The Daily Bankruptcy Review℠

COVERING KEY ISSUES AND EVENTS IN DISTRESSED SITUATIONS FOR THE INVESTMENT COMMUNITY

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Asbestos Panel To Act In Babcock & Wilcox Transfer Suit; Seeks To Void $900 Million Of Transfers

By Deborah Eckert

A committee representing individuals with asbestos claims against **Babcock & Wilcox Co.** will be a plaintiff in a suit the company initiated to protect its cancellation of a $313 million note receivable from its parent in 1998, as well as certain stock transfers.

However, while Babcock & Wilcox is seeking to keep these transfers from being voided, the committee said it believes the transfers, which it values at $900 million, were "clearly fraudulent," committee counsel Elihu Inselbuch of Caplin & Drysdale told **DBR** Tuesday.

Within the next six days, the committee hopes to file a complaint in the proceeding that seeks to have the transfers voided, said committee co-counsel Peter Van N. Lockwood, also of Caplin & DrysdaleThe committee won the right to intervene and act as plaintiff in the suit at a hearing Wednesday before the U.S. Bankruptcy Court in New Orleans.

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Bradlees Panel Seeks To Settle Officers' Severance Claims

By Carol McCleary

After investigating **Bradlees Stores Inc.'s (BRADE)** $2.7 million payment of severance benefits to 11 former executives days before the discount retailer filed for Chapter 11 protection, the creditors' committee in the bankruptcy case concluded that claims may exist against certain officers, as well as former CEO Peter Thorner, who received a $6.7 million severance payment.

Recognizing the potential difficulties and cost in bringing a lawsuit against the officers and Thorner, the committee entered into settlement talks with the executives and is seeking court approval of the settlements. Bradlees doesn't object to the settlements, according to court papers filed by the committee.

As a result of the settlements, a $6 million letter of credit and about $6 million in collateral securing the credit line will be released to the estate and available for distribution to creditors.

The letter of credit secured Thorner's salary, benefits and bonuses under his pre-petition employment agreement. The committee questioned the company's

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Decora Industries' Proposed Retention Plan Faces Objection

Objecting to **Decora Industries Inc.'s (X.DIS)** request to implement an employee severance and incentive plan, former outside counsel to the company Miller & Holguin said the proposed plan is an unreasonable exercise of the company's business judgment.

A hearing on the matter hasn't yet been scheduled, Christopher S. Sontchi told **DBR** yesterday.

Miller & Holguin and Decora are currently in litigation over an unpaid pre-petition fee owed to the firm, Sontchi explained.

The retention plans are designed to induce certain key employees and management to stay pending the completion of a sale and to provide Decora's senior management with incentives to maximize the estates' recovery in connection with the sale.

Miller & Holguin said in its objection that the company must disclose its business purpose, the characteristics of the retention plan, and proof that the benefits of the plan outweigh any countervailing concerns.

The company's reasons for the retention plan are insufficient for a retention plan that is "deficient in design, imposes a financial burden on the creditors of these estates and will result in additional administrative debt."

Furthermore, Miller & Holguin said Decora hasn't sufficiently shown that the retention plan is consistent with industry standards, or that it will provide an incentive to any Decora employee to remain with the company.

In addition, the objection said it is "outrageous to suggest that the estate's resources should be further depleted to provide senior management with incentives to do what they already legally are obligated to do."

Miller & Holguin accused Decora's Chief Executive Ron Artzer of using bankruptcy as an opportunity "to bolster executive compensation."

Finally, the objection said there is no evidence that the sale of Decora's assets is in the best interests of the company's creditors because the company has previously asserted that a reorganization is in the best interests of the company and its creditors.

As reported, Decora hired Houlihan Lokey Howard & Zukin to market its assets for sale and is in negotiations over the terms of a purchase agreement with a prospective purchaser. The company expects to file a motion for an order approving the bidding procedures and purchase agreement within the next few weeks.

Decora estimated that the maximum cost of the severance plan would be about $1.9 million.

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U.S. Interactive Seeks 90-Day Plan Filing Extension

U.S. Interactive Inc. (USITQ) seeks court approval for a 90-day extension of its exclusive periods to both file a reorganization plan and solicit plan votes.

A hearing is scheduled for Wednesday before the U.S. Bankruptcy Court in Wilmington, Del., according to documents recently obtained by **DBR**.

If its request is granted, the King of Prussia, Pa.-based Internet professional services provider would have until Aug. 22 to file its plan and until Oct. 22 to obtain acceptances for it.

U.S. Interactive's current exclusive periods were to expire on May 22 and July 21, according to the motion.

Since filing for Chapter 11, the company has focused on stabilizing its core business and attempting to negotiate a consensual reorganization plan with its major creditors.

U.S. Interactive said in its motion that it believes a 90-day extension should be sufficient to permit the company to complete the closing of the pending asset sale and solicit acceptances of the plan.

In support of its request, the company said the extension of the exclusive periods won't prejudice the interests of any creditors or other parties-in-interest. "To the contrary, such extension will substantially further the Debtor's efforts to maximize the value of their estates," the motion says.

The company also cited the size and complexity of its case as justification for the extension.

As reported, U.S. Interactive's shares were recently delisted from the Nasdaq National Market after the company failed to meet continued listing requirements.

