans as examiner. The judge did not approve the appointment, based on a hearing wherein Peck opposed the appointment of an accountant as examiner, in lieu of an attorney, armed with subpoena power. The court agreed.

Some believe that there is more money and value to the company than is being discussed. It has been rumored that the engineering company that valued WRT for purposes of the bankruptcy was extremely conservative. And the question remains that if the company has no cash why is there talk of refinancing rather than liquidation. Two offers for DIP financing are currently pending. There are rumors of the pre-petition transfer of equipment of WRT to a new company, WRT Technologies, Inc. allegedly run by a former president of WRT in a former office of WRT, and listed as a consultant of the bankrupt company. There are questions about the title of gas and oil leases bought with WRT money.

According to Peck, "the direction of this case seems to be a liquidating 11." The leadership in this case has been assumed by the lien creditors demanding restitution. The creditors' committee, made up primarily of bond holders, has been supportive without being proactive. Now, with a motion pending to appoint Jason Searcy, an experienced attorney and panel trustee from the Eastern District of Texas, as examiner, the investigation is about to begin. The lesson here is solid lien creditors' diligence.

**Park Sausage, from page 1**

benefit the community."

But it probably takes a company as well renowned as Park Sausage to have the City of Baltimore, NationsBank and the Baltimore Development Corporation agree to forgive about half the company's debt. This kind of beneficence should give Park Sausage a tremendous jumpstart.

Park Sausage was the first black-owned business to offer public stock, and remained a showcase black business for many years. On May 24, due to poor sales figures and huge overhead expenses, the doors closed and about 180 workers went home. Park Sausage lost some of its biggest customers, including Domino's Pizza and Pizza Hut. Last year's sales dropped to \$20 million, down \$8 million from 1990. The company was about \$10 million in debt, with enormous overhead from a new \$16 million plant. The company owed about \$2.8 million to the city, mostly in housing loans, and about \$5 million to NationsBank.

Previous owner and chairman, Raymond Haysbert Sr. had been seeking new ownership who would keep the Park Sausage plant in Baltimore. Franco Harris, a majority owner of Pittsburgh-based Super Bakery Inc., is seemingly the perfect candidate.

While currently half of the original employees are back at their jobs, Ken Brown, chief operating officer of Park Sausage said, "If there is a demand for 8 million to 10 million pounds of sausage we will be hiring more employees. Right now we must keep our costs in line. We have a vision and a strategy. We had a very, very good transitional team and the final closing has now taken place. We're taking a company with new leadership and we're going to compete. We will pursue all key customers, and our primary lines of sausage toppings are all back on line. We are not even thinking bankruptcy." Brown was confident that with the debt restructuring and the many talents of Harris and Mitchell, Park Sausage will regain its sales volume.

Franco Harris, no stranger to luck, made what some call the luckiest catch in all of football with the "miracle catch," which launched the Steeler's into the AFC championship. But Harris is also no stranger to hard work, as he has singularly devoted himself to community business and development. His comment after winning the approval of the bankruptcy court was most telling: "Let's go man, I'm ready to go to work."



# Research Report

## Who's Who in Sizzler International, Inc.

by Nancy L. Wolfe

Sizzler International, Inc. and its subsidiaries filed for Chapter 11 bankruptcy protection on June 3, 1996 in the Central District of California. The company simultaneously announced the closing of 136 of its restaurants, mostly in Northern California, the Baltimore/Washington area, Florida and Philadelphia. The steakhouse restaurant chain planned to rid itself of long-term leases it held on its more unprofitable restaurants. Company officials said they hoped to emerge from bankruptcy within six to eight months.

The company reported about \$272 million in assets and \$98 million in liabilities at the time of filing. Sizzler is also expected to spend about \$108.9 million in restructuring and bankruptcy costs. In July, 1996, Sizzler reported a consolidated loss of \$138.45 million for the fiscal year ending April 30, 1996 due to losses from less profitable restaurants and the costs associated with restaurant closings and corporate restructuring. At the same time, the company said its remaining domestic restaurants were profitable for the fiscal year.

With the closings, Sizzler is left with 87 company-owned restaurants (down from 199 in April) and 235 franchises in the United States. Also, eight Buffalo Ranch restaurants owned by the company closed at the time of filing. About 4,600 employees, many of whom are part-time, will be affected. The company also owns about 40 Sizzlers and 93 Kentucky Fried Chicken properties overseas that will not be affected by the filing.

