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Daily Bankruptcy Review
From The First Sign of Distress To The Last Phase of Reorganization June 29, 2006

HIGHLIGHTS

Trustee Appoints Dana Shareholders To Official Committee

The U.S. trustee overseeing Dana Corp.'s Chapter 11 case Tuesday named three large shareholders to an official committee of equity security holders.
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Tower Creditors Lose Bid To Freeze Milwaukee Retiree Deal

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Court Upholds Ruling Clearing State Street In UAL ESOP Suit

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Interstate Bakeries Gets OK To Sell Mass. Shop For $1.7M

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Adelphia Could Pay $440M In Fees If Sale Falls Through

If Adelphia Communications Corp. fails to complete its sale to Time Warner Inc. and Comcast Corp., it will be forced to pay hefty termination fees.
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Delphi Creditors Panel Seeks Right To Sue General Motors For Billions

By Joseph Rebello

Delphi Corp.'s creditors are seeking the right to sue General Motors Corp. to retrieve billions of dollars in costs they said were transferred to Delphi when it was spun off in 1999.

In papers filed with the U.S. Bankruptcy Court in Manhattan Tuesday, Delphi's creditors blamed the spin-off for much of Delphi's current financial troubles.

Delphi has made the same contention in court papers, but the creditors said it has lately shown signs of wanting to let GM off the hook.

Under the circumstances, Delphi's creditors committee asked a judge to authorize it to pursue GM on Delphi's behalf. The committee said they saw "means of recovering from GM billions of dollars in payments" potentially owed to Delphi as a result of the spin-off. It said it identified those means to Delphi more than six weeks ago and was reluctant to let much more time go by.

A GM spokeswoman, Toni Simonetti, declined to comment on

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Fight Among Wall Street Powerhouses Was Behind Delay In Bawag Settlement

By Tiffany Kary

Refco Inc.'s creditors sought to appease opponents of a $506 million settlement they obtained from Austria's fourth-largest bank by making last-minute changes to the pact. But the deal still aroused so much controversy that a judge opted to defer the matter for at least a few days.

The settlement, involving Austria's Bawag P.S.K. Group, had been scheduled for an approval hearing Tuesday in the Manhattan courtroom of U.S. Bankruptcy Judge Robert Drain. Unlike an earlier settlement obtained by Refco's creditors from a scandal-tainted hedge fund, it had generated only "limited" technical objections — mostly involving wording.

Still, the fuss over phraseology grew so intense at the hearing that the judge ordered a time-out. "The notion of calling an 'objection' a 'response' is driving me and my chambers crazy," Drain said. After conferring with lawyers in an off-the-record session in his chambers, he adjourned the hearing until Friday.

The technicalities masked a power struggle involving some of

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Trustee Appoints Dana Shareholders To Official Committee

By Steven Sloan

The U.S. trustee overseeing **Dana Corp.'s** Chapter 11 case Tuesday named three large shareholders to an official committee of equity security holders.

The committee, made up of Harbinger Capital Master Fund I Ltd., Appaloosa Management L.P. and Brandes Investment Partners L.P., is charged with representing the interests of shareholders as the bankruptcy case proceeds.

The first major issue likely to come before the committee is a proposal from Dana to limit trading in its stock and debt.

The current rules require "substantial claimholders" - those who own more than 4.5% of Dana's debt - to report some of their transactions and permits Dana to retroactively object to the transactions.

A hearing on the trading rules was scheduled for Wednesday. But Judge Burton R. Lifland of the U.S. Bankruptcy Court in Manhattan last week delayed the hearing until Aug. 9 after some investors wanted the new panel to review Dana's proposed rules.

The delay dealt a setback to billionaire investor Carl Icahn's bid to exert more influence over Dana's reorganization. American Real Estate Holdings L.P., a unit controlled by Icahn, fought the postponement and said the delay was "chilling the market for trading" in Dana's debt.

Icahn's company has contended the provisions impede trading in Dana stock and debt by opening up the possibility that investors could be forced to unwind their acquisitions if Dana chose to object at a later debt.

Since Dana filed for Chapter 11 protection in March, American Real Estate has boosted its ownership of the company's debt. American Real Estate owns at least $101.25 million of Dana's $2.25 billion unsecured debt.

The company has said in court papers it "may seek to acquire additional claims against (Dana) and would intend, in any event, to be an active participant" in the reorganization. ***DBR***

Tower Creditors Lose Bid To Freeze Milwaukee Retiree Deal

By Carol McCleary

Unsecured creditors of **Tower Automotive Inc.** lost their bid to freeze Tower's retirement-benefits deal while they appeal the bankruptcy court's approval of the agreement.

