

The re-emergence of distressed exchanges in corporate restructurings

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Abstract

In 2008 and 2009, bondholders of ailing companies were affected by a reemergence of an important corporate restructuring strategy, known as a Distressed Exchange. Fourteen companies in 2008 completed this desperate attempt to avoid a formal bankruptcy filing – about twice as many as in any single year in the previous 25, involving twice as much in dollar amount than in the entire prior history (1984-2007). In 2009, forty-six firms completed distressed exchanges, more than three times that of a year earlier. However, the dollar amount exchanged in 2009 was slightly lower than in 2008. The recovery rate to bondholders participating in distressed exchanges over the last 25 years is significantly higher than recoveries on other, more dramatic types of default – namely payment defaults and bankruptcies. Nevertheless, there is no guarantee that a distressed exchange will permanently immunize the firm from further distress, with almost 50% of all companies completing distressed exchanges prior to 2008 ultimately filing for bankruptcy.

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1 INTRODUCTION

The year 2008 saw the prominent reemergence of a classical restructuring mechanism known as a distressed-exchange (DE). This tactic is usually an attempt by an ailing firm to avoid bankruptcy by proposing a fundamental change in the contractual relationship between a debtor and its various creditor classes and is “voluntarily” agreed upon by a sufficient percentage (usually 90% or more) of relevant creditor claims. While one of the most common and dramatic DE involves a substitution of lower priority equity securities for debt claims, DEs can also result from a reduction of the effective interest rate on the debt, a subordination of claims, an extension of time to repay the debt or a package of new securities, cash and other securities, that have a total value that is less than the face value of the original debt claim. Another critical component is the condition that the original claim is selling at a distressed price at the time of the DE announcement, usually below 70 cents on the US dollar. The resulting situation is still called a DE even if the price of the existing debt increases after the announcement.

The first instances of DEs in the modern high-yield bond era were the so-called 3(a)9 exchange championed by Drexel Burnham Lambert in the 1980s. These exchanges were particularly attractive to the distressed firms because they did not require Securities and Exchange Commission review and could be accomplished quickly, usually in less than a month. A second critical element was that the exchange was tax-free, even if the new securities had a combined value of less than the original claim. This tax-free exemption changed in the early 1990s when the reduction in debt was considered a taxable event. This revised tax ruling is still in effect, regardless of whether the company is in a distressed condition. Hence, there is little incentive for a highly solvent firm to exchange its debt for equity and reduce its leverage when the consequence would be a meaningful increase in taxes. As such, these exchanges will usually only take place when a firm is

desperately trying to avoid an even more costly bankruptcy, and also usually where it has sufficient tax-loss credits to offset the taxable exchange.

In a preliminary discussion of DEs (Altman & Karlin, 2009), it was proposed that it was time to revisit this tax ruling, since the deleveraging of corporate America is a meaningful objective. Very soon after, we learned that the economic stimulus legislation that passed Congress in February 2009 contained important relief for companies seeking to restructure debt by deferring most cancellation of debt “income” in 2009 and 2010 until 2014 then amortizing over a five-year period from 2014-2018. For a more detailed description of this new legislation, including whether it may pay for a company to take advantage of this tax deferral while in bankruptcy, see Kirkland and Ellis (2009).

While a few earlier studies such as, for example, Gilson *et al* (1990) showed that out-of-court restructurings were considerably less costly than bankruptcies to the debtor firm, in many cases the DE was followed by a bankruptcy anyway. Our own results, discussed below, show that out of 57 DEs completed prior to 2008 at least 26 (46%) were followed by a bankruptcy filing, and the majority of others resulted in a change of ownership of the debtor (i.e., were acquired).