The company began in 1952 as a modest hamburger stand run by James Collins, the current chairman. The stand grew into Collins Food and in 1962, Collins added Kentucky Fried Chicken to his holdings, eventually opening 240 outlets throughout the country. In 1967, Collins acquired Sizzler Family Steak Houses and the company went public, becoming Collins Foods International in 1968. In 1991, he sold most of the KFC operations to PepsiCo—Sizzler's parent company—and the restaurant chain became Sizzler International.

Analysts say that Sizzler, which targets the middle-to-lower-priced end of the steakhouse market, fell victim to changing public tastes. Sizzler's buffet-style steak and salad operation has become less popular as increasingly discriminating clientele demand sit-down service and higher-quality food. Now the chain is pinning its hopes on converting the restaurants to more upscale facilities, offering table service and more up-scale food. First quarter results for 1996 show Sizzler with an increase in profits from \$436,000 in 1995 to \$494,000.

### The Debtor

Officers of Sizzler include **James A. Collins**, Chairman, **Kevin W. Perkins**, President and Chief Executive Officer, **Christopher R. Thomas**, Executive Vice President, Finance and Chief Financial Officer, and **Timothy J. Ryan**, President of Sizzler USA.

The debtor's counsel is **Pachulski, Stang, Ziehl & Young, P.C.** in Los Angeles. Partners **Richard Pachulski**, **Jim Stang**, **Brad Godshall** and associate **Deborah Grassgreen** work on the case. Other bankruptcy clients include the debtor in Gateway Educational Products, the debtor in Penguins Yogurt, Inc., the creditors' committee in First Executive Corp. and the trustee in Triad Health Care, Inc.

**Severson & Werson** in San Francisco is co-counsel, working on corporate, franchisee, labor and real estate issues. **Scott McNutt** and special counsel **Rebecca Litteneker** head the firm's efforts in the case.

**The Huntley Financial Corp.** in Sacramento is the debtor's real estate advisor. Partners **Steven Huntley**, **Thomas Mullaney**, and **David Spargo** work on the case. The Group is assisted by **Grubb & Ellis Real Estate** in Los Angeles. **Tim McMahon** and **Mike Hobbs** are in charge of the case.

**Arthur Anderson LLP** in Los Angeles is financial advisor to the debtor. Partner **Mark Rohman** and manager **Jeffrey Truitt** handle the case.

**Robert L. Berger & Associates** in Encino, California, provides various bankruptcy services to the debtor.

### The Official Committee of Unsecured Creditors

Members of the committee are **Rushton Backer**, **McAthco Enterprises**, **John Gogian**, **Marriott International**, **Foote, Cone & Belding** and **Dailey & Associates**.

Counsel to the committee is **Latham & Watkins** in Los Angeles. Partner **Bennett J. Murphy** heads the case for the firm along with associates **Peter Gilhuly**, **Martin Sabarsky** and **Rowland Chang**. Other bankruptcy clients include the bondholders' subcommittee in Orange County and the creditors' committee in Continental Airlines.

**Ernst & Young** in Los Angeles is financial advisor to the committee. Partners **Martin Nachimson** and **Ken White** are in charge.

### Official Franchisees' Committee

Committee members are holders of individual Sizzler franchises around the country.

The firm of **Lobel & Opera** in Irvine, California represents the committee. Partner **Robert Opera** and member **Pamela Karger** are in charge of the case. Other bankruptcy clients include the debtor in Bramalea, the creditors' committee in Auto Parts Club, Inc. and the trustee in Baldwin Builders.

### Subcommittee of Landlords

The subcommittee chairman is **Michael Lonegan** of the **Michael J. Lonegan Trust**. There are 19 other subcommittee members.

The committee is represented by **Clarkson & Gore** in Torrance, California. Partners **Scott Clarkson** and **Barry Gore** work on the case along with associate **Eve Marsella**. Other bankruptcy clients include the debtor in Orange County Airport Hotel Associates, Ltd. and creditor representation in Murdock Corp.

### The Trustee

In the Los Angeles Trustee's office, **Margaux Ross** is involved in the case.

