

Acquisitions as a Means of Restructuring Firms in Chapter 11*

Edith S. Hotchkiss

Boston College, Fulton Hall, Chestnut Hill, Massachusetts 02467
E-mail: Hotchkis@bc.edu

and

Robert M. Mooradian

*College of Business Administration, Northeastern University, 413 Hayden Hall, Boston,
Massachusetts 02115*
E-mail: Moorad@neu.edu

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This paper provides empirical evidence that takeovers can facilitate the efficient redeployment of assets of bankrupt firms. Bidders for bankrupt firms are generally in related industries and often have some prior relationship to the target, suggesting they are well informed with respect to both the value and best use of the target's assets. For a sample of 55 acquisitions in Chapter 11, we find that firms merged with bankrupt targets show significant improvements in operating performance, while matching non-bankrupt transactions show no significant improvement. We also find positive and significant abnormal stock returns for the bidder and bankrupt target at the announcement of the acquisition. *Journal of Economic Literature* Classification Numbers: G33, G34. © 1998 Academic Press

I. INTRODUCTION

There remains considerable debate whether Chapter 11 bankruptcy provides an efficient mechanism under which the assets of financially distressed firms are effectively redeployed. For example, Hotchkiss (1995) finds that many firms that emerge from Chapter 11 continue to experience poor

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operating performance and more than one-third must undergo a second restructuring. Baird (1993) and Bradley and Rosenzweig (1992) argue that Chapter 11 fails to provide managers with appropriate incentives to allocate corporate resources to their highest-valued uses. To mitigate this and other agency conflicts associated with operating a firm in bankruptcy, critics of Chapter 11 suggest that bankruptcy law should be reformed to encourage an immediate sale of the firm through an auction.¹ Jensen (1991) also argues that acquisitions are an important mechanism to induce the efficient redeployment of assets of bankrupt firms.

Since acquisitions have been suggested as an effective means for resolving financial distress, interesting questions arise concerning how the acquisition process works for firms in bankruptcy. In this paper we investigate two questions central to understanding the bankruptcy and acquisition processes. First, do the current structure of Chapter 11 or asymmetric information problems impede acquisitions? Because an acquisition is a substitute for a reorganization in Chapter 11, we address this question by providing a comparison of firms acquired in Chapter 11 to firms which are reorganized as independent companies. Since both the number and the type of bidders for a bankrupt firm can impact the effectiveness of a sale as an efficient means of resolving financial distress, we further examine whether acquisitions in Chapter 11 occur in a competitive environment. The second important question is: do acquisitions in bankruptcy create value? To address this question we examine several *ex post* measures of the success of the transaction, as well as bidder and target stock price reactions to the announcement of the acquisition.

To begin thinking about these questions, note that the current structure of Chapter 11 may discourage acquisitions in several ways. Incumbent management remains in control when the firm enters Chapter 11. As described by Baird (1993), it is not clear that self-interested managers can be counted on to conduct a sale of the firm even if it is in the interest of shareholders and creditors for them to do so. Furthermore, an acquisition in Chapter 11 is typically part of a reorganization plan, and this requires creditor approval.² For bankrupt firms with more complex debt structures, gaining creditor approval for an acquisition is likely to be difficult because of possible disagreements among creditor groups over the distribution of the proceeds from the sale. If the bias toward incumbent management and the requirement of creditor approval make hostile acquisitions of Chapter

¹ Specific proposals for reforming Chapter 11 are described by Aghion *et al.* (1992) and Bebchuk and Chang (1992).

² As discussed in Brown (1989), Gertner and Scharfstein (1991), and Mooradian (1994), the voting rules in Chapter 11 mitigate coordination problems within a class of creditors. However, a potential acquirer must negotiate with each creditor group over not only the sale price but also the distribution of the proceeds from the sale.

11 firms difficult, takeover activity will be more likely for firms whose management has already been replaced and for firms with less complex debt structures.

Industry conditions may also deter an acquisition. Shleifer and Vishny (1992) argue that industry conditions will affect the type of bidders and the prices paid for distressed firms. The highest valuation potential buyers of bankrupt firms are likely to be other firms in the industry. For example, Federated successfully acquired Macy's in the first hostile acquisition by a major corporation in Chapter 11 in 1994. Federated's valuation was higher than management's valuation of Macy's as an independent company because of the projected gains from combining operations of the two retailers. In general, however, Shleifer and Vishny (1992) point out that potential bidders in the same industry are also likely to be financially distressed and thus constrained in their ability to raise funds to acquire the bankrupt firm.³ Not only may the price bid for a bankrupt firm be low, but in Shleifer and Vishny's model the winning bidder may not be the firm that values the assets the most.