U.S. Interactive filed a Chapter 11 bankruptcy petition on Jan. 22. The company reported $386.7 million in assets and $107.5 million in liabilities as of Sept. 30 in its most recent quarterly report filed Nov. 20 with the Securities and Exchange Commission. ***DBR***

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Pros Say Turnaround Hard For Highly Leveraged Tech Companies

Many highly leveraged technology or dot-com companies that are in or are nearing bankruptcy might not be able to implement a successful turnaround, according to crisis turnaround specialists speaking Wednesday at the Distressed Debt Investing Conference, sponsored by the Strategic Research Institute.

"Internet recovery workout is an oxymoron," according to conference speaker Steven Gerbsman, principal at Gerbsman Partners/Internet Recovery Group. He listed a host of problems facing troubled dot-com companies, such as inexperienced managers, a lack of hard assets, no short-term cash generation, no capital discipline and weak business development.

The problem isn't limited to dot-com companies, as technology companies often have more hard assets yet some of the same problems.

John Brincko, president of Brincko Associates Inc., stated that companies such as **eToys Inc.**, **PSINet Inc.**, **Winstar Communications Inc.** and **NorthPoint Communications Group Inc.** have troubles that range from lack of cash flow to flawed business models to technology becoming rapidly obsolete.

These obstacles are piled on top of the traditional problem facing distressed companies - that of a heavy debt load.

The one thing these companies do have is intellectual capital, Gerbsman said, but the difficulty is in assessing the worth of that capital, which can be in the form of a business model, employees, source code or customer lists.

Gerbsman said only about 10% to 15% of companies with intellectual capital as their largest asset have been successfully reorganized.

"The value of intellectual capital is based on the market caring," Gerbsman points out. Often by the time warning bells are signaling, the company with intellectual capital to sell lacks the cash needed to keep the company going long enough to create an auction, which he estimates to be 60 days.

Gerbsman added that there's a wide disparity on the value that the market gives intellectual capital, ranging from $500,000 to $10 million.

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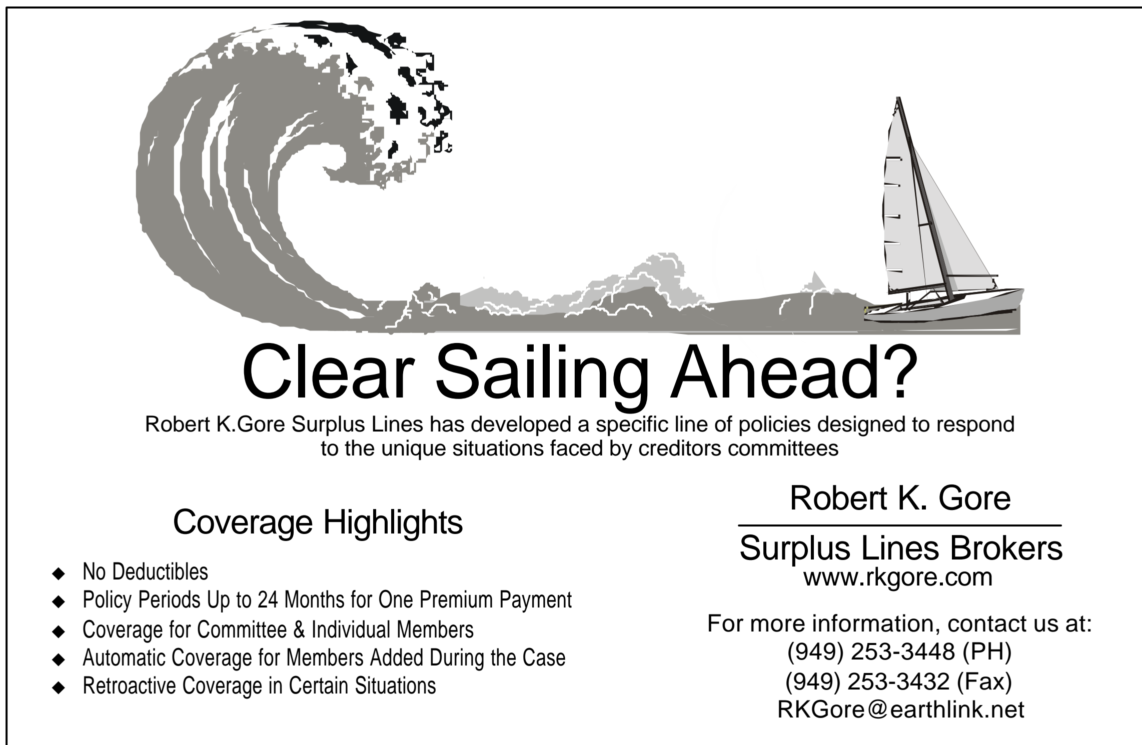

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In California Utility Drama, Bankruptcy's Star Brightens

Bankruptcy may be gloomy, but it does have its bright spots.

At least, that's the conclusion of some creditors, utility executives and lawmakers, who said PG&E Corp. unit **Pacific Gas & Electric Co.'s** move into bankruptcy court last month has replaced chaotic attempts to negotiate a political solution to the utility's financial woes with orderly proceedings handled by a judge.