Judge Allan L. Gropper of the U.S. Bankruptcy Court in Manhattan signed an order Wednesday turning down the creditor committee's request to delay implementing the settlement pact pending an appeal.

The creditor committee, appealing the bankruptcy court's May 22 approval of the settlement, wanted to block the deal until its appeal could be heard by a federal district judge in Manhattan.

The settlement involves retired Tower workers in Milwaukee and several unions representing employees in that city. The retirees and unions agreed to let Tower cease paying retirement benefits after July 1 in return for a guaranteed $30 million payment upon the company's exit from Chapter 11 protection.

The committee claims that the deal gives the retirees a special priority over general unsecured creditors.

In turning down the creditors' request for a stay, Gropper said freezing or undoing the settlement at this point might force the company, the Milwaukee unions and the retiree committee to start the time-consuming negotiation process over again. This, the court said, would disrupt the company's ability to resolve other "major issues" in the bankruptcy case.

The court also said the committee hasn't shown that it is likely to win on appeal, as it has merely repeated the same arguments that it made in its objection to the settlement. Nor has the committee shown, the court said, that creditors will suffer irreparable injury absent a delay in implementing the pact.

"Significantly, the committee doesn't explain how a settlement with the retirees will irreparably harm its negotiation of a plan of reorganization," the order said.

The court said Tower Automotive indicated at a June 20 hearing that negotiations on a plan are moving ahead and a plan will likely be filed in the next 60 days. At that hearing, Tower won an extension through Aug. 26 of its exclusive right to propose a Chapter 11 plan.

Tower, based in Novi, Mich., has been operating under Chapter 11 protection since February 2005. The company makes frames and other components for vehicle manufacturers, with about three-quarters of its revenue coming from Ford Motor Co., General Motors Corp. and DaimlerChrysler AG's Chrysler Group. *DBR*

BEYOND BANKRUPTCY

Court Upholds Ruling Clearing State Street In UAL ESOP Suit

By Peg Brickley

A federal appeals court in Chicago Wednesday upheld a judgment that exonerated State Street Bank & Trust Co. for $540 million in losses by employees of UAL Corp., who held stock in the airline as it neared bankruptcy in 2002.

The decision from the U.S. Court of Appeals for the Seventh Circuit said it's unfair to ask State Street, trustee of UAL's employee stock ownership plan, to out-guess the stock market on what shares of a troubled company are worth.

UAL's employee stock option plan held on to UAL stock for almost a year after the company warned of trouble in the travel industry in the wake of the attacks of Sept. 11, 2001. Employees who saw the value drain out of the plan sued State Street for failing to diversify the UAL ESOP's holdings until it was too late. UAL has ended its stay in bankruptcy, but employees lost nearly all the savings invested in the ESOP, a special form of retirement plan.

The Seventh Circuit Wednesday affirmed the ruling of a Chicago federal court that granted summary judgment to State Street in a lawsuit claiming it breached duties as trustee. The ruling was written by Judge Richard Posner, whose views on law and economics are widely followed.

He took the opportunity of the litigation over UAL's ESOP to take potshots at ESOPs in general, calling them "inefficient" and probably not worth the tax breaks attached to them.

A special form of federally regulated retirement plans, ESOPs are designed to own stock in the company that employs the plan beneficiaries. They have come in for much criticism in cases such as UAL's, where the concentration of holdings in a single stock becomes fatal to value.

Posner said ESOPs don't seem to do what they are supposed to do — inspire more devoted service by employees — and instead expose a vulnerable population to risk it is unable to tolerate.

UAL's ESOP was probably a principal source of retirement income for lower-paid employees, Posner said. Being people with few resources to diversify the great risk of investing in a single stock, UAL employees likely would not have taken the gamble if they had a choice, the judge said.

DBR

Active Bankrupt Bond Price Indications

The following table of bankrupt companies' bonds shows recent price indications for the issues listed.

Issuer	Description	Bid 6/27	Bid 6/28	Chg.
Adelphia Commun	10.25% Nts-11	56.375	55.875	-0.500
Adelphia Commun	10.875% Nts-10	52.625	52.750	0.125
Adelphia Commun	9.375% Nts-09	54.250	54.500	0.250
Armstrong World	7.45% Nts-29	73.500	73.000	-0.500
Armstrong World	9.75% Nts-08	73.000	72.500	-0.500
Delphi	6.55% Nts-06	82.125	81.500	-0.625
Delta Air Lines	8.3% Nts-29	27.500	27.000	-0.500
Federal-Mogul	7.5% Nts-09	58.500	58.000	-0.500
Kaiser Aluminum	10.875% Nts-06	56.000	55.625	-0.375
Northwest Airlines	10% Nts-09	46.750	46.375	-0.375
Northwest Airlines	9.875% Nts-07	49.500	48.625	-0.875
Owens Corning	7% Nts-09	84.500	81.375	-3.125
Owens Corning	7.5% Nts-18	85.875	84.500	-1.375
Solutia	11.25% Nts-09	99.250	98.750	-0.500
Solutia	7.375% Nts-27	90.000	92.250	2.250
Winn Dixie	8.875% Nts-08	86.750	85.500	-1.250
World Access	13.25% Nts-08	4.500	4.125	-0.375