Our comparison of firms acquired in Chapter 11 to those reorganized as independent companies shows that firms acquired are less likely to have public debt outstanding and that they have fewer debt contracts outstanding. This is consistent with the idea that coordination problems among creditors (proxied by the number of debt contracts and the existence of public debt) deter acquisitions. Variables which proxy for management entrenchment or industry conditions are not significantly related to the probability of acquisition. Our analysis also shows there is no evidence that differences in postbankruptcy performance of firms reorganizing as independent companies from those acquired in Chapter 11 are driven by differences in prebankruptcy characteristics.

Gertner and Picker (1992) argue that asymmetric information may also impede acquisitions of distressed firms. Potential bidders, in particular those from outside the target's industry, may be uninformed with respect to not only the firm value but also with respect to the best use of the target's assets. In general, however, even bidders with operations in the same industry face a "lemons problem." Bankrupt firms with better future prospects (good firms) are likely to choose to reorganize as independent companies rather than attempt a sale in a market where good firms, pooled with firms with poor prospects (bad firms), sell at a low price. Given a "lemons" market we would expect to find only the bad firms for sale.

³ Consistent with Shleifer and Vishny's model, Hotchkiss and Mooradian (1997) present evidence of the frequency of takeover activity by buyers without related operations. However, such takeover activity is excluded from the sample examined in this paper, because the acquirers, vulture investors who specialize in the acquisition and management of distressed firms, are financial buyers and not operating companies.

We examine in detail the characteristics of 55 transactions where firms in bankruptcy are acquired by another public company and find evidence consistent with the idea that asymmetric information deters bidding by potentially less well informed firms. Bankrupt targets are most often acquired by firms in the same industry. While Kaplan and Weisbach (1992), in a study of nonbankrupt acquisitions, find that the bidder and target have at least one matching primary line of business for only 35% of the transactions, we find a match for 66% of the transactions involving bankrupt targets.⁴ Furthermore, for a large number of transactions the target and acquirer have some prior relationship: for example, in several cases the bidder has previously purchased some assets of the target. An asymmetric information problem is unlikely for bidders with a prior relationship or for bidders operating a related line of business.

For a bankrupt firm that receives an offer to purchase its assets, there is frequently competitive bidding. In our sample of 55 transactions, 18 have multiple bidders. The percentage of transactions with multiple bidders for bankrupt targets is at least as large as found in previous empirical studies of nondistressed targets such as Bradley *et al.* (1988) and Bange and Mazzeo (1997). When we compare our sample to 55 nonbankrupt acquisitions matched based on industry and on size and date of the transaction, we find that only 11 nonbankrupt matching transactions have multiple bidders. Despite efforts by the court to encourage competitive bidding, the prices paid by bidders for bankrupt firms (as a multiple of target sales or assets) are lower than prices paid in matching transactions for nonbankrupt firms. Bankrupt targets are on average purchased at a 45% discount relative to prices paid for nonbankrupt targets in the same industry.⁵ Although the transactions are at discount prices, the high proportion of acquirers operating in the same industry as the target, as well as the competitive bidding environment, does not support the conclusion that acquisitions in bankruptcy are sales to lower value users.

To address the issue of whether the sale of firms in bankruptcy produces economic gains, we examine the postmerger cash flow performance of firms acquired in Chapter 11. The postmerger performance of firms combined with bankrupt targets is better than that of firms that emerged from Chapter 11 without being acquired based on the findings of Hotchkiss (1995). As noted above, this difference does not appear to be driven by differences in pre-bankruptcy firm characteristics. Furthermore, we find improved postmerger cash flows of the combined firm (bidder plus target) relative to the

⁴ A match of a primary line of business is a match of at least one of the first four SIC codes at the 3- or 4-digit level.

⁵ In comparison, Pulvino (1998) finds that financially distressed airlines sell relatively liquid assets, used aircraft, at a 9.5% to 37% discount to the average market price.

year prior to the transaction for firms acquired in Chapter 11 but not for the matching sample of 55 nonbankrupt acquisitions. The increase in profitability for bankrupt targets is associated with a decrease in operating expenses and decreases in employment.

Also consistent with the idea that acquisitions of bankrupt firms create value, we find positive and significant abnormal stock returns for both bidders and bankrupt targets for the days surrounding the announcement of an acquisition. For the nonbankrupt matching transactions, we find positive abnormal returns to the target but not to the bidding firm. One possible explanation for the difference in the bidder's stock price reaction is that empire-building managers (i.e., those less concerned about shareholder wealth) find acquiring bankrupt firms less desirable because they require complex negotiations with creditors and the courts. Thus, it seems reasonable that there are fewer "bad bidders" in a sample of bankrupt acquisitions. Free cash flow problems, as discussed in Jensen (1986a), are also less likely for these bidders because they are often in distressed industries.

