

Domestic Credit by John Hoefle

Plug is pulled on junk bond victims

Macy's and TWA are leading the way in the latest spectacular bankruptcies of top U.S. companies.

The financial bankruptcy of the United States continued to accelerate during December and January, with the failures of leveraged blowout victims R.H. Macy & Co. and Trans World Airlines grabbing the headlines.

Macy, the 133-year-old department store chain, filed for bankruptcy on Jan. 27, nearly six years after the company's management led a \$3.7 billion junk bond-financed leveraged buyout. In its filing, Macy listed assets of \$4.95 billion and liabilities of \$5.32 billion, including \$3.4 billion in long-term debt.

Macy's biggest creditor is Prudential Insurance, which holds \$811 million in mortgages for 70 Macy's stores. Prudential, which also holds \$344 million of bankrupt retailer Carter Hawley Hale's debt, reportedly triggered the bankruptcy when it vetoed a \$1 billion bailout of Macy by Laurence Tisch's Loews Corp. Tisch, who already owns 15.6% of Macy, had offered to buy back a large part of Macy's junk bonds, in return for a controlling stake of as much as 100%, and a promise from Prudential to lower the interest rates on the mortgage debt to a flat 9% from a minimum of 12%.

Prudential, one of the largest U.S. holders of junk bonds, apparently could not afford the concessions demanded by Tisch. Late last year, Prudential and Macy had renegotiated the mortgages, giving Macy a reduction in interest rates in exchange for extra interest if the retailer exceeded certain sales targets.

During the most recent quarter—

which included the Christmas season—Macy's cash flow was reportedly less than \$135 million, or barely half the amount of the same period a year earlier. After taking into account Macy's crushing interest payments, the company had a substantial net loss for what should have been its most lucrative quarter of the year.

On Jan. 31, four days after Macy went under, Trans World Airlines filed for Chapter 11. In doing so, TWA has plenty of company in the airline industry. Pan Am, Eastern, and Midway ceased operations last year, and Continental and America West are continuing to operate under the protection of the courts.

TWA's fate was sealed in 1986, when takeover bandit Carl Icahn took on \$2.6 billion in debt to take the airline private. From the start, Icahn's TWA had trouble meeting its crushing interest payments. Over the last several months, Icahn had cajoled several creditors into taking equity stakes in the airline in return for slashing TWA's junk bond debts by nearly two-thirds, but it wasn't enough.

"I've lost on TWA," complained Icahn at a news conference. "They were the worst investment I made in the last decade." The reverse would be more accurate: TWA lost with Icahn. The raider destroyed TWA by loading it up with unpayable debt. The airline never had a chance.

Now the bankrupt airline is looking to borrow another \$200 million of debtor-in-financing money from a number of banks. If the banks won't do it, Icahn said he would provide the

financing.

Icahn cynically claimed that the bankruptcy was a step forward. "We are wiping \$1 billion in debt off our balance sheet, and our interest expenses will go down by \$150 million a year," he said. Should the court approve Icahn's bankruptcy plan, TWA's debt would shrink to about \$700 million, leaving the airline in what Icahn claimed would be "a stronger, more competitive" position.

TWA's pensioners might not be so happy. According to the Pension Benefit Guarantee Corporation, TWA's pension fund is under-funded by \$933 million.

Other industries are headed the way of the airlines, too. Carter Hawley Hale, the largest department store chain in the western United States, has been in Chapter 11 for a year. Allied Stores Corp., Federated Department Stores, and Ames Department Stores are already in bankruptcy.

During January, Seaman Furniture, Borneo International Furniture, Zale, Curtis Mathes and AppleTree Markets also filed for bankruptcy.

El Paso Electric has filed for Chapter 11, and Tucson Electric narrowly avoided a creditor-forced involuntary bankruptcy.

Even the fantasy land of Hollywood has not escaped the crisis. Orion Pictures filed for Chapter 11 in December, Carolco Pictures is on the verge of going under, and the head of MGM-Pathé was recently removed, allegedly for driving that company to the verge of bankruptcy.

Personal bankruptcies rose to 214,174 in the third quarter of 1991 from 177,351 in the third quarter of 1990, according to the American Financial Services Association. For the 12-month period ending Sept. 30, the figures showed a 24% gain in personal bankruptcy filings—to 848,812 from 685,429.