To be sure, Pacific Gas & Electric's bankruptcy hearings aren't very advanced and have yet to tackle the thorny issues that have snarled attempts to work out a political deal for Edison International Inc. unit Southern California Edison Co. And the office of Gov. Gray Davis and Edison itself warn that embracing bankruptcy is dangerous business. Nevertheless, after a month of experimentation, there are those who think Pacific Gas & Electric's experience points the way forward.

"I've always said ratepayers and taxpayers may very well be better off having both utilities in bankruptcy," said state Sen. Debra Bowen, chairwoman of the Senate energy committee. "Bankruptcy has gotten a whole lot less scary for a lot of people since PG&E went in. Service is being provided, people and bills are being paid, and virtually all of their (small generators) are back on line. Sitting here today, ratepayers and taxpayers would appear to be a whole lot better off in that situation than they would be under the Edison MOU."

In early April, Pacific Gas & Electric and Southern California Edison, both insolvent and saddled with massive losses by a flawed deregulation scheme, took radically different approaches to resolving their difficulties. Citing frustration with the political process, Pacific Gas & Electric broke off talks with the governor and filed for bankruptcy protection. Southern California Edison, on the other hand, moved quickly to close a deal.

Since then, shares in both companies have traded in the same range.

"I don't see that much of a difference in the way these stocks are trading," said Paul Patterson, a utilities analyst with Credit Suisse First Boston in New York. "I don't think the market is placing much distinction between the two stocks."

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California Assembly GOP Releases 'Plan R' To Rescue Electric Utilities

California's Assembly Republicans on Wednesday released "Plan R," an alternative to Democratic proposals on how to restore the state's financially struggling utilities to solvency.

The plan put forth by the Republicans, who are in the minority in the Assembly, would have Edison International Inc. unit Southern California Edison Co. and PG&E Corp. unit **Pacific Gas and Electric Co.** pay down debts by way of a dedicated-rate component taken from existing utility rates, including a rate hike effective March 27.

Plan R would also increase the utilities' future return on investment, and allow for cost recovery in the future, a press release said. The utilities have incurred more than $14 billion in undercollections because under a rate freeze they couldn't pass high wholesale power costs to customers. Utility rates are frozen through March 2002, unless state regulators decide to lift the freeze sooner.

To help lower rates, utilities would be required under Plan R to produce more short-term and long-term power as well as sign long-term contracts to hedge against real-time price spikes. Lower rates would also come from negotiating reduced prices for power bought from qualifying facilities and from negotiating with larger generators to accept only 70% of the money they are owed for past power deliveries.

"The critical element (of a 30% concession) must come from the governor's leadership," said Assembly Republican leader Dave Cox. "Republicans aren't going to support any plan without a comparable negotiated concession from generators by the governor."

The governor met with generators two weeks ago and asked them to accept 70 cents on the dollar from utilities. Most haven't said definitively whether they are willing to accept those terms, although Reliant has flatly refused to accept less than 100%.

Plan R is a response to Gov. Gray Davis' plan to buy SoCal Ed's transmission lines for $2.76 billion and to help the utility issue $3 billion in bonds backed by ratepayer revenue.

"The Republican plan is a shared solution that delivers more power to the grid. The governor's plan socks

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Court OKs Waste Systems' Use Of Cash Collateral Extension

U.S. Bankruptcy Judge Mary F. Walrath approved a stipulation extending through Dec. 15 **Waste Systems International Inc.'s (WSIIQ)** use of Howard Bank N.A. cash collateral.

Judge Walrath of the U.S. Bankruptcy Court in Wilmington, Del., signed the order on May 10, according to documents recently obtained by **DBR**.

As reported, on Feb. 27, the court granted the non-hazardous solid waste management company interim use of up to $1.8 million of cash collateral through May 12.

As adequate protection, the bank is entitled on the 15th day of each month beginning Feb. 15, to pay itself from the escrow funds an amount equal to the interest accrued on the outstanding balance of the obligations at the default rate specified in the Howard Bank loan agreement.

Once the company exhausts the escrow funds, Waste Systems will continue paying the bank a set amount on the 15th day of each month. The bank agreed that it would not declare an event of default by reason of the exhaustion of escrow funds prior to May 12.

Furthermore, in connection with the extended use of cash collateral, the bank has waived its lien against proceeds of sale of the collateral included as part of Waste Systems' sale of its Londonderry, N.H., transfer station and related assets and the company's Lynn, Mass.-based transfer station and related assets.

As adequate protection for the cash collateral, Howard Bank has a valid and perfected lien on all the company's accounts receivables, contract rights, general intangibles and deposit accounts.

Howard Bank's lien on the pre- and post-petition collateral is senior to the debtor-in-possession lender's lien.

As reported, despite an objection filed by Waste Systems' unsecured creditors' committee, Judge Walrath approved the company's request for an extension of its exclusive periods to both file a reorganization plan and solicit plan votes.

The Lexington, Mass.-based company now has until Sept. 30 to file a plan and until Nov. 30 to solicit plan votes.

Waste Systems International's Chapter 11 petition, filed Jan. 11, discloses that the company had assets of $202.4 million and debts of $167 million as of Nov. 30. The company also filed petitions for 30 of its affiliates. ***DBR***

Mariner Health Seeks Two-Month Exclusivity Extension

Mariner Health Group Inc. (MRNR) is asking the court for a two-month extension of its exclusive periods in which only the company can file a reorganization plan and solicit its acceptance.