2 IMPLICATIONS of DISTRESSED EXCHANGES

Distressed exchanges have important implications for credit markets. Firstly, just about all instances of DEs are now categorized as a “default” in the calculations of default rates, including in our own calculations. There is still some debate, however, as to whether the entire debt issue involved in a DE should be counted as a default or only the actual amount tendered in the exchange. Another debatable issue is over what date the debt should be considered in default: when the DE is announced or when it is completed. This is particularly relevant for the computation of the recovery rate of the default event. The policy is to count a DE that has been accepted by the requisite proportion of claimants at the time the announcement of the tender offer took place, unless there were changes in the terms of the exchange or other material events took place, as in the case of

GMAC (discussed below). In addition, we only count the face value amount of claims that are tendered, not the total outstanding amount of the debt issue.

3 DISTRESSED EXCHANGE DEFAULTS IN THE CREDIT DEFAULT SWAP MARKET

An important consequence of a completed DE had been that it was possible, but not likely, that it would trigger a default event in the credit default swap (CDS) market. This is known as a modified restructuring (MOD-R) default. Ever since this market began developing in the late 1990s, there has been a recurring ambiguity over whether a DE or other significant negative firm development would trigger a default and unwinding of the transaction. Evolving formalization of CDS contracts by International Swaps and Derivatives Association (ISDA) have reduced these controversies and resulted in certain guidelines. Furthermore, as of April 2009, DEs were no longer considered a default event, eliminating one possible negative event that could constitute a default and trigger a payout. This change constitutes a reduction in the insurance potential of a CDS hedging contract.

In the past, triggers for DEs that changed the terms of existing debt included an equity for debt swap, a drop in coupon, extension of maturity or creation of contractual subordination, but only if it is within the context of the existing bond or loan (i.e., if it has the same Committee on Uniform Security Identification Procedures CUSIP) security identifier. It is in a form that binds all holders of the obligation and it is “voluntary” in that only investors who accept and tender their bonds are subject to what the issuer proposes. Hence, there was no default event even if those not accepting had their priority subordinated vis-à-vis those accepting (ISDA, 2003). In the case of the GMAC in 2008, where less than 60% of the par value amount of the issue were bound by the exchange, a CDS default was not triggered. The same was true in all of the 2008 DEs. The corporate market has not experienced any distressed exchanges that triggered a default in the CDS market in recent years, although it has been observed in the sovereign market (e.g.,

Argentina). Outside of a prepackaged Chapter 11, US corporations have found it extremely difficult to affect an exchange which would qualify as a default under ISDA guidelines. As noted above, a proposal to eliminate a “modified exchange” as a default trigger in CDS contracts was adopted in order to avoid confusion and costly lawsuits. Therefore, only a failure to pay interest or a bankruptcy will qualify after March 2009.

The distinction between a default in the primary market (and what investors believe will be their ultimate recovery) and what triggers a payout in the CDS market helps to explain why CDS spreads have recently been tighter for many distressed credits than CDS spreads in the bond market. Other reasons for tighter spreads are liquidity and funding differences, but it is difficult to isolate each factor.

4 DISTRESSED EXCHANGES IN 2008

To say that a resurgence in the incidence of DEs was observed in 2008 is a gross understatement. Indeed, the number of DEs in 2008 (14) was almost double the number for any year since 1984 (see Table 1). The total amount of DEs (\$30.3 billion) was more than twice the total amount from the years 1984-2007 combined. Firms appeared to have been scrambling to avoid bankruptcy like never before, and due to their significant tax-loss credits, they were not concerned about the taxable nature of the debt reductions.¹ In addition, since debtor-in-possession (DIP) loans and equity infusions were constrained due to the credit crisis, the usual benefits of bankruptcy were lessened and the prospect of liquidation in bankruptcy heightened. Creditors, on the other hand, are less likely to resist a DE tender because the likely recovery after a DE is greater than either in bankruptcy reorganization or in liquidation. Of course, initial DE proposals can be challenged by creditors in the hope that the debtor will sweeten the offer. Several instances of this

¹ Debt forgiveness which gives rise to income may be offset by net operative losses (NOLs) in an out-of-court restructuring. In a bankruptcy, debt forgiveness is generally excluded from income regardless if any NOLs are relevant, but at the end of the year, the debtor must still generally reduce any available favorable tax attributes by the amount of the excluded debt forgiveness. The same tax treatment may be accomplished out of bankruptcy if the debtor is deemed to be “insolvent” immediately before the debt forgiveness – the amount is limited to the amount of insolvency. New legislation, however, defers any taxes regarding certain debt forgiveness income incurred in 2009 and 2010.

occurred in 2008, the most publicized of which was the recently completed GMAC exchange. If the DE goes through despite some proportion that is not tendered, those not tendering will continue to have a claim of full face value should a bankruptcy subsequently occur subsequently.