### The Judge

The judge in the case is **The Honorable Arthur M. Greenwald** in the Central District of California.



## Tracking

### Bradlees

Bradlees Inc. is keeping up its struggle for survival since filing for Chapter 11 bankruptcy protection in June 1995. Bradlees initially closed 12 stores prior to filing for bankruptcy protection and it has now announced that 14 more of its remaining 124 stores will close within the next few months. All of the stores to be closed are losing money, and the company claims that Bradlees' financial performance should improve after the closings. It has been reported that the landlords of the closing stores were unwilling to reduce the rent for these stores, and now the affected leases will be rejected. The locations of the closings are scattered throughout the northeast. The company will also reduce the number of its operating divisions to nine geographic market areas. Bradlees obtained authority to conduct Going Out of Business Sales at each of the closing locations and Schottenstein Bernstein Capital Group, LLC has been retained as consultant for purposes of administering the Going Out of Business Sales, for a base compensation of \$100,000.

### Federated

Federated Department Stores Inc., based in Cincinnati, reported a loss of \$27.2 million for its second quarter ended August 3. The expenses of absorbing the Broadway Stores chain were cited as the primary reason for the loss which translated into a stock price reduction of 13 cents a share. Federated bought the 84-store Broadway chain last year, after buying the Macy's chain in late 1994. The consolidation of Broadway Stores into Federated's operating portfolio is, according to Allen Questrom, chairman and chief executive officer, "right on track and continues to go well." Questrom is excited by an improving California economy. Four former California Broadway locations are in the process of being converted to Bloomingdale's stores, with plans to open in the Fall.

### Ames

Ames Department Stores, Inc. reported a second quarter income increase to \$4.5 million, compared with last year's second quarter net income of \$3.2 million. Joseph R. Ettore, president and chief executive officer, said, "Our second quarter net income was nearly twice the \$2.3 million

projected in the business plan and, improvement primarily attributable to a better-than-plan gross margin rate and continued stringent expense control. In addition, despite below-plan sales, merchandise inventories are well controlled and at the end of the quarter were \$39 million below the same period last year." Ames plans to open 13 new stores in 1996, the most Ames has opened in one year since 1989.

### Kmart

The second quarter results are in, and Kmart Corporation reported total sales in the second quarter of \$8.312 billion, a decrease of 1.5 percent from \$8.4 billion from the second quarter of 1995. On a comparable store basis, consolidated sales for the quarter increased 1.6 percent and sales for U.S. Kmart stores increased 2.2 percent. Commenting on second quarter results, Floyd Hall, chairman, president and chief executive officer said, "Sales in our U.S. Kmart stores increased 2.9% for the first six months of 1996, which was below our expectations. While performance in our consumables categories was good, we look for improved performance in both hard and softlines in the second half of 1996. Gross margin rates appear to have stabilized, and we continue to see strong SG&A improvements, totaling \$222 million year to date."

Excluding non-recurring items, the first half of 1996 resulted in a net loss of \$4 million, as compared with a net loss of \$86 million in the first half of 1995. The net loss, including discontinued operations in 1996 was \$65 million compared with a net loss of \$82 million one year ago. Discontinued operations in 1996 included a \$61 million charge resulting from participation in the recent initial public offering of Thrifty PayLess Holdings, Inc. and the revaluation of the company's remaining holding.

### New Era Philanthropy

A settlement agreement has been reached in which creditors of New Era Philanthropy will receive as much as 65 cents on the dollar. A U.S. bankruptcy judge approved the \$39 million settlement, which will end one of the biggest charity fraud cases in U.S. history.

The SEC alleges that John Bennett, founder of New Era, who took no salary from New Era, diverted more than \$4

*continued on page 6*

# Calendar

## Bankruptcy'96-Views From the Bench 15 U.S. Bankruptcy Judges

Georgetown University Law Center  
September 27, 1996

Contact: (202) 408-0990

Fax: (202) 408-1431

## 12th Annual Farm, Ranch and Agri-Business Bankruptcy Institute

October 24-25, 1996

Holiday Inn

Lubbock Plaza, Lubbock, Texas

Contact: Max Tarbox (806) 797-7781

## Turnaround Management Association Annual Conference

November 8-12, 1996

J.W. Marriott, Washington, D.C.