The long-term care provider wants to July 20 to file a plan with the court and until Sept. 20 to lobby for its acceptance. A hearing on the issue is scheduled for June 1 in the U.S. Bankruptcy Court in Wilmington, Del. Objections were due yesterday. Should the court turn down the company's request, the exclusivity periods expire May 17 and July 16.

In papers filed with the court, Mariner said it needs more time because of the complexity of its case.

Mariner Health is a wholly owned unit of bankrupt **Mariner Post-Acute Network Inc.** of Atlanta. As of November, the parent company operated about 360 long-term care facilities that provide skilled-nursing and assisted living services in 25 states. Mariner Health operates 73 skilled nursing facilities with 9,800 licensed beds in 14 states.

Since filing for bankruptcy on Jan. 18, Mariner has obtained and renewed its debtor-in-possession financing, which enabled the company to continue operations, provide post-petition vendors with assurance of payment and satisfy regulators' concerns, the motion said.

The company also said it has worked to control its cash flow, allowing them to operate generally within the budgets prepared in connection with the debtor-in-possession financing. This has allowed the company to maintain a positive cash flow throughout its Chapter 11 proceedings.

In a quarterly report filed with the Securities and Exchange Commission, Mariner Health's parent company posted a $13 million net gain, or 18 cents a share, for the three months ended March 31. The figure compares with a net loss of $14 million, or 19 cents a share, for the same period in 2000. Mariner Post's Chapter 11 petition listed assets of $1.3 billion and liabilities of $2.7 billion.

The motion said Mariner Health is in the initial stages of plan talks with its principal creditors and that the process needs more time to produce an acceptable plan.

In addition, the company said the number of facilities involved is prolonging the process. Mariner Health

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Bridge Information Says 35 Parties Have Expressed Interest In Assets

Bridge Information Systems Inc. (X.BSY) said 35 parties have expressed interest in its remaining assets.

Bridge, a provider of financial information and related services, filed for Chapter 11 bankruptcy Feb. 15. After an auction process that lasted several days, Reuters Group PLC agreed to buy many of Bridge's assets, including Bridge Information Systems in North America, for $275 million.

U.S. Bankruptcy Judge David P. McDonald approved the asset sale to Reuters.

Interest has been expressed for virtually all of Bridge's remaining assets, including Telerate, BridgeNews, Bridge Trading Room Systems, Commodity Research Bureau, Prescient Markets and Bridge operations in Europe and Asia, Bridge spokesman Joel Weiden said. Telerate and BridgeNews garnered the most interest, he said.

Weiden declined to name who had expressed interest in the assets.

The interested parties have started their due diligence on the assets and that process will continue until June 13, Bridge spokesman Weiden said. Formal bids, including dollar amounts, are due by June 20, he said.

Judge McDonald signed an order on May 11 laying out the timeline for the sales procedure for Bridge's assets that weren't purchased by Reuters. Parties had until Wednesday to let Bridge know of their interest. That written interest had to include what assets the party is interested in, due diligence requirements, financing sources and other information.

Although the sales process has been laid out and the 35 interested parties have complied with it, Weiden said he "can't imagine" that Bridge wouldn't consider an attractive bid by a party that hasn't already expressed interest.

"But this has been going on for so long that I think we've heard from all we'll hear from," Weiden said.

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Daily Bankruptcy Review Forward Calendar

Date	Company	Event
5/29	Flooring America Inc.	Hearing in Atlanta on request to convert case to Chapter 7
5/29	American Homestar Corp.	Continued hearing in Galveston, Texas, on exclusivity extension request
5/30	Holt Group Inc.	Hearing in Wilmington on final DIP loan approval, Rule 2004 exam request
5/30	Grove Worldwide	Final DIP facility hearing in Harrisburg, Pa.
5/30	U.S. Interactive Inc.	Hearing in Wilmington on exclusivity extension request
5/31	e.spire Communications Inc.	Creditors' meeting in Wilmington
5/31	Borden Chemicals & Plastics Operating L.P.	Final DIP facility hearing in Wilmington
5/31	Metal Management Inc.	Reorganization plan disclosure statement hearing in Wilmington
6/1	Einstein/Noah Bagel Corp.	Asset sale hearing in Phoenix
6/1	Mariner Health Group Inc.	Hearing in Wilmington on exclusivity extension request
6/1	Bradlees Inc.	Objections due to settlement of officers' claims

* information is from sources believed to be reliable, but accuracy cannot be guaranteed.

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Babcock & Wilcox *(Continued from page 1)*

Babcock & Wilcox filed the suit - which seeks a declaration that the transfers didn't involve or cause an insolvent Babcock & Wilcox and aren't voidable - late last month against its direct parent Babcock & Wilcox Investment Co. and several other affiliates. The defendants don't oppose Babcock & Wilcox's request, but were named because of their involvement in the transfers.

Although no formal claims had been made, New Orleans-based Babcock & Wilcox said the committee had contended that the reorganization included transfers that may be voided under bankruptcy or state law. Babcock & Wilcox said that, among other things, the contentions were hurting its reorganization efforts because it created a gap between the parties' expectations for the value of assets available to fund the Chapter 11 plan.

Voiding the transfers could increase the assets available to the claimants and other creditors in the industrial power generation systems designer and manufacturer's Chapter 11 case.