Source: The High Yield Advantage, (617) 261-9700

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.

Interstate Bakeries Gets OK To Sell Mass. Shop For $1.7M

By Carol McCleary

Interstate Bakeries Corp. won bankruptcy court permission to sell its shuttered shop in Medford, Mass., to stalking-horse bidder Empire Management Corp. for $1.7 million.

Bankruptcy Judge Jerry Venters approved the sale at a hearing Tuesday in Kansas City.

The baker of Wonder Bread and Hostess Cakes held the door open for other parties to make competing bids of at least $1.8 million, but wasn't able to attract any such offers by a June 21 deadline.

The company, with the aid of Hilco Industrial LLC and Hilco Real Estate LLC, began marketing the property — a 30,672-square-foot building on 1.53 acres of land — back in January.

Interstate Bakeries, based in Kansas City, Mo., filed for Chapter 11 protection from creditors Sept. 22, 2004, experiencing liquidity problems caused by rising employee health-care and pension costs and excess industry capacity.

The company is the largest wholesale baker and distributor of bakery goods in the U.S., producing goods under national brand names including Wonder, Hostess, Home Pride and Dolly Madison. ***DBR***

Delphi *(continued from page 1)*

the committee's request Wednesday. The request was made in an objection the creditors filed to

Delphi's bid to expand a program of buyouts and early-retirement inducements aimed at shrinking the company's work force. A hearing on that program is scheduled for Thursday.

Delphi is GM's biggest supplier, and it is the largest of the U.S. auto-parts companies that have tumbled into bankruptcy proceedings over the last year. The company filed for Chapter 11 protection last October, listing $22 billion in debt. Since then, it has been negotiating both with GM and its labor unions to find ways to cut costs.

During a troubled phase of those negotiations in March, Delphi blamed GM for many of its financial difficulties. Referring to the company's origins as a GM subsidiary, Delphi said that "as a result of the manner in which Delphi was created...the debtors' products do not represent a strategic vision."

"Instead, they include substantially all of the products that GM elected to place into the debtors' businesses at the time of the spinoff," Delphi said. "A number of these product lines are essentially commodity products subject to increasing foreign price competition, meaning that the debtors could not expect to sustain a profit in these businesses even with reduced labor costs."

Delphi's cost-cutting efforts have since progressed considerably. With financial assistance from GM, it persuaded 12,600 workers to take early-retirement buyouts worth up to $140,000 apiece. The company has said those buyouts have created "a more favorable environment" for an agreement with its unions on cuts in wages and benefits.

That progress, however, coincided with what Delphi's creditors called a diminished resolve by the company to make claims against GM involving the 1999 spin-off. The weakened resolve, they said, was evident in Delphi's agreements to secure GM's assistance in the buyout program.

In one instance, the creditors said, Delphi effectively gave GM the right to make a $700 million claim against Delphi once the company completes its bankruptcy reorganization. Such concessions "allow GM to dodge a portion of its liability" to Delphi and its subsidiaries, the creditors said.

"The debtors are embarking on a program of incremental allowance of and waiver of defenses to GM's claims that ultimately could preclude a full and fair opportunity to bring to this court the serious questions as to GM's responsibility for the debtors' financial and labor difficulties," the creditors said.

The creditors said GM's financing of the buyouts wasn't an act of generosity.

"Quite to the contrary, GM is acting out of its own self-interest by agreeing to provide some funding now in exchange for substantial allowed claims and a dramatic reduction of its own contingent liability to (Delphi's) unions," they said. ***DBR***

DAILY BANKRUPTCY REVIEW

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BEYOND BANKRUPTCY

Judge Approves $11.75M Kmart Pension Deal In Ex-Worker Suit

About 125,000 employees and retirees of the former Kmart Corp. will share in the $11.75 million settlement of a lawsuit that said former company executives acted improperly when they invested pension money in now-worthless Kmart stock.