The saga of the 2008 GMAC/Residential Capital exchange has been exceptional for several reasons. It involved the US government in a material way and it is by far the largest DE in history. The initial DE offer was a complicated package of cash, new debt and preferred stock that was advertised as needing a tender of at least 75% of the outstanding debt amounts of both GMAC and Residential Capital, a subsidiary of GMAC. The 75% was the amount supposedly necessary for the Federal Reserve to grant GMAC status as a bank holding company, thereby giving it access to the FED's discount window and its low-cost debt borrowings.

It appeared that the 75% was not going to be achieved, although the bank holding company status was formally announced subject to the requisite amount of new equity capital being raised, ostensibly in the equity for debt swap from the DE. When it became obvious that the 75% was not going to be achieved, the US government trumped that requirement by investing US\$5 billion directly in preferred stock of GMAC and loaning an additional US\$1 billion to GM for the purpose of that firm's purchase of additional preferred securities. Hence, the 75% exchange was not necessary and GMAC accepted the 59% of GMAC bonds tendered as well as the 39% tendered to Residential Capital. De facto, the usual 90% requirement, or even the 75% stated in the objective, was not relevant and the DE was achieved.

The irony of the GMAC DE is that all creditors (both those that tendered and those that did not) were pleased with the exchange since the prices on all existing bonds spiked significantly due to the government's enormous equity "bailout" infusion. The upfront premium on the CDS of the remaining GMAC bonds also dropped dramatically from about 44% as of the day before the firm won Federal Reserve approval (actually the equity infusion) to become a bank holding company, to

about 10.5% on January 2, 2009. Most of the drop occurred after the announced equity infusion on December 29, 2008. Bond prices increased by about 30 points after that announcement.

Distressed Exchanges in 2008 amounted to about 22% of the defaulted issuers (14 of 64) but as much as 60% of the dollar amount (in US dollars) of defaults². These statistics attest to the domination of 2008 in the DE phenomenon. For the period 1984-2009, however, DEs only accounted for about 10.6% of all defaulting issuers and 12.0% of all default dollar amounts (see Table 1).

² For a detailed report on defaults in 2008, please see Altman & Karlin (2009),

TABLE 1. High-yield bond distressed exchange default and recovery statistics, 1984 through 2009