Contact: Joseph Carol

(312) 857-7734

Fax: (312) 857-7739

## Commercial and Bankruptcy Law in the Next Millenium

Mid-South Commercial Law Institute

November 14-15, 1996

Hermitage Hotel, Nashville, Tennessee

Contact: Robert K. Rasmussen

Vanderbilt Law School

(615) 322-2810

## Fundamentals of Bankruptcy Law

Annual ALI-ABA Course of Study

November 14-16, 1996

Washington Court Hotel

Washington, D.C.

Contact: Alexander Hart, ALI-ABA

(215) 243-1630 or (800) CLE-NEWS

## Bankruptcy and Reorganization

November 21-22, 1996

PLI Training Center

810 Seventh Avenue at 53rd Street

New York, N.Y. 10019

Contact: (800)260-4PLI

Fax: (800) 321-0093

## ABI Winter Leadership Conference

December 5-7, 1996

Westin Mission Hills Resort

Rancho Mirage, California

Contact: Kristi Mumford

(703) 739-0800



# Special Report

## Profile: Standard Brands Paint Co.

by Nancy Wolfe

U.S. Bankruptcy Court, Central District of California  
The Honorable Kathleen P. March, presiding

**Counsel to the debtor:**

Joseph A. Eisenberg, Barry L. Burten  
Jeffer, Mangels, Butler & Marmaro LLP

Filed: December 27, 1995

Case Nos. 95-43812-14-KM

**Counsel to the Creditors' Committee:**

David Heroy, Timothy French  
Neal, Gerber & Eisenberg

### Background

Standard Brands Paint Co., Inc. was founded in 1939 in Delaware as the Satal Corp. and grew to number 58 stores by 1995. The stores, located mostly in California and the West, target do-it-yourself and handyman customers, selling paint, wall coverings, window treatments and art and hobby supplies. The Torrance, California-based company sells its own brand of paint, produced by Major Paint Co., a wholly owned subsidiary. It also sells brand name products.

The company had fallen into bankruptcy once before, in 1992, having filed as a result of a weak retail economy in Southern California and its inability to make its debt payments. When it emerged 15 months later, in May 1993, it had restructured through an agreement with Corimon, S.A.C.A. (a Venezuelan company that produces paint and related products); its own insurance company lenders; Fidelity Capital and Income Fund; and Kodak Retirement Income Plant Trust Fund.

In May 1995, Standard Brands restructured financially in order to create new capital and reduce debt. Additional lease payments, however, partly offset the debt payments, and management changes were made under the direction of Corimon Corp., which owned the majority of Standard Brands common stock and retained control of the company's affairs. In fiscal year 1995, as in the previous two years, the company suffered significant losses, with sales declining from \$226.7 million in 1993 to \$112 million in 1995. For fiscal 1995, the company suffered losses of \$48 million. A decline in sales, tied to the continued soft retail economy in Southern California and strong market competition, loomed heavily over Standard Brands in 1995. The company's high degree of leverage also placed it in a weak position to obtain future financing or make acquisitions. Standard Brands warned in a Securities and Exchange Commission filing (S-3) in June 1995 that if it could not generate sufficient cash flow from various sources it would be in danger of defaulting on its debt.

### Bankruptcy

By the end of October 1995, Standard Brands was in default with one of its lenders, and due to cross-default provisions in its loan agreements, that default applied to its other loan agreements as well. In addition, Corimon's ability to continue funding the company was hindered by a weak business and financial climate in Venezuela. Despite Corimon's efforts to keep the company afloat, a decision was made in December to file for Chapter 11. The strategy was to allow Standard Brands to reorganize and analyze its options to sell all or part of its assets, which the company was hoping to maximize.

Four months after the filing, the creditors' committee filed an objection to Standard Brands' continued use of cash collateral based on the grounds that prospects for reorganization of the company were remote and that the unsecured creditors would receive no proceeds from the liquidation of the debtor's assets. The committee also asked the Bankruptcy Court to convert the case to Chapter 7, stating that the company had no intention of restructuring and had admitted that they were looking at a liquidation from the beginning. The judge continued those motions several times while negotiations are underway.