U.S. District Judge Avern Cohn approved the settlement agreement in a final order filed Tuesday, the Associated Pres reported. The deal involves those who participated in Kmart pensions from March 15, 1999, to March 6, 2003.

"It is a done deal," attorney Mary Ellen Gurewitz, said Wednesday, adding that recovery amounts will be based on the holdings of individual pension plan participants.

Gurewitz was one of the lawyers representing Quincie Rankin, a former employee of Kmart in Fairfield, Ala., who sued ex-Kmart Chief Executive Charles Conaway and other former executives and board members in March 2002.

Erin Kelly, one of Conaway's lawyers, did not immediately return a telephone message Wednesday.

The suit said company officials invested pension money in Kmart stock after the company filed for Chapter 11 bankruptcy protection on Jan. 22, 2002. It said the officials failed to exercise proper care for the pension money.

Kmart, based in Troy, Mich., emerged from bankruptcy in 2003 as Kmart Holding Corp. In March 2005, the company combined with Sears, Roebuck and Co. to form Sears Holdings Corp. The new company is based in Hoffman Estates, Ill. *DBR*

Bawag *(continued from page 1)*

Wall Street's most prominent investment firms, all of which were scalded in Refco's meltdown amid an accounting scandal last October.

Some firms, including the giant bond-fund operator Pacific Management Investment Co., are spearheading a class-action lawsuit to recover money for Refco shareholders. Others, including Goldman Sachs & Co. and Merrill Lynch & Co., are defendants in that lawsuit. All of them had the same objection to the Bawag settlement: its phraseology could hurt their interests.

Goldman and other investment banks underwrote Refco's $583 million initial public offering in 2005 and became defendants in the class-action lawsuit as a result of that involvement.

The underwriters said the Bawag settlement was designed not only to settle Refco's claims against the Austrian bank, but also to forbid other parties from asserting claims against Bawag. That would mean that if those parties were sued by Refco, they wouldn't be able to turn to Bawag for "contribution or indemnification."

Pimco and other plaintiffs in the class-action lawsuit have reached their own settlement with Bawag and stand to receive at least $108 million if a judge approves the pact. But they said the language of the Refco creditors' settlement could force them to make a difficult choice.

Some of the class-action plaintiffs happen to be Refco creditors, meaning they'd be entitled to some of the proceeds of the Refco creditors' settlement.

But that settlement, they said, "purports to release all claims by (the class-action plaintiffs) and members of the class against Bawag." Accordingly, "accepting even a small payment as a creditor in the Chapter 11 proceeding could cause a class member to release unwittingly a much larger recovery" in the class-action lawsuit.

Refco's creditors committee said its lawyers and those of Bawag met Sunday with representatives of Refco's underwriters to try to resolve their concerns. They changed the language of the settlement to resolve "any Refco underwriter objection that had a scintilla of merit."

The underwriters didn't think so. In court papers filed earlier this week, the creditors committee said the underwriters "inexplicably advised the committee today that they would not withdraw their objections."

Refco's creditors committee so far has dominated the race to retrieve assets lost in the collapse of what was once one of the country's biggest commodity brokerages. In April it obtained a $263 million settlement from the Sphinx Managed Futures Fund, a hedge fund that received cash from Refco just before the collapse.

Shortly afterward, it sued Bawag, accusing the bank of being "partners in crime" in the alleged fraud conspiracy that led to Refco's collapse. After a judge froze up to $1.3 billion in Bawag assets at the committee's request, the bank quickly offered a settlement to end the dispute. *DBR*

Beyond Bankruptcy

NJ Supreme Court Rules KPMG Can Be Sued In Fraud Case

Shareholders of a company that went bankrupt after a fraud by some officers can sue its accounting firm on charges it failed to detect the fraud, New Jersey's Supreme Court ruled Wednesday, according to the *Associated Press*.

The 5-2 ruling by the state's highest court is a setback for accounting firm KPMG International, which had persuaded a trial court to dismiss the lawsuit by shareholders of the failed Physician Computer Network. PCN, of Morris Plains, N.J., developed and marketed software to help doctors communicate with hospitals, insurers and laboratories.

The ruling was being evaluated by groups representing the accounting profession.

Physician Computer Network retained KPMG as its independent auditor from mid-1993 to mid-1998. Two PCN officers used bogus transactions to inflate the company's revenues in the mid-1990s, which went undetected by KPMG for several years. When audits uncovered the fraud, the company had to report previously unreported losses of tens of millions of dollars and to declare bankruptcy.

Shareholders settled a suit against PCN for $21.15 million, and also settled claims against the two officers.

Shareholders also sued KPMG, charging that the accounting firm failed to perform proper audits.