On Tuesday, one day before the committee won the right to join the suit, committee counsel Inselbuch called the suit initiated by Babcock & Wilcox "a joke."

Inselbuch said that about one year before filing for Chapter 11, Babcock & Wilcox - which saw bankruptcy as the only way to resolve a substantial amount of asbestos claims asserted against it - passed $900 million of assets upstream to a company with no asbestos liabilities.

The transfers are fraudulent as a matter of law because no consideration was provided in exchange for the transfers and the transfers either were made when Babcock & Wilcox was insolvent or caused its insolvency, Inselbuch said.

The committee is seeking a jury trial before the U.S. District Court in New Orleans, rather than having the matter decided by the bankruptcy court. The district court will consider this request at a hearing on June 13.

Both Babcock & Wilcox and its ultimate parent McDermott International Inc. dispute the contention that the transfers either were made when Babcock & Wilcox was insolvent or caused it to be insolvent.

Don Washington of McDermott International said the transfers were done as part of a reorganization recommended by Merrill Lynch Pierce Fenner & Smith Inc. The firm said the companies' structure at that time made it difficult for investors to understand their full value. The firm recommended that the entities, which conducted separate businesses, be set up separately.

Heeding this advice, Babcock & Wilcox transferred all of the stock of its subsidiaries BWX Technologies Inc., Hudson Products Corp. and McDermott Technology Inc. to its parent Babcock & Wilcox Investment. BWX Technologies is the sole-source supplier of nuclear fuel and nuclear reactor equipment for the U.S. Navy's nuclear fleet; Hudson supplies air-cooled heat exchangers and other manufactured products for industrial process systems; and McDermott Technology is a research and development division.

Also transferred to the parent was a $313 million note receivable from the parent and a financial asset known as Babcock & Wilcox Tracy Power Inc., which in effect consisted of a $102.7 million note receivable from the parent to Babcock & Wilcox. Tracey Power was incorporated to develop a project that never materialized, Washington has said.

Babcock & Wilcox hasn't yet estimated the value of the transfers at issue.

The court is scheduled to consider which laws apply to the transaction at a hearing June 25 and the insolvency issue in late August.

In its complaint, Babcock & Wilcox said whether or not the transfers could be voided must be determined under a Louisiana law that permits creditors to void acts that cause or increase an obligor's insolvency.

Babcock & Wilcox argues that on June 30, 1998, immediately before the transfers at issue, its book value was $791.2 million. After the transfers on July 1, 1998, the company's net worth was $169.2 million on a book-value basis and at least that much if an enterprise valuation is used that takes into account asbestos liabilities. Babcock & Wilcox also said that in 1998, its assessment of assets and liabilities didn't consider about $818 million of additional insurance coverage that could be available.

Although Babcock & Wilcox and the defendants opposed the committee's involvement in the action, they are "encouraged dates are set for hearing these issues" and hope the matter will be resolved "as quickly and efficiently as possible," Washington told **DBR** yesteray.

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Bradlees *(Continued from page 1)*

agreement in September 2000 to raise the letter of credit from $3 million to $6 million. Thorner, however, denied the existence of any claims against him in connection with the increased letter of credit.

Under the proposed settlements, the officers will have administrative expense claims totaling $899,913 and general unsecured claims totaling $2,580,513 for amounts due under the company's supplemental executive retirement plan, or SERP.

Meanwhile, Thorner will have an allowed administrative expense claim of not more than $4.1 million, which has already been partially paid in the amount of $3.7 million - leaving a net administrative claim of $413,635. Thorner will also have a $4.9 million general unsecured claim for the balance of his SERP claim.

"The proposed settlements effectively are fair, as neither the Settling Officers nor Thorner will receive, on account of their SERP or severance claims, any amounts greater than they each would otherwise be entitled to receive through the normal Chapter 11 distribution process," the committee said.

The U.S. Bankruptcy Court in Manhattan has scheduled a hearing on the matter for June 6, with objections due June 1.

Bradlees' Chapter 11 petition, filed on Dec. 26, 2000, listed assets of $553.2 million and debts of $525.8 million. The filing marked the company's second bankruptcy filing in five years.

As reported, going-out-of-business sales at the company's stores ended Feb. 5. The court on Jan. 30 approved Bradlees' sale of its interest in 105 store leases to Stop & Shop Supermarket Co. Stop & Shop, which owned Bradlees for 31 years before spinning it off in 1992, is owned by Dutch retail giant Royal Ahold NV. *DBR*

Babcock & Wilcox *(Continued from page 7)*

Washington said that it's the companies' understanding that Babcock & Wilcox is a co-plaintiff with the committee but expects the committee to file a motion seeking to define each party's role.

The committee said it will move to have Babcock & Wilcox realigned as a defendant, but at the end of the day it won't matter much because each party will have an opportunity to present its own position regardless. *DBR*

Decora *(Continued from page 2)*

If the total proceeds from the sale, less fees payable to Houlihan Lokey, severance payments, and the total amount outstanding of the DIP financing, is less than $3.324 million, the value of the incentive pool would be zero and the covered employees wouldn't receive any incentive payments, according to Decora's motion.

However, if the proceeds are $3.324 million or more, the incentive pool would include $400,000 plus a percentage of the net proceeds in excess of $3.324 million.