Year	D/E Defaults (\$)	Total Defaults (\$)	% D/E		% D/E		D/E Recovery Rate ^a (%)	All Default Recovery Rate ^a (%)	Difference Between D/E & All Default Recovery Rate (%)
			Defaults to Total \$	D/E Defaults (# Issuers)	Defaults to Total	Defaults (# Issuers)			
2009	23,212.60	123,823.79	18.7%	46	120	38.3	42.68	36.13	6.55
2008	30,329.42	50,763.26	59.7	14	64	21.9	52.41	42.50	9.91
2007	146.83	5,473.00	2.7	1	19	5.3	85.17	66.65	18.52
2006	0.00	7,559.00	0.0	0	0	0	n/a	n/a	n/a
2005	0.00	36,209.00	0.0	0	34	0	n/a	62.96	n/a
2004	537.88	11,657.00	4.6	5	39	12.8	58.05	57.72	0.33
2003	1,034.94	38,451.00	2.7	7	86	8.1	78.52	45.58	32.94
2002	764.80	96,858.00	0.8	3	112	2.7	61.22	25.30	35.92
2001	1,267.60	63,609.00	2.0	5	156	3.2	33.12	25.62	7.50
2000	50.00	30,295.00	0.2	1	107	0.9	77.00	26.74	50.26
1999	2,118.40	23,532.00	9.0	6	98	6.1	65.39	27.90	37.49
1998	461.10	7,464.00	6.2	2	37	5.4	17.34	40.46	(23.12)
1997	0.00	4,200.00	0.0	0	0	0.0	n/a	n/a	n/a
1996	0.00	3,336.00	0.0	0	0	0.0	n/a	n/a	n/a
1995	0.00	4,551.00	0.0	0	0	0.0	n/a	n/a	n/a
1994	0.00	3,418.00	0.0	0	0	0.0	n/a	n/a	n/a
1993	0.00	2,287.00	0.0	0	0	0.0	n/a	n/a	n/a
1992	0.00	5,545.00	0.0	0	0	0.0	n/a	n/a	n/a
1991	76.00	18,862.00	0.4	1	62	1.6	31.30	40.67	(9.37)
1990	1,044.00	18,354.00	5.7	7	47	14.9	43.15	24.66	18.49
1989	548.90	8,110.00	6.8	7	26	26.9	44.53	35.97	8.56
1988	390.30	3,944.00	9.9	3	24	12.5	28.40	43.45	(15.05)
1987	33.60	7,486.00	0.4	2	15	13.3	40.70	66.63	(25.93)
1986	114.80	3,156.00	3.6	4	23	17.4	47.68	36.60	11.08
1985	323.30	992.00	32.6	2	19	10.5	55.04	41.78	13.26
1984	100.10	344.00	29.1	1	12	8.3	44.12	50.62	(6.50)
Totals/									
Averages	\$69,460.74	\$580,279.05	12.0%	117	1100	10.6%	51.81^b	42.00^b	9.82

^a Weighted-average recovery rates for each year.

^b Arithmetic average of the weighted-average annual recovery rates; only those years with DEs counted. The arithmetic average of each individual DE (116) for the entire sample period was 48.24% and the average for the non-DE defaults (983 observations) was 36.72%.

Source: Authors' compilation from the NYU Salomon Center Master Default Database

5 RECOVERY RATES ON DISTRESSED EXCHANGES

Since DEs are not as dramatic a testimony to the firm's distressed status as is a bankruptcy or non-payment of cash interest on the debt, one might expect that the recovery rate on DE defaults will be higher than other, more serious distressed situations. Indeed, the data backs this up. Table 1 shows that the arithmetic average recovery rate on all DE defaults was 51.81% for the period 1984-2009 compared to 42.00% for all defaults and 36.7% for all non-DE defaults (see Table 2). In 2008, DEs recovered 52.4% while non-DE defaults recovered only 27.1%. Although not as striking a difference, DEs in 2009 recovered 42.68%, while non-DE defaults recovered only 34.56%.

In Table 2, we calculate a difference in means test between the arithmetic average recovery rate (48.2%)³ on the 117 DEs over the period 1984-2009 compared to the average recovery rate on all non-DE defaults (36.7%) over the same period. We find that given the above, the DE recovery rate is significantly higher ($t = 7.49$) at the 1% confidence level. It is not surprising that bondholders will choose, in many instances, to accept a recovery with certainty from a DE rather than take the chance of holding out for an uncertain, and probably lower, recovery in bankruptcy. Our results do not include data for situations when a DE offer is rejected. It is safe to assume, however, that most of these scenarios would be associated with a subsequent bankruptcy petition. Investors still must decide, given the completion of a DE, whether to hold on to the new set of securities from the exchange or to sell as quickly as is feasible. It can safely be said that if a bankruptcy takes place subsequent to a DE, then the default recovery after bankruptcy will be considerably lower than it would have been had the investor sold immediately after the DE, perhaps by about 20%. What is not known is the likely positive average return on those situations when a bankruptcy is permanently avoided after the DE.

³ The average of the annual weighted average DE recovery rates was 50.9% (see Table 1).