KPMG said the lawsuit should be dismissed based on the "imputation doctrine," which holds that knowledge of an agent is generally attributable to its principal. A trial court agreed, finding that the shareholders could not sue unless KPMG "materially participated" in the fraud, and that there was no such evidence.

An appellate court, however, said that KPMG could not use that defense because the lawsuit alleged wrongdoing independent of the fraud committed by the PCN officers.

In sending the case back for possible trial, the Supreme Court ruled that the doctrine does not prevent shareholders who were unaware of the fraud from collecting damages from an auditor who was negligent by failing to report fraud by officers.

Two justices filed separate dissents. Justice Jaynee LaVecchia said without a credible claim of recklessness or gross negligence or other conduct by the auditor that aided the fraud, the case should be dismissed. Justice Roberto Rivera-Soto cited several factors favoring dismissal, including that PCN did not require KPMG to guarantee that PCN's financial statements were entirely accurate. ***DBR***

Northwest Aims To Speed Up Retirement Of DC-10 Aircraft

Northwest Airlines Corp. said Wednesday it will speed up the retirement of its fleet of fuel-guzzling DC-10 aircraft, as it cuts costs under Chapter 11 bankruptcy protection, the *Associated Press* reported.

Over the next seven months, the airline said it will replace the remaining 12 DC 10-30s, which fly to Europe and Asia, with new Airbus A330 planes and Boeing 747-400 jets that are going back into service.

Airlines have increasingly tried to cut fuel costs, as high oil prices ate into improving revenue. Northwest said the A330 will provide up to 30 percent in fuel savings and lower maintenance costs, versus the DC-10.

The new Airbus jets will replace DC-10s on Northwest routes between Memphis, Tenn., and Amsterdam; Minneapolis/St. Paul and London; Amsterdam and Mumbai, India; Minneapolis/St. Paul and Amsterdam; and Minneapolis/St. Paul and Honolulu.

The 747s will run between Tokyo and Honolulu, as well as between Osaka, Japan and Honolulu.

The DC-10 has been a workhorse aircraft for Northwest since 1972. Northwest's fleet of DC-10s peaked in 2001 at 45 aircraft.

The last DC-10 flight will be Northwest flight 98, scheduled to depart Honolulu on Jan. 7 bound for Minneapolis/St. Paul.

Northwest, the country's fourth-largest airline has been in bankruptcy reorganization since September. The company has said it needs to cut its labor costs by $1.4 billion a year to be able to emerge from Chapter 11 protection. ***DBR***

Federal-Mogul Reports $16.2 Million Net Loss For May

This information is from **Federal-Mogul Corp.'s** monthly operating report for May, filed Monday with the U.S. Bankruptcy Court in Wilmington, Del. Monthly operating reports must be submitted to the bankruptcy court by companies under Chapter 11 bankruptcy protection, such as Federal-Mogul.

Numbers may not add precisely because of rounding.

STATEMENT OF OPERATIONS (Unaudited)	May
Net sales	$283,100,000
Cost of products sold	233,000,000
Gross margin	50,100,000
Selling, general and administrative expenses	(49,300,000)
Amortization	(1,200,000)
Reorganization items	(5,700,000)
Interest income (expense), net	(15,000,000)
Other income (expense), net	5,700,000
Earnings before income taxes and cumulative effect of change in accounting principle	(15,500,000)
Income tax (expense) benefit	(800,000)
Earnings before cumulative effect of change in accounting principle	(16,200,000)
Net earnings	**$(16,200,000)**
Summary of unpaid post-petition debits	(78,900,000)
I/C loans receivable (payable)	2,239,600,000

Intercompany balances	2,160,800,000
Property, plant and equipment	860,800,000
Goodwill	947,900,000
Other intangible assets	412,300,000
Insurance recoverable	824,300,000
Other noncurrent assets	933,600,000
Total Assets	8,231,400,000
Liabilities and shareholders' equity	
Short-term debt, including current portion of long-term debt	548,000,000
Accounts payable	243,000,000
Accrued compensation	71,000,000
Restructuring and rationalization reserves	16,000,000
Interest payable	2,500,000
Other accrued liabilities	255,600,000
Total current liabilities	1,136,000,000
Post-employment benefits	1,990,400,000
Other accrued liabilities	804,600,000
Liabilities subject to compromise	6,012,300,000
Shareholders' Equity:	
Preferred stock	1,050,600,000
Common stock	565,800,000
Additional paid-in capital	8,061,700,000
Accumulated deficit	(10,283,800,000)
Accumulated other comprehensive income	(1,106,100,000)
Total Shareholders' Equity	(1,711,800,000)
Total Liabilities & Shareholders' Equity	$8,231,400,000

Adelphia Could Pay $440M In Fees If Sale Falls Through

By Steven Sloan

If **Adelphia Communications Corp.** fails to complete its sale to Time Warner Inc. and Comcast Corp., it will be forced to pay hefty termination fees.