The total incentive amount would be allocated as follows: 75% of the first $480,000 would be paid to Artzer and 25% to Chief Financial Officer Robert J. Hanlon. Any amount in excess of $480,000 would be paid to all the covered officers at varying percentages.

Decora said in its motion that if it loses these employees, not only would it lose valuable experience and expertise, but the sale itself may be jeopardized too.

Decora Industries and its **Decora Inc.** subsidiary filed prepackaged Chapter 11 bankruptcy petitions, listing assets of $105.7 million and liabilities of $120.1 million. *DBR*

Mariner Health *(Continued from page 5)*

said it has spent substantial time identifying operations and assets that will be part of the reorganized business and those that should be terminated.

"The debtors are not seeking to use exclusivity to pressure creditors to support a plan that is unacceptable to them," the motion said. "The debtors are now in the process of addressing matters that will have a significant impact on a plan of reorganization." *DBR*

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Calif. Utility Drama *(Continued from page 4)*

Creditors Comforted By Orderly Process

Pacific Gas & Electric's creditors, however, are taking some comfort in the Pacific Gas & Electric bankruptcy proceedings, because they provide some certainty that they will be paid. During the past two weeks, the utility's small independent power producers have been paid in full for current power sales, tens of millions of dollars in past due property taxes have been paid to counties, and funding for an energy efficiency program has been approved.

"It doesn't surprise me that bankruptcy is more orderly than the legislative process," said Allan Marks, an attorney representing the PG&E unsecured creditors' committee appointed by the bankruptcy court and U.S. Trustee. "The Legislature has to balance a whole lot of competing interests. In Bankruptcy Court, the judge has a relatively narrow role and doesn't make public policy directly."

Southern California Edison, meanwhile, faces an uncertain fate in the Legislature. Under its deal with the governor, the state will buy the utility's transmission system and enable it to sell $2 billion in bonds backed by ratepayers. The deal, essentially unchanged from an agreement in principle struck in February, still lacks lawmakers' support.

State Senate Majority Leader Richard Polanco, D-Los Angeles, introduced legislation late last week to enact the agreement. But lawmakers in both houses, who consider the plan a bailout at ratepayers' expense, have said the bill is "dead on arrival." Rather than advance Davis' memorandum of understanding with the utility, lawmakers are busy considering alternative proposals.

Moreover, passage of any plan is increasingly seen as dependent upon the willingness of Southern California Edison's creditors to take less than 100 cents on the dollar - perhaps 30 cents less, a discount proposed by Sen. John Burton. Pacific Gas & Electric, meanwhile, still says creditors will be paid in full.

Jay Lawrence, a spokesman for Southern California Edison's renewable generators' creditors committee, said creditors welcome a legislative solution "if it means we get paid in full for what we're owed."

Reliant Energy Inc., which is owed about $370 million by the utilities, is unwilling to negotiate a "haircut."

"We'll take our chances with a SoCal Ed bankruptcy," said Vice President John Stout.

Governor's Office Warns Risks To Come

Davis and his team of financial advisers said creditors thinking that way have forgotten the long battles of previous utility bankruptcies. If Southern California Edison ends up in bankruptcy court, creditors wouldn't be paid for three years and would take a deeper discount, they said.

Lawmakers are also being short sighted, they said. Both utilities have filed suits based on federal law to recover billions of dollars in power costs from ratepayers - suits the utilities could well win, said Joseph Fichera, chief executive of Saber Partners LLC and a financial adviser to the governor.

Those suits would be settled under a negotiated solution. Moreover, with the utilities in bankruptcy, the state would lack a clear date for exiting the power business, Fichera said.

"The risks for ratepayers are huge," Fichera said of a Southern California Edison bankruptcy. "The fact that little has yet to happen does not mean that nothing will happen."

Wall Street analysts acknowledge that while the bankruptcy court may provide a sense of comfort for Pacific Gas & Electric's creditors right now, a legislative solution would still be preferable.

"Right now, it's pretty typical in a bankruptcy case that a judge issues what we call comfort orders," Gubner said. "But I still think the pace in the Legislature could be much more quick. What the bankruptcy judge does can be appealed. You're always better off trying to do an out of court restructuring."

The main issue in the PG&E bankruptcy is whether the company will be able to recover $9 billion in undercollected power costs through higher retail rates. That issue, untested in previous utility bankruptcies, remains unresolved. Late last week, U.S. Bankruptcy Judge Dennis Montali said he would leave the question of further rate hikes to state utility regulators, but left open the door to revisiting the issue.

"It's really the whole key to the case, because if the court feels it has the authority to raise rates you can

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Calif. Assembly *(Continued from page 4)*

ratepayers with a staggering bill for transmission line junk," said GOP Assemblyman Keith Richman.

Davis' agreement with SoCal Ed, announced more than five weeks ago, has gotten a cold reception from Democrats as well, who have proposed several "Plan B" alternatives, two of which are being taken more seriously than others.

One would have the state hold a five-year option to buy SoCal Ed's transmission lines for their $1.2 billion book value, and would allow the utility to sell bonds backed by ratepayers for an amount determined by state regulators. That plan would also require the utility's creditors to accept 75 cents on the dollar for money owed.