### Current Status

Standard Brands has now closed and liquidated nearly all of its remaining retail outlets throughout the country after it became clear that, in light of continued operating losses, liquidation was the best option. However, the company continues to operate its Major Paint Co. facility in Torrance, California. Negotiations with the creditors' committee and other parties continue in order to decide whether Major Paint can continue to operate or will also be sold. In the meantime, Standard Brands has filed an emergency motion with Bankruptcy Court Judge Kathleen P. March to extend through November 17, 1996, the company's permission to use cash collateral for expenses related to the liquidation of its assets. The company says it needs authority to use funds amounting to \$254,521 to pay for expenses such as accounts receivable, personnel, equipment, rent and tax filings. In its court filing, Standard Brands states that the company will limit its expenditures to activities involved in facilitating the liquidation of its remaining assets and implementing a liquidating plan. If their request is not granted, company officials say they will have to immediately cease all business operations, which would probably cause them to convert to Chapter 7 and therefore incur additional costs and reduce payments to creditors. The Court's decision on the request is expected soon. As of August, 1996, Standard Brands had earned \$9.09 million from its going out of business sales, leaving a little over \$5 million for distribution to creditors.



# Worth Reading

## Bankruptcy Practice Handbook Second Edition

By Rosemary E. Williams

Publisher Clark Boardman and Callaghan

Telephone : (800) 323-1336

Two Looseleaf volumes-published 1995; annual updates

Price: \$250

by Debra Brennan

According to Rosemary Williams, the author of this two-volume handbook, this is the how-to-do-it bankruptcy manual for debtors, creditors and trustees. It has all the markings of a continuing legal education course for attorneys. And there are many attorneys who would benefit from the simplicity of the checklists, letters and forms. Williams claims that everything in the book has been field tested. She states that the emphasis in this book is on methods which reduce costs to the parties, while at the same time moving matters along promptly to a conclusion.

The sample forms for pleadings and model letters and questionnaires together with key questions that an attorney or trustee will need to ask are the real time-savers provided. Williams, a nationally practicing bankruptcy specialist, explains how to: prepare and file a proof of claim, initiate an involuntary case, develop a repayment plan, file initial papers for Chapter 7, 11, 12, or 13 cases, be admitted to practice before a bankruptcy court, decide which Chapter of the Bankruptcy Code to file under, negotiate an out-of-court settlement, act as administrator and litigant, analyze the statement of Financial Affairs, and compensate attorneys and accountants.

The book is organized by the Chapters of the Bankruptcy Code, and then from all perspectives of Debtor, Creditor and Trustee in each Chapter. Also included in the handbook are the Rules of Bankruptcy procedure, United States Code Distribution table and the Bankruptcy rules distribution table.

The relevant amendments of the Bankruptcy Reform Act of 1994 are reflected within the handbook. Checklists are included which cover: the discovery of possible problem areas, determining under which Code chapter to file, developing a repayment plan, preparing a debtor's budget, possible assets which debtors may have as a source of cash, topics to discuss at a meeting of creditors, possible exemptions which a debtor may take, items to consider for a Chapter 13 statement and plan, actions to take once a Chapter case is commenced and topics to discuss at a client conference.

The Bankruptcy Practice Handbook also answers the following questions: How does a receivership differ from an assignment for benefit of creditors? What is the deadline for filing proofs of claim in a Chapter 7 case? What can you do to prevent a Chapter 11 "cramdown"? When should a petition for bankruptcy be filed? When should filing be postponed? What are the disadvantages of filing for relief under Chapter 11? At the end of the second volume is a good bibliography for continued and more extensive research.

For an attorney who does not specialize in bankruptcy, or for a novice attorney, this handbook is an excellent step-by-step manual. It is basic and understandable. Any trustee who is not familiar with the material covered would also benefit by adding this to his or her library. These are the fundamentals, made easier by the benefit of the experience of a long time practitioner.

*Rosemary E. Williams is a member of the California and Texas bars.*

## Tracking, from page 4

went to pay consulting firms he controlled. Bennett agreed to turn over all his assets to his creditors, and he still faces possible criminal charges and lawsuits by federal regulators. Under the settlement, groups that did receive grants from New Era agreed to return their profits to help pay off creditors who failed to receive their grants.

