

Pursuing a Plan of Reorganization? What the data shows.

By Dan Rexford

Several years ago Allen Michel, Israel Shaked, and Christopher McHugh of the Michel-Shaked Group in Boston published an article in the *Financial Analysts Journal* entitled “After Bankruptcy: Can Ugly Ducklings Turn into Swans?” The findings are instructive and were reported again in December/January 2011 issue of the *American Bankruptcy Institute Journal*.

In year one:

- 72.7 percent of companies who had reorganized missed their sales projections;
- 62.7 percent were below their projected net income; and
- 63.2 percent were below their projected cash flow from operations.

Of those who survived to year two:

- 66.7 percent missed their sales projections;
- 71 percent were below their projected net income; and
- 57.1 percent were below their projected cash flow from operations.

Of those who survived to year three:

- 68.2 percent missed their sales projections;
- 72.7 percent were below their projected net income; and
- 58.8 percent were below their projected cash flow from operations.

Clearly, filing a plan of reorganization and achieving confirmation, a lengthy and expensive process unto itself, is no panacea. Distressed companies need resources – access to a market, capital, additional skills and talent, etc. – to survive and thrive. Acquiring these resources as quickly, efficiently, and inexpensively as possible must be management’s focus. Striving for a plan of reorganization may be the right course but it cannot be the goal.