TABLE 2. Difference in Means Test Between Recovery Rates: All Non-Distressed Exchange Defaulting Issuers versus Distressed Exchanges (D/E), 1984-2009

	All Defaults Excluding D/E	Distressed Exchanges
Sample Size	2239	269
Mean Recovery Rate	36.72	48.24
Standard Deviation	25.95	23.59
Variance	673.63	556.27
t-test^a	7.48755	

a

$$t = \frac{\bar{X}_T - \bar{X}_C}{\sqrt{\frac{\text{var}_T}{n_T} + \frac{\text{var}_C}{n_C}}}$$

Source: Authors' compilation from NYU Salomon Center Master Default Database

6 Subsequent Performance of DE Firms

An important follow-on question to the DE restructuring strategy is over the subsequent performance of the firm and its securities. This has been assessed this by tracking the firms which completed a DE prior to 2008,⁴ separating them into several categories as of March 2009, including still operating, acquired and bankrupt (Chapter 7 or 11). Obviously, a DE that results in a subsequent bankruptcy proved to be an unsuccessful restructuring, and the DE merely delayed the eventual demise of the firm.

The subsequent fate of 57 DEs is listed in Appendix A. Of the 57, 26 (45.6 %) eventually went bankrupt (20 Chapter 11 reorganizations and 6 Chapter 7 liquidations). The time from the completion of the DE to bankruptcy ranged from less than one month to 18 years, with the median being about 2 years. Seventeen (30.0 %) DE firms were eventually acquired, while 11(19.3 %) were still operating in 2009. We could not find subsequent data on three firms. In conclusion, almost half of our DE sample declared bankruptcy subsequent to the exchange and the remaining are still operating as a going concern in one form or another in 2009.

⁴ The 14 DE firms in 2008 have not been tracked because their DE is too recent to assess with regard to their ultimate fate.

7 The Trend of DEs Distressed Exchanges

As expected, DEs continued without abatement in 2009, with three times as many firms completing at least one distressed exchange within the year when compared to 2008. This was due to the sheer record number of distressed companies as well as changes in the Bankruptcy Code in 2005 that made it more difficult to reorganize successfully (i.e., to emerge as a going concern at the end of the reorganization process). As noted earlier, we observed an unprecedented appetite in 2008 and in early 2009 to restructure out-of-court rather than risk bankruptcy and liquidation.⁵ No doubt, the difficulty in raising debtor-in-possession loans and exit-financing influenced the decision to file for bankruptcy. Indeed, prior to 2008, our statistics (Altman and Hotchkiss (2005) found that as much as 60-65% of large Chapter 11s in the 20 years prior to 2008 were successful in emerging from the bankruptcy process as a “going concern,” although a non-significant number (about 200) ultimately filed again (Altman *et al* (2009)).

In addition to the lack of Chapter 11 financing over the past two years, the new Bankruptcy Code of 2005 clearly tilted the negotiating process toward favoring creditors. As Miller (2009) pointed out, creditors had strong lobbyists arguing their point of view in the discussions leading up to the new Code while debtors did not. Leases are now more difficult to reject and certain claims, such as, for examples, swaps and securities, are now exempt from the “automatic stay.” Additionally, creditors can now wait for the exclusivity period to run out after 20 (18+2) months and then propose their own reorganization plan. All of these factors encourage debtors to try to restructure out of court, hence the relatively strong showing of DEs in 2009. However, as can be seen in Table 3, interest in using DEs as a financing vehicle waned somewhat near the end of 2009, as general market conditions improved and other avenues of re-financing became available. The 11 DEs completed in the first-quarter of 2009 alone was only slightly less

⁵ In 2008 and through February 2009, there were 22 Chapter 11s that were converted to Chapter 7 liquidations (New Generation Research, 2009), approximately 10% of all large (greater than \$100 million in liabilities) Chapter 11 filings in the three-year period 2006-2008.

in number than the total completed in all of 2008 (14). Despite increasing momentum through the second quarter, by the fourth-quarter of 2009 the number of DEs completed on a quarterly basis had dropped significantly from mid-year. Through the first-quarter of 2010 we have seen relatively few DEs brought to market, and expect that the slowdown experienced in the second-half of 2009 will continue throughout 2010 as well.