The other Plan B would allow Pacific Gas and Electric to issue bonds secured by their assets and use the revenue to pay creditors. In turn, the utility would pay an assessment, essentially a tax that would be used to service its debt.

The Republicans' Plan R applies to both utilities, a spokeswoman for the Assembly Republican Caucus said. It is meant, in part, to move things forward, because the Democratic proposals have encountered slow going as of late, both Democrats and Republican lawmakers say.

"Plan B has become Plan Backtrack," Cox said. "It is time to consider other options."

But the Republican plan doesn't really offer much that is new, noted one consumer advocate. Democrats are already pushing for generators to accept less than what they are owed, as well as for long-term contracts and qualifying-facility price reductions, said Michael Shames of the Utility Consumers' Action Network.

"The irony of the Republican proposal is that it is remarkably similar to the one being developed by the Democrats. It would appear as though the Republicans are trying to use a trick that Bill Clinton mastered - taking the opposition's idea and calling it his own," Shames said.

The plan also doesn't explain how or why utilities would want to get back into regulated generation, vis-a-vis requiring them to produce more supply, Shames said. As well, funding the plan within current rates isn't possible, he said.

"The bottom line is, the Republicans aren't pushing anything new or exciting. And in one case (funding within give rates), not even feasible. But I'm glad they are trying. I just wish they'd try harder to do something in a bipartisan way rather than play political games with the truth," Shames said. ***DBR***

- Jessica Berthold

Pros Say *(Continued from page 3)*

Brincko said that in assessing whether any company can be successfully restructured, an analyst or investor has to look beyond the traditional balance sheet analysis to identify the company's fundamental flaw and judge whether management is addressing the problem quickly.

Xerox Corp.'s recent operating results impressed Brincko with the seriousness to which its management seems to be addressing its difficulties. However, Brincko warns that Lucent Technologies Inc. is in danger of not addressing its problems and subsequently falling into a possible bankruptcy situation.

Both experts stressed that investors need to hold a company's management accountable and pressure them for quick action in solving the problems to affect a successful turnaround for troubled technology or Internet companies. ***DBR***

-Joanne McPike

Calif. Utility Drama *(Continued from page 9)*

make a strong argument that SoCal Ed may be better off in bankruptcy," said Adam Gubner, vice president of Imperial Capital in Beverly Hills and a former bankruptcy attorney.

The best path, creditors said, will be determined by which gets them paid first.

"The best outcome here is the one that gets creditors paid quickly," Marks said. "If the SoCal Ed route outside of bankruptcy results in a quick solution that is balanced and fair, than that's the better way to go. But if they can't do that, bankruptcy is the better option." ***DBR***

- Jason Leopold

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Bridge Information *(Continued from page 6)*

As reported, any company submitting a formal bid must also provide a cash escrow deposit of 10% of a party's proposed purchase price. Once all bids are received, Bridge, in consultation with others, will decide which is the highest and best bid. If Bridge receives more than one bid for an asset, it may conduct an auction for that asset.

Separately, Bridge's attorneys filed a motion with the bankruptcy court on May 17 requesting an extension of the time that Bridge has to file a plan of reorganization. The motion asks that Bridge be allowed to file the plan by Oct. 12 instead of by June 15.

Although Bridge can ask for an extension beyond Oct. 12, it said in a footnote that it plans to file a reorganization plan "well in advance" of Oct. 12.

Bridge said it was requesting the extension for a number of reasons, including the size and complexity of its bankruptcy case. An extension would allow Bridge to continue analyzing its businesses, which will help it to develop a feasible reorganization plan, Bridge said in the motion.

Dow Jones & Co., publisher of this newswire, was the previous owner of Bridge's Telerate business. Dow Jones sold Telerate to Bridge in 1998, when it also acquired $150 million of Bridge preferred stock. Dow Jones wrote off its Bridge investment in its third and fourth quarters. *DBR*

-Desiree J. Hanford

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Active Bankrupt Bond Price Indications

The following table of bond price indications represents issues from bankrupt companies active in May 23 trading. Specific bond issues will only be presented on days they are actively discussed, and issues cited will change from day to day.

Issuer	Description	Bid	Closing Change
American Pad & Paper	13% Nts-05	1.5	-0.125
Carmike Cinemas	9.375% Nts-09	43.75	—
Clark Material	10.75% Nts-06	1.875	—
Decora Industries	11% Nts-05	2.625	—
Dyersburg	9.75% Nts-07	7.625	—
e.spire Commun	13% Nts-05	16.625	—
Fitzgerald Gaming	12.25% Nts-04	59.25	—
Finova Capital	6.125% Nts 04	87	+0.125
	7.625% Nts-09	87.125	—
Fruit of the Loom	7% Nts-11	35.625	—
Genesis Health	9.75% Nts-05	16.625	-1
GST Telecom	12.75% Nts-07	0.625	—
Harnischfeger	8.9% Nts-22	49.25	+0.875
Iridium	10.875% Nts-05	2.625	—
ICG Comm.	9.875% Nts-08	8.875	—
	13.5% Nts-05	8.625	—
Kevco Inc.	10.375% Nts-07	4.625	—
Kitty Hawk	9.95% Nts-04	25.75	—
Loews Cineplex	8.875% Nts-08	9.625	—
LTV Corp.	8.2% Nts-07	5.75	+0.125
	11.75% Nts-09	5.75	+0.125
Mariner Post-Acute	10.5% Nts-07	0.375	—
Northwestern Steel	9.5% Nts-01	15.625	N/A
ORBCOMM Global	14% Nts-04	0.625	—
Outboard Marine	10.75% Nts-08	0.375	—
Paracelsus Health	10% Nts-06	31.625	-0.625
Pillowtex	9% Nts-07	2.75	—
Plainwell	11% Nts-08	0.625	—
Safety-Kleen	9.25% Nts-09	N/A	
Service Merchandise	9% Nts-04	1.625	—
Styling Tech.	10.875% Nts-08	0.5	—
Trans World Air	11.5% Nts-04	100.625	—
Waste Systems Int'l.	11.5% Nts-06	17.625	—
Worldtex	9.625% Nts-07	14.625	—