## Morrison Knudsen

A bankruptcy judge approved Morrison Knudsen Corp.'s reorganization plan under which Morrison Knudsen will merge with Washington Construction Group Inc., based in Highland, California. Under the reorganization plan, the \$360 million debt will be eliminated, the secured creditors will receive \$13.3 million in cash and 24.1 million common shares of stock in the new company. Dennis R. Washington, who founded Washington Construction in 1964, will be chairman of the newly merged company, and Robert Tinstman, president and chief executive of Morrison Knudsen will remain in those positions. The company will retain the Morrison Knudsen Corp. name and its headquarters will remain in Boise.

## Caldor

Twelve stores, located in Connecticut, Massachusetts and New York are closing with the approval of Bankruptcy Judge Garrity. The Caldor Corporation is seeking to extend the exclusive period during which to file a plan of reorganization until February 28, 1997. Caldor has continued to advise the Court that there is fierce competition and an extremely difficult environment for discount retailers, making the formulation of their business plan painstaking and time-consuming. And no doubt, Caldor wants to take a good look at the 1996 holiday season before committing to a plan.

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*[listserv@bankrupt.com](mailto:listserv@bankrupt.com)*

*Both services are free.*



# Special Report

## Sources of Debtor-in-Possession Financing

Firm	Contact	Phone	Range/Recent DIP Loans
Bankers Trust Company Equity Syndicate Group New York, NY	Arthur B. Schoen, Jr. Amelia Silver Timothy Hynes	(212) 250-3439 (212) 250-4945 (212) 250-5067	Range of \$25-\$800 million G. Heileman Brewing (\$10 million) Grand Union (\$150 million) Wherehouse Entertain. (\$30 million)
Chase Manhattan Bank Restructuring & Finance Department New York, NY	William C. Repko Norma C. Corio Jane P. Jacobs	(212) 270-3457 (212) 270-5176 (212) 270-4993	Range from \$40 million up Caldor (\$250 million) Bradlees (\$250 million) Barneys (\$100 million)
The CIT Group/Business Credit, Inc. New York, NY	Mitchell Drucker Eric F. Miller	(212) 536-1277 (212) 536-1298	Range of \$10-\$300 million Nat'l Merchandise (\$35 million) Clothestime (\$25 million) Today's Man (\$20 million)
Congress Financial Corp. New York, NY	Barry A. Kastner Daniel Wolf David Weinstein	(212) 545-4316 (212) 545-4385 (212) 545-4442	Range of \$3-\$200 million Pic N' Pay Stores (\$25 million) Ernst Home Centers (\$80 million) Rickel Home Centers (\$80 million)
FINOVA Commercial Finance Los Angeles, CA	J.D. Christensen Vic Slaiciunas Rick Zagone	(213) 253-1668 (212) 403-0914 (312) 322-7250	Range of \$.5 to \$5 million
Foothill Capital Los Angeles, CA	Craig Noell	(310) 996-7015	Range of \$5-\$50 million Spectravision (\$40 million) Lamonts Apparel (\$32 million)
GE Capital Commercial Finance New York, NY	Diane L. Burton Stuart Armstrong John W. Tomes Thomas L. Minick	(212) 370-8000 (212) 370-8007 (310) 284-2776 (404) 814-3111	Range from \$5 million up Forstmann (\$85 million) FoxMeyer (\$775 million) 7Up/RC So. Cal. (\$54 million)
Norwest Bank Minnesota Minneapolis, MN	Tom Swan Douglas Vitek Brian Waldinger	(612) 673-8682 (612) 673-8684 (612) 673-8638	Range of \$2-\$10 million
SunTrust Bank Supervised Finance Dept. Orlando, FL	Kurt V. Putkonen	(407) 234-4755	Range of \$1-25 million
Transamerica Business Credit Rosemont, IL	Charles L. Smead	(847) 685-1109	Range of \$10-125 million Bibb Co. (\$100 million) Plaid Clothing Group (\$75 million)
Wells Fargo Bank Los Angeles, CA	Stanley R. Jeppsen Jeffrey P. Rose	(213) 253-3554 (213) 253-6223	Range from \$5 million up House of Fabrics (\$30 million) Sizzler International (\$15 million)

# Gnome de Plume

## It's Show Time

by Christopher Beard

We're there. It's crunch time for Bradlees and Caldor. Both need a big Christmas. Both filed in 1995, and this December will be their second holiday season in Chapter 11. Last Christmas stunk. And there are bad omens for this year.