TABLE 3. Distressed Exchanges Completed by Quarter, 2009

Quarter	DE Defaults (# Issuers)	DE Defaults (\$)
1Q	11	4,696.97
2Q	17	11,122.28
3Q	15	5,556.69
4Q	9	1,836.65
Total	52 ^a	23,212.60

^aThis total exceeds the 46 listed in Table 1, since several issuers completed more than one Distressed Exchange in 2009.

8 CONCLUSION

The purpose of this study is to highlight the re-emergence of a type of distressed restructuring strategy known as a distressed exchange. The combination of an elevated fear of liquidations in bankruptcy, sizeable net operating losses to offset debt forgiveness taxes, and increased aggressiveness on the part of corporate advisors had motivated a significant increase in DE activity in 2008 and 2009. Indeed, DEs in 2008 and 2009 combined comprise slightly more than 50% of the total number completed in our 26 year sample (1984-2009), with over US\$50 billion in debt forgiveness.

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Appendix A

Subsequent Development of Distressed Exchanges (1984 – 2007)

This Table shows the subsequent performance of 57 firms that went through a Distressed Exchange prior to 2008

Issuer Name	Distressed Exchange Date	Exchange Type (Debt exchanged to _____)	Subsequent Development	Bankruptcy Date (if Applicable)	Years from Distressed Exchange to Bankruptcy	Amount Exchanged (\$ millions)
@Track Communications	2/15/2001	Debt	Chapter 11	2/2/2004	3.00	94.33
Abraxas Petroleum Corp.	11/1/1999	Debt	Still Operating	NA	NA	258.60
Advantica Restaurant Group, Inc.	3/1/2002	Debt	Still Operating	NA	NA	529.60
After Six, Inc.	8/28/1989	Undetermined	Chapter 7	2/26/199	3.50	20.00
Aircoa Hospitality Services	9/15/1990	Cash	Acquired	NA	NA	34.00
Alamosa Holdings, Inc.	9/12/2003	Debt/Equity	Acquired	NA	NA	750.00
Alpine Group	9/14/1989	Debt/Equity	Still Operating	NA	NA	43.70
American Cellular Corp.	7/15/2003	Equity/Cash	Acquired	NA	NA	11.70
American Telecasting, Inc.	5/13/1998	Debt	Acquired	NA	NA	276.90
AMF Bowling Worldwide, Inc.	6/28/1999	Cash	Chapter 11	7/3/2001	2.08	476.00
Anchor Advanced Products, Inc. (Moll Industries)	8/8/2000	Debt	Acquired - Subsequent Chapter 11	9/19/2002	2.08	50.00
Charter Communication	8/24/2005	Debt	Chapter 11	3/27/2009	3.67	6,861.00
Continental Global Group, Inc.	10/4/2004	Debt	Acquired	NA	NA	120.00
Dailey International, Inc.	5/21/1999	Equity	Chapter 11	5/28/1999	0.02	275.00
Darling Delaware Co.	9/15/1990	Debt/Equity	Still Operating	NA	NA	175.00
Dart Drug Stores, Inc.	7/1/1987	Debt/Equity	Chapter 7	8/10/1989	2.08	28.60
Focal Communications Corp.	10/31/2001	Equity	Chapter 11	12/19/2002	1.17	510.20
Forstmann & Co.	8/14/1990	Debt	Chapter 11	9/22/1995	5.08	100.00
Foster Wheeler Ltd.	9/22/2004	Equity	Still Operating	NA	NA	7.88
G & G Retail, Inc.	3/18/2004	Equity	Chapter 11	1/15/2006	1.83	107.00
Gaylord Container Corp.	3/4/2002	Debt	Acquired	NA	NA	85.20
General Defense Corp.	2/1/1988	Equity/Cash	Acquired	NA	NA	87.50

Appendix A
(continued)