Source: High Yield Advantage

Composite high yield bond price indications are compiled from various market sources, some of which may make a market in or have financial interest in the issues for which prices are provided. PRICES ARE INDICATIVE ONLY. The information contained herein does not represent a solicitation to sell or buy the underlying issues. Dow Jones shall not be held liable for any reason for any errors or omissions, delays or inaccuracies in the indications or any decision made in reliance upon the indications. Dow Jones shall not be liable to any person for any loss of business revenues or lost profits or for any indirect, special, consequential or exemplary damages whatsoever, whether in contract, tort or otherwise, arising in connection with the indications, even if Dow Jones has been advised of the possibility of such damages. Dow Jones makes no warranty whatsoever, express or implied, including specifically any warranty of merchantability or fitness for a particular purpose with respect to the indications and specifically disclaims any such warranty.

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From The Tape ...

Court Dismisses Owens Corning Suit Vs. Tobacco Industry

Brown & Williamson Tobacco Corp. and R.J. Reynolds Tobacco Co. announced in separate press releases yesterday that a lawsuit brought by asbestos manufacturer **Owens Corning (OWC)** against the major U.S. tobacco companies was dismissed by a Mississippi judge, who said that the claims were too remote for Owens Corning to recover for an indirect injury. Owens Corning had claimed the overwhelming majority of individuals with asbestos-related health problems were also smokers and that the workers' injuries blamed on asbestos exposure were caused at least in part by the workers' use of tobacco. An Owens Corning spokesman told *Dow Jones Newswires* that the company will appeal the decision.

WebLink Wireless Files For Chapter 11

Wireless email and instant messaging provider **WebLink Wireless Inc. (WLNKA)** yesterday announced it has filed for Chapter 11 in the U.S. Bankruptcy Court for the Northern District of Texas. The case has been assigned to the court of Judge Steven A. Felsenthal. The company plans to convert high yield notes totaling $470 million in accreted value into equity. The company has senior secured debt of $89 million, none of which is anticipated to be converted to equity. The company has received a commitment from some of its principal noteholders for the provision of $25 million of debtor-in-possession financing with up to another $20 million to be made available at the noteholders' discretion upon a successful reorganization and exit from Chapter 11. The company is also discussing a proposed DIP facility with its senior lenders.

Frank's Nursery Sales Up For April, May

Frank's Nursery & Crafts Inc. announced yesterday that sales for the first four month quarter, beginning Jan. 29 and ending May 20, were $153.1 million compared with sales of $166.9 million for the corresponding period last year. For the months of April and May, the important first two months of the spring season, total sales increased 10.5%, while comparable store sales increased 7.8%.

New World Unit Makes Bid For Einstein/Noah

New World Coffee-Manhattan Bagel Inc. yesterday announced that its affiliate company, Einstein Acquisition Corp., on May 14 submitted a bid in the U.S. Bankruptcy Court in Phoenix to purchase the assets of **Einstein/Noah Bagel Corp. (ENBXQ)** for $151 million and the assumption of up to $30 million in certain operating liabilities. The bid is up to $8 million higher than the current offer by ENB Acquisition LLC, an affiliate of Three Cities Fund III L.P., of $145 million, plus the assumption of liabilities up to $23 million, after accounting for a termination fee of $5 million. No other parties qualified as bidders and no other bids were submitted.

TWA Settles Sexual Harassment Suit For $2.6 Million

AMR Corp.'s **Trans World Airlines Inc. (X.TWA)** will pay $2.6 million to settle a lawsuit alleging sexual harassment against female employees at John F. Kennedy International Airport, according to a press release yesterday. TWA settled the suit without admitting liability.

Finova's Creditors Reach Deal With GE

GE Capital, the financial services unit of General Electric Co., announced yesterday that it has signed a letter of intent with the creditors of **Finova Group Inc. (FNV)**. GE Capital and Goldman Sachs would provide $7 billion of liquidity for Finova's bankruptcy restructuring and GE Capital would enter into a servicing agreement to manage the Finova assets. Other terms and conditions were not disclosed.

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Subscriptions/advertising: (202) 628-8988 - Carlos Mesa
Distribution rights: (202) 628-8988 - Carlos Mesa
Fax or e-mail receipt: (800) 223-2274
Current account billing questions/address changes: (800) 223-2274
Editorial: (202) 628-8916 - Robert Braine, Esq., Carol McCleary, Esq., Deborah Eckert, Esq., Sarah Glennon and Marc Hopkins