Overall, our evidence of gains from acquisitions of bankrupt firms supports the idea that takeovers can facilitate an efficiency-enhancing redeployment of assets. The evidence is consistent with the hypothesis that firms operating in the same industry as the target possess better information and/or expertise concerning the efficient redeployment of the assets of the bankrupt firm. Moreover, despite the fact that many acquirers of bankrupt firms are highly levered and operate in a distressed industry, acquisitions still result in an improvement on average in operating performance.

The paper proceeds as follows: Section II describes the sample selection process and provides a comparison of firms reorganized in Chapter 11 as independent companies to those acquired. Section III examines bidder, target, and transaction characteristics for acquisitions in bankruptcy. Section IV examines the postmerger performance, and Section V concludes.

II. SAMPLE SELECTION AND THE PROBABILITY OF ACQUISITION

The initial sample used to identify firms acquired in Chapter 11 consists of 1200 public companies which filed for Chapter 11 between October 1979 and December 1992. These firms were reported to be in Chapter 11 by the Securities and Exchange Commission, and were included on Compustat prior to filing. For each firm, the status or outcome of the filing is determined from a number of sources including the Wall Street Journal, press releases, and individual 10K and 8K reports. We identify 339 firms which reorganized as independent public companies and 111 firms which were acquired by

another operating company.⁶ For much of our analysis, we further restrict the sample to 55 firms acquired by public companies included on Compustat in order to obtain postmerger financial data for the acquirer.

Table I provides a comparison of the firms reorganized as public companies to those which were acquired in Chapter 11. We also report descriptive statistics for the subsample of 55 firms for which postmerger financial data are available. These firms are quite similar to the full acquisition sample based on all reported measures.

Panel A provides some basic prebankruptcy characteristics of these groups. For both firms independently reorganized and firms acquired, financial condition and operating performance is poor. Firms acquired in Chapter 11 are somewhat smaller based on the book value of total assets at filing. Leverage is high for both groups; firms are generally insolvent based on the ratio of book value of liabilities to assets. Firms are economically distressed based on negative median cash flow, and profitability as measured by the ratio of operating cash flow (EBITDA) to total assets. We also examine industry-adjusted cash flow by subtracting the median EBITDA/total assets of industry portfolios constructed using all other Compustat firms with the same 3-digit SIC code. Negative industry-adjusted cash flow return on assets indicates that these firms underperform relative to the industry groups.⁷ Overall, except for firm size, the prebankruptcy characteristics of firms independently reorganized versus firms acquired in Chapter 11 are not significantly different. Panel A also shows that acquired firms spend a median time in bankruptcy of 14 months, compared to 17 months for the independently reorganized firms. Therefore, the characteristics of bankrupt firms examined in this study are similar to those of firms considered in previous studies such as Hotchkiss (1995) and Gilson (1996).

Panels B, C, and D of Table I describe proxies for whether management entrenchment, the potential for disagreement among creditor groups, or industry conditions are related to the probability of acquisition. Data on management turnover and insider ownership are obtained from proxy and 10K statements prior to filing. The variable "CEO retained through filing" indicates whether the CEO in office two years prior to filing is still in office at the time of filing. CEO turnover is similar to levels found in previous studies of distressed firms and is close to 50% for both groups.⁸ It does not

⁶ Firms are classified as reorganized as independent companies, acquired by another operating company, liquidated, emerged as a private company, or unknown. A more complete description of the outcomes of Chapter 11 filings is provided by Hotchkiss (1993).

⁷ The firm's primary SIC code is verified in the year prior to filing from 10-K reports and other SEC filings.

⁸ For example, Betker (1994) finds 51% of CEOs are replaced by the time of filing. Turnover at the resolution of the Chapter 11 case is, however, substantially higher. Hotchkiss (1995) finds that CEOs are replaced for 70% of firms reorganized as independent companies by the time they emerge. For the subsample of 55 firms acquired by public companies, the original CEO never appears as a top manager of the combined firm, but is retained as a division manager in at least 5 cases.

TABLE I
Comparison of Firms Acquired in Chapter 11 to Firms Reorganized as Independent Public Companies