Golden Ocean Group Ltd.	9/20/1999	Equity	Chapter 11	1/14/2000	0.33	200.00
Hall-mark Electronics Corp.	3/1/1990	Debt	Acquired	NA	NA	112.00
Harborside Healthcare Corp.	4/6/2001	Debt	Acquired	NA	NA	137.31
Heafner Tire Group, Inc.	3/26/2002	Cash	Acquired	NA	NA	150.00
Home Group Funding, Inc.	1/15/1991	Debt	Acquired	NA	NA	76.00
International Controls Corp.	6/15/1990	Undetermined	Cannot find information	NA	NA	288.00
Iron Age Holdings Corp.	12/2/2003	Cash	Chapter 7	1/22/2007	3.08	45.18
J. Crew Group, Inc.	5/8/2003	Debt	Still Operating	NA	NA	21.70
JL French Automotive Castings, Inc.	8/24/2004	Equity	Chapter 11	2/10/2006	1.50	28.00
Jordan Industries, Inc.	2/24/2004	Debt	Still Operating	NA	NA	275.00
Kane Industries, Inc.	1/1/1990	Debt/Cash	Chapter 11	3/18/1994	4.17	70.00
Kenai Corp	10/15/1984	Equity	Cannot find information	NA	NA	100.10
Metropolitan Broadcasting	10/12/1989	Debt/Cash	NA	NA	NA	135.20
Miramar Marine Corp.	12/5/1989	Undetermined	Chapter 11	4/15/1991	1.33	125.00
Na-Churs Plant Food	5/1/1986	Undetermined	Still Operating	NA	NA	20.00
New World Pictures, Inc.	8/12/1988	Undetermined	Acquired	NA	NA	285.00
North Atlantic Holding Co.	5/9/2007	Debt	Still Operating	NA	NA	146.83
NTEX, Inc.	5/17/2001	Equity	Still Operating	NA	NA	35.78
Oak Industries	3/29/1985	Debt/Equity	Acquired	NA	NA	115.00
Ponderosa, Inc.	12/6/1989	Undetermined	Acquired - Subsequent Chapter 11	10/22/2008	18.83	125.00
Roma Restaurant Holdings, Inc. – Romacorp Inc.	7/1/2003	Debt/Cash	Chapter 11	11/6/2005	2.33	57.00
Savin Corp	2/1/1986	Debt/Equity	Chapter 11 and subsequently acquired	12/14/1993	7.83	58.70
Service Control Corp.	7/15/1989	Undetermined	Acquired	NA	NA	100.00
Specialty Foods Acquisition Corp.	6/10/1999	Debt	Chapter 11	9/18/2000	1.25	793.80
Sunbeam Corp.	2/1/1988	Undetermined	Chapter 11	2/20/1988	0.05	17.80
Telesystem International Wireless, Inc.	7/6/2001	Debt/Cash	Chapter 7	NA	NA	489.95
Texas International Co.	8/22/1985	Undetermined	Chapter 11	4/26/1988	2.67	208.30

Appendix A
(continued)

Tultex Corp.	5/13/1999	Debt/Cash	Chapter 7	12/3/1999	0.58	115.00
UbiquiTel, Inc.	2/21/2003	Debt/Cash	Acquired	NA	NA	107.30
Univision Holdings, Inc.	2/1/1990	Cash	Acquired	NA	NA	265.00
Western Union Telegraph Co.	11/1/1987	Debt/Cash	Chapter 11	2/4/1993	5.25	5.00
Wickes, Inc.	2/27/2003	Debt	Chapter 7	1/20/2004	0.92	63.24
Wilshire Financial Services Group, Inc.	11/13/1998	Equity	Chapter 11	3/3/1999	0.33	184.20
XM Satellite Radio, Inc.	1/28/2003	Debt	Acquired	NA	NA	24.00
Zapata Corp	11/1/1986	Cash	Still Operating	NA	NA	36.10

Summary Information

Exchange Type		Subsequent Development		Years from Distressed Exchange to Bankruptcy	
Debt	18	Bankruptcy – Chapter 7	6	Count	57
Cash	6	Bankruptcy – Chapter 11	18	Mean	3
Equity	9	Acquired	17	Median	2.08
Debt/Equity	6	Still Operating	11	Maximum	18.83
Debt /Cash	7	Acquired – Subsequent Chapter 11	2	Minimum	0.02
Equity/Cash	2	Other	3		
Undetermined	9				