Bradlees and Caldor were the Tweedledum and Tweedledee of discount retailers. They were both aggressive advertisers who promoted sale items at deep discounts to build store traffic. Their profit margins were in the regular merchandise. Both are regional chains operating primarily in the Northeast, and both are trying to find a way to survive competing with Wal-Mart's Everyday Low Prices and Kmart's Blue Light Specials. And Target is coming. The market pie will have to be cut one more time, and, unfortunately, Target usually takes more than its fair share.

Bradlees filed Chapter 11 on June 23, 1995, in the Southern District of New York and is before Judge Lifland. It had 136 stores when it filed and had started 1995 with \$163 million in book equity. That went quick. During 1995 Bradlees lost over \$30 million in each of the first three quarters and a whopping \$109 million in the fourth quarter. That's a \$200 million loss for the year.

To their credit, Bradlees' management figured they better do something. They added more soft goods and fashion merchandise, and they bumped the prices, effectively abandoning their traditional market. J.C. Penney successfully made a similar market transition some years ago, but in today's environment it's a high wire act without a net. Bradlees projected losses for the first three quarters of this year and should go into the Christmas season with a negative net worth of about \$120 million. The company anticipates a profit of \$17 million for the fourth quarter but that still leaves a horrendous loss for the year. Bradlees needs some solid gains to demonstrate the viability of the makeover and build some confidence in its prospects.

If Bradlees is drawing to an inside straight, Caldor is standing pat. But a winning attitude and gritty determination coupled with the old game plan probably won't cut it.

Caldor was a chain of 163 stores located in ten East Coast states when it filed in Manhattan on September 18, 1995, before Judge Garrity. Caldor had \$337 million in equity in January 1995, but it lost \$300 million in the following year. Yikes. And same store sales are down. Ouch. Caldor should enter the Christmas season with a negative net worth of about \$35 million. Unless there's a marked improvement in Caldor's performance, there's not much reason to continue traveling down the same road towards oblivion.

If Christmas is a bust, it's time to review the bidding. This is not rocket science. Both companies got mauled by Wal-Mart and Kmart and ended up in Chapter 11. Both are giving it another shot. If it doesn't work this time, the market will have made a definitive statement. The customers will have voted. Again.

After the equity is gone, you're spending the creditors' money. If a company can't make it work after a couple of cracks at restructuring, it's time to shut down the business. Forcing creditors to invest in failed ideas and unrealistic dreams is a gross abuse and undermines the entire bankruptcy process.

It's show time.

*Christopher Beard is the publisher of Turnarounds & Workouts*

### Future Issues:

- *Who's Who in Barney's*
- *Bankruptcy Professionals in Major Canadian Accounting Firms*
- *Profile: House of Fabrics*

## Recent Filings

**Kuppenheimer Manufacturing Co., Inc.** and its subsidiaries filed for Chapter 11 protection on August 6, 1996 in the District of Delaware in Wilmington. The company sells men's and boys' suits, sportswear and coats as well as tailored items and other clothing accessories. The company is privately held.

**Presidio Oil Co.** filed for Chapter 11 protection in the District of Delaware on August 5, 1996. The Company explores, develops and produces oil and natural gas. Accounting services are provided to the debtor by **Deloitte & Touche**.

**Camelot Music, Inc.** filed for Chapter 11 protection in the District of Delaware on August 9, 1996. The company is a retailer of prerecorded music, compact discs, audio tapes, video tapes and music related products. The company is privately held.

**Comptronix Corp.** filed for Chapter 11 protection in the Middle District of Tennessee. The company provides contract manufacturing services to the electronics industry. Accounting services are provided to the debtor by **Arthur Andersen & Co.**

**Gander Mountain Inc.** filed for Chapter 11 protection in the Eastern District of Wisconsin. The company markets and sells outdoor recreational equipment and clothing. Accounting services to the debtor are provided by **Price Waterhouse**.

**FoxMeyer Corporation** filed for Chapter 11 protection in the District of Delaware on August 27, 1996. The company distributes pharmaceutical products and health and beauty aids. Accounting services to the debtor are provided by **Deloitte & Touche**. Attorney for the debtor is **D.J. Baker of Weil, Gotshal & Manges, L.L.P.** of Houston, Texas.