In a filing with the Securities and Exchange Commission Tuesday, Adelphia said it would be required to pay Time Warner $352.9 million if the sale isn't completed by Sept. 1. Alternatively, Adelphia could lower its price by $352.9 million.

The country's fifth-largest cable company would also pay Comcast $87.5 million if the sale falls through.

The last approval needed before the Adelphia sale can go through is from the Federal Communications Commission. FCC Chairman Kevin Martin indicated last week that he expects the agency's review of the sale to finish up by mid-July. Comcast and Time Warner expect the acquisition by the end of July.

The acquisition will strengthen Time Warner's positions in New York, Texas, California, Ohio and the Carolinas. Comcast will enhance its presence in Pennsylvania, Washington, D.C., Florida and Massachusetts. ***DBR***

Bankruptcy Fees Watch

An occasional report on professional fees charged in Chapter 11 cases

AP Services, an affiliate of the restructuring firm AlixPartners, submitted a bill of nearly $1.5 million to **Calpine Corp.** for services performed in May. The firm serves as Calpine's financial adviser and restructuring consultant.

Under a court order, AP Services said it's entitled to collect 80% of its fees and 100% of its expenses immediately. The remainder must be approved by a bankruptcy judge. Here's a breakdown of the fees and expenses charged to Calpine:

PROFESSIONAL	POSITION	HOURS	RATE	AMOUNT
Michael A. Feder	Managing Director	194.6	$630.00	$122,661.00
Deborah Rieger-Paganis	Director	247.4	$480.00	$118,752.00
Barry Folse	Director	242.4	$480.00	$116,352.00
John R. Castellano	Director	224.6	$510.00	$114,546.00
David C. Johnston	Director	231.8	$460.00	$106,628.00
Thomas B. Osmun	Director	214.2	$480.00	$102,816.00
Kyle A. Braden	Vice President	262.2	$380.00	$99,636.00
Salvador N. Caputto	Vice President	249.4	$380.00	$94,772.00
Bryan K. Porter	Director	205.7	$460.00	$94,622.00
Lisa J. Donahue	Managing Director	119.3	$670.00	$79,931.00
Aleksandra Bozic	Vice President	284.5	$280.00	$79,660.00
Drew Lockard	Vice President	239.9	$330.00	$79,167.00
Doug Jung	Director	150.0	$480.00	$74,250.00
Donald Parcell	Director	149.3	$495.00	$73,903.50
Meaghan Frawley	Vice President	218.0	$330.00	$71,940.00
Terry Singla	Vice President	223.6	$320.00	$71,552.00
G. Jon Shell	Vice President	161.9	$430.00	$69,617.00
Adam Hollerbach	Associate	201.2	$300.00	$60,360.00
Robb C. McWilliams	Vice President	199.8	$300.00	$59,940.00
Christopher Anderson	Associate	189.1	$260.00	$49,166.00
Nathan Cook	Director	75.9	$495.00	$37,570.50
Henry Colvin	Director	59.6	$440.00	$26,224.00
Jamie Lisac	Director	43.8	$495.00	$21,681.00
Larry E. Ramaekers	Director	35.1	$440.00	$15,444.00
Albert Leung	Vice President	37.4	$380.00	$14,212.00
Tarek Ghalayini	Associate	35.2	$300.00	$10,560.00
Travis Phelan	Associate	14.5	$260.00	$3,770.00
Total Hours & Fees		**4,510.4**		**$1,869,733.00**
Less 50% Calpine Corp Travel				(235,425.25)
				1,634,307.75
Less 20% Holdback				(326,861.55)
				1,307,446.20
Expenses				178,346.01
Total Amount Due				**1,485,792.21**

Source: U.S. Bankruptcy Court, Manhattan Case No: 05-60200

Daily Bankruptcy Review SIDEBAR

Turnaround Professionals Watch Vulnerable Industries

By David M. Toll

With the economy refusing to break down, professionals who make a living by fixing troubled companies have been as frustrated as the Maytag repairman.

Now, their patience may be about to be rewarded. The prospect of an interest rate spike, unstable equity markets and soaring prices for commodities such as energy, resins and steel is gladdening the hearts of turnaround professionals and investors everywhere.

These warning bells are also inspiring a quest to identify the industries that will be most vulnerable to an economic downturn when it finally arrives again.