Subsequent Development of Distressed Exchanges (2008 – 2009)

This Table shows the subsequent performance of 22 firms that went through a Distressed Exchange after 2007

Issuer Name	Distressed Exchange Date	Exchange Type (Debt exchanged to _____)	Subsequent Development	Bankruptcy Date (if Applicable)	Years from Distressed Exchange to Bankruptcy	Amount Exchanged (\$ millions)
Ainsworth Lumber Co., Ltd.	7/29/2008	Debt/Equity	Still Operating	NA	NA	823.54
American Achievement Group Holding Corp.	2/25/2009	Debt	Still Operating	NA	NA	104.3
Clear Channel Communications	12/23/2008	Debt	Still Operating	NA	NA	252.40
Clear Channel Communications, Inc.	12/23/2008	Debt	Still Operating	NA	NA	102.24
CMP Susquehanna Corp.	4/3/2009	Debt/Equity (Preferred & warrants)	Still Operating	NA	NA	175.46
Finlay Fine Jewelry Corp.	11/25/2008	Debt	Still Operating	NA	NA	139.64
Ford Motor Co.	4/3/2009	Debt/Cash	Still Operating	NA	NA	3,353.91
Freescale Semiconductor, Inc.	3/10/2009	Debt	Still Operating	NA	NA	3,040.67
GMAC, LLC	12/29/2008	Debt, Cash and Equity (Preferred)	Still Operating	NA	NA	14,985.80
Harrah's Operating Co., Inc.	4/8/2009	Debt/Cash	Still Operating	NA	NA	5,550.78
Harrah's Operating Co., Inc.	12/19/2008	Debt/Cash	Still Operating	NA	NA	1,789.36
Hovnanian Enterprises, Inc.	11/24/2008	Debt	Still Operating	NA	NA	71.46
Intelsat Ltd.	2/12/2009	Cash	Still Operating	NA	NA	460.61
Metaldyne Corp.	11/26/2008	Cash	Chapter 11	5/27/2009	0.50	361.34
Neff Corp.	12/16/2008	Debt	Still Operating	NA	NA	196.00
NXP B.V.	3/30/2009	Debt	Still Operating	NA	NA	420.00
OSI Restaurant Partners, LLC	3/20/2009	Cash	Still Operating	NA	NA	240.00
Primus Telecommunications Group, Inc.	5/22/2008	Debt/Cash	Chapter 11	3/16/2009	0.83	54.30
R.H. Donnelley Corp.	6/20/2008	Debt	Chapter 11	5/28/2009	0.92	594.31
Residential Capital, LLC	6/4/2009	Debt /Cash	Still Operating	NA	NA	
Sensata Technologies B.V.	3/30/2009	Cash	Still Operating	NA	NA	109.99
Six Flags, Inc.	6/11/2008	Debt	Still Operating	NA	NA	530.70
Tekni-Plex, Inc.	6/2/2008	Equity	Still Operating	NA	NA	303.35

Summary Information

Exchange Type		Subsequent Development		Years from Distressed Exchange to Bankruptcy	
Debt	10	Bankruptcy – Chapter 11	3	Count	23
Cash	4	Still Operating	20	Mean	0.75
Equity	1			Median	0.83
Debt/Equity	2			Maximum	0.92
Debt /Cash	5			Minimum	0.50
Debt/Equity/Cash	1				

Summary Information (1984 – 2009)

Exchange Type		Subsequent Development		Years from Distressed Exchange to Bankruptcy	
Debt	28	Bankruptcy – Chapter 7	6	Count	80
Cash	10	Bankruptcy – Chapter 11	21	Mean	2.76
Equity	10	Acquired	17	Median	1.96
Debt/Equity	8	Still Operating	31	Maximum	18.83
Debt /Cash	12	Acquired – Subsequent Chapter 11	2	Minimum	0.02
Equity/Cash	2	Other	3		
Debt/Equity/Cash	1				
Undetermined	9				