Among the top picks of turnaround professionals is the real estate market - and, in particular, construction companies, building products suppliers, and mortgage underwriting companies. The culprit, higher interest rates, is making it more expensive for consumers to buy homes, and for developers to build office buildings.

Van E. Conway, senior managing director at turnaround consulting firm Conway MacKenzie & Dunleavy, said that in anticipation of a real estate slowdown, his firm may add one or two professionals to the roughly dozen it has who specialize in real estate and construction turnarounds.

Also at high risk in a downturn, Conway said, are midsized manufacturers slow to seek out cheaper sources of labor abroad. They stand to lose market share both to foreign rivals, and to domestic ones quicker to move operations overseas. Conway MacKenzie & Dunleavy opened a six-person office in Shanghai late last year in part to help clients with $100 million to $2 billion in revenue move their operations to China.

“You really have a world of midmarket manufacturers that have not gone over there,” Conway said.

Elsewhere, turnaround professionals say, the chemicals and packaging industries teem with companies that face higher raw-material costs but lack the pricing power to pass those costs on to customers. That’s a classic recipe for failure when business dries up, particularly for companies so highly leveraged that they’ve neglected to invest to upgrade plants and equipment, according to H. Sean Mathis, managing director of Miller Mathis & Co. LLC, a boutique investment bank.

Retailers that cater to blue-collar workers are due to hit some rough patches, turnaround professionals also say. Such workers are getting caught in a vice between rising gasoline prices and higher interest rates, which are making it more expensive to fund purchases with credit cards or with home equity.

Newspaper publishers, meantime, still face their share of problems, from rising paper costs to competition from the Internet as a source of news and information.

“A lot of their basic business is going away,” said Julia Whitehead, a senior advisor at Miller Mathis.

Meantime, plenty of repair work remains to be done in the automotive supply business, said Michael Selwood, senior managing director in the corporate finance practice at FTI Consulting. Selwood figures we’re only in the second year of what’s probably a four- or five-year-long industry restructuring timeline.

Last year, FTI Consulting had its eye on more than a dozen automotive supply companies vulnerable to a variety of factors, including climbing steel costs; some of these companies later became clients. This year, Selwood said, in part because of the increasing cost of resins used to make plastic and aluminum, the firm has added an additional 10 automotive suppliers to its watch list.

Two June reports from Standard & Poor’s offer further glimpses into vulnerable industries. The first analyzes companies around the world at risk for ratings downgrades. The number of such companies hit

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665 in mid-June, the highest level since the report was first published 10 months ago. More than half of these companies are classified as having speculative-grade debt, and more than eight in 10 are based in the U.S. or Europe.

Especially well-represented on the list are the industries mentioned earlier that are heavily dependent on discretionary spending by consumers: automotive, media and entertainment, retail, restaurants and consumer products.

"Pressures have been building" in these markets, the report said, "owing to greater consumer indebtedness, growing uncertainty about the housing outlook and high energy prices."

The three industries with the highest ratio of companies at risk of downgrades to total rated companies are automotive (35%+), telecommunications (30%+) and media and entertainment (30%+), according to S&P.

A second S&P report published this month identifies bond market "weak links," companies at high risk of default on their loans. Nineteen companies made the list, accounting for $6.5 billion in rated debt; all but one are based in the U.S. Most qualify for the list because their debt is rated CCC or lower, and carries a negative outlook.

Consumer products, as a category, account for the most weak links on the list, at four. Two consumer products companies joined the list since May: Anvil Holdings Inc. and Avondale Mills Inc., both clothing makers. Together their affected debt totals $331 million.

The second biggest category, media and entertainment, accounts for three weak links, including one added since May - ICON Health & Fitness Inc, a maker of home fitness equipment. The company has $155 million in affected debt. Categories accounting for two weak links each are retail/restaurants, forest products and chemicals.

Peter J. Solomon Co., a New York-based mergers and acquisitions and restructuring advisory firm, compiles its own watch list every two weeks, and companies exposed to the real estate market have made frequent appearances.

Compiled largely based on stock price moves, the list is divided into decliners and gainers. In an analysis of the 235 companies on the June 15 decliners list, 50 are directly involved in the real estate market.They include 15 real estate management and development companies, 10 thrifts and mortgage finance companies and nine REITS. Other industries with several constituents on the June 15 list include regional banks (17), broadcasting and cable TV (13) and paper packaging and products (10).

To prepare the list, Anders Maxwell, managing director at Peter J. Solomon, starts with the universe of publicly traded equities in the United States, Canada and Western Europe. He then screens companies by a variety of financial metrics; for example, listees must have a total enterprise value greater than $100 million, and a ratio of total funded debt to Ebitda of greater than five (or negative Ebitda over the last 12 months).

So what will it take to send companies on watch lists like these into the repair shops of turnaround professionals? One thing's for sure: It will take more than an economic downturn. Also needed is a vast evaporation of liquidity from the capital markets.

As long as vulnerable companies can still borrow money, they will be able to delay tackling problems, operational or otherwise. Before the next wave of restructuring hits, banks, finance companies and hedge funds will have to turn their backs on these troubled companies, ignoring their offers to pay premium interest rates for that one last chance.

Turnaround consultant Conway explained, "When there's an excess amount of money available, you basically delay the inevitable."

"But then," Conway added, "the inevitable's worse."

From The Tape

GM Buyouts Proving Popular In Mo.

About 35,000 hourly workers at General Motors Corp. have so far accepted the automaker's historic job-cutting package, marking a massive exodus from the company as it tries to rapidly cut costs and return to profitability in North America, the *St. Louis Post-Dispatch* reported Tuesday. When coupled with the hourly work force reduction of 6,500 in 2005 and estimated replacements, including allowing workers at bankrupt auto supplier **Delphi Corp.** to take jobs at GM plants, GM expects to reach its target of reducing 30,000 manufacturing jobs by Jan. 1, 2007 - about two years ahead of schedule. Delphi also announced late Monday that 12,600 workers had accepted similar attrition offers. At the Wentzville, Mo., plant, about 550 employees - almost one out of every four represented by the United Auto Workers - opted for a retirement or separation package. The final numbers may be lower because workers have until midnight Friday to change their minds. Besides retirement packages, GM also offered separation packages that included a $140,000 lump-sum severance payment for those with more than 10 years of service.

Delta Attendants Focus On Airline's Brand

Twice a week since February, groups of hundreds of **Delta Air Lines** flight attendants have trooped into a vacant department store on Peachtree Street in downtown Atlanta to the hip-hop sounds of The Black Eyed Peas, New York's *Newsday* reported Monday. After an update by executives on the state of the company, Delta's marketing vice president Joanne Smith speaks from a stage set up in an old cosmetics section. It's a very temporary operation, so the airline only invested in paint, carpet, a sound system and some lighting. "There's a lot you can do with lighting," Smith says in a telephone interview. "I talk about the brand," she says, "what Delta is doing to enhance the customer experience." In all, 11,000 flight attendants and 1,000 other employees have gone through the day-and-a-half sessions, which end with a sampling of new items on Delta's menu and the Mile-High Mojito and Mango Kiss cocktails Delta flight attendants will shake up and serve passengers for five bucks. The airline has introduced new uniforms by designer Richard Tyler and a choice of snacks in coach.

Brazil Longs For Varig Bailout

While Brazil's soccer team is flying high, defending its World Cup title in Germany, another national icon back home can barely get off the ground, the *Chicago Tribune* reported Wednesday. **Varig**, an airline that once considered itself world class, is on the verge of collapse. Tens of thousands of Varig passengers wonder how they will make their next destination. And Varig's 6,000 employees worry that come next week they will be out of a job. "We are passing through difficult times," said pilot Anton Arnet, who started with Varig 30 years ago as a maintenance engineer. "But the people of Brazil want Varig to keep flying. They come to me and express sadness about what is happening. They say Varig must exist." Said one customer, "Varig was always the best of the best. It represents Brazil to the world." Varig employees make the same pitch in protests and a public campaign seeking help from President Luiz Inacio Lula da Silva. "Varig is not just any company; it's a national icon," said Sen. Jefferson Peres from the state of Amazonas. "How much good this does for our self-esteem, walking down the Champs-Elysees in Paris or Fifth Avenue in New York and seeing Varig Brazil! It was like a Brazilian Consulate."

Tower Records Offers Music Downloading

Seeking to expand its online offerings, Tower Records entered the music downloading business Tuesday with a service that will initially feature more than 1.2 million tracks, the *Sacramento Bee* reported Tuesday. The music retailer, based in West Sacramento, hopes to use its 46 years of experience in the record industry to attract customers who want to download music. That won't be easy: Tower enters a crowded field of more than a dozen download sites dominated by the iTunes Music Store, which has sold more than 1 billion songs since it was launched in 2003 and controls more than 70 percent of the U.S. market. "I can't imagine they think they can be a serious rival to Apple, but there are still a lot of good reasons for going into this business as long as you don't think you will be an iTunes killer," said Russ Crupnick, an analyst with the NPD Group, based in Port Washington, N.Y. Tower Records is owned mostly by its bondholders, who took control of Tower as part of a 2004 bankruptcy reorganization.