	Firms reorganized as independent public companies (n = 339)		Firms acquired (n = 111)		Firms acquired by another public company (n = 55)	
	Mean	Median	Mean	Median	Mean	Median
A. Firm Characteristics						
Total assets (\$ million)	284.6*	38.9	160.0	30.3	141.4	36.3
Total liabilities/total assets	1.19	0.91	1.16	1.0	1.08	0.940
EBITDA/total assets	-0.170	-0.011	-0.169	-0.031	-0.127	-0.024
Industry adjusted EBITDA/total assets	-0.256	-0.113	-0.283	-0.133	-0.234	-0.117
Months spent in Chapter 11	19.9***	17.0**	16.1	14.0	16.0	13.7
B. Management turnover & ownership						
CEO retained through filing	0.490	0.000	0.537	1.000	0.456	0.000
% stock held by officers and directors	26.5%	22.1%	26.2%	22.8%	25.1%	18.3%
% stock held by CEO	12.9%	5.6%	13.4%	4.2%	12.4%	3.9%
C. Debt structure						
Dummy = 1 if firm has public debt	0.46***	0.00	0.31	0.00	0.32	0.00
Public debt/total long term debt	0.192**	0.00	0.117	0.000	0.166	0.000
Bank debt/total long term debt	0.246	0.086	0.227	0.016	0.248	0.032
Number of long term debt contracts	5.7***	5.0*	4.2	4.0	4.3	4.0
D. Industry performance						
Growth in industry EBITDA/sales	-0.028	-0.013	-0.016	-0.011	-0.016	-0.012
Growth in industry employment	0.016**	0.010	0.031	0.020	0.037	0.033

Note. The sample consists of 550 firms filing for Chapter 11 between 1979 and 1992. Firms are identified as reorganized as an independent public company or acquired in Chapter 11 based on news searches and SEC filings. Growth in industry operating income (EBITDA/sales) and employment are calculated as the change in the two years preceding the bankruptcy filing. Financial data are obtained from Compustat, 10-K and proxy reports and Moody's manuals for the fiscal year end prior to filing. EBITDA: Earnings before interest, taxes, depreciation and amortization.

*, **, *** Mean (median) significantly different between firms reorganized as independent companies and firms acquired at the 10, 5, and 1% level, respectively, based on *t*-test (Wilcoxon rank sum test).

appear that firms which have replaced their CEO early in the restructuring process are more likely to be targets of acquisitions. The level of CEO and insider stockholdings is also similar between groups, suggesting that management is no more or less entrenched for the acquisition group.

Panel C shows that 46% of the firms which are independently reorganized have public debt outstanding, in contrast to 31% for the acquired firms. The ratio of public to total long-term debt is also greater for the independently reorganized group, though there is no significant difference in the proportion of bank debt. The higher proportion of public debt suggests a more complex debt structure for the independently reorganized firms. The number of long-term debt contracts described in the Moody's manual prior to filing directly measures the complexity of the capital structure, and is higher for the independently reorganized group. Although the somewhat more complex capital structure for the independently reorganized group is consistent with the idea that disagreement among creditors over the distribution of proceeds from a sale impedes acquisitions, it may also be explained by the larger size of these firms.

Panel D of Table I provides two measures of industry performance, based on the median performance of all other firms on Compustat with the same 3-digit SIC code as the bankrupt firm prior to filing. Based on Shleifer and Vishny's (1992) arguments, we expect acquisitions to be more common in better performing industries. However, firms in both groups frequently belong to poorly performing industries. The mean and median changes in operating income/sales are negative, suggesting that industry performance has been declining. Only the mean employment growth is significantly higher for the acquired firms' industries at the 5% level.

We also examine a series of logistic regressions (not reported) where the dependent variable equals 1 for firms which are acquired and 0 otherwise, and the independent variables include the measures described above. Attempts to correctly classify acquired versus independently reorganized firms are generally unsuccessful. The only variable which has a significant relationship to the probability of acquisition is the dummy variable indicating firms with public debt outstanding, providing weak evidence consistent with the idea that coordination problems deter acquisitions.

In the following analysis, we attempt to characterize acquisitions as successful or unsuccessful based on improvements in postmerger cash flow performance and based on qualitative assessments of postmerger performance. If assets are redeployed to more efficient use through mergers, we expect the postmerger performance to show a greater proportion of successful turnarounds than was found by Hotchkiss (1995) for firms independently reorganized. It is possible that firms that are acquired in bankruptcy are those with the best prospects. It is equally plausible that the firms sold in bankruptcy suffer from a "lemons" problem or are those

TABLE II
Characteristics of Bidders and Targets Acquired in Chapter 11

	Mean	Median	Min	Max
Relative size of target to combined firm:				
Book value target/combined book value	25.8%	16.6%	0.1%	74.5%
Sales target/combined sales	30.2%	21.3%	0.1%	82.2%
Acquirer characteristics:				
Total assets (\$ million)	2,020.3	242.3	1.4	37,134.0
Sales	2,132.6	249.5	0.8	47,679.0
Book value leverage	0.57	0.60	0.08	0.94
EBITDA/sales	0.12	0.11	-0.96	0.75
EBITDA/sales minus industry	0.02	0.02	-1.04	0.57
Change in EBITDA/sales (year -3 to -1)	-2.2%	-0.1%	-95.7%	2.3%
Change in industry adjusted EBITDA/sales (year -3 to -1)	-4.2%	-0.1%	-187.6%	24.6%
Target characteristics:				
Total assets (\$ million)	157.0	35.5	3.4	3390.9
Sales	144.2	46.9	0.6	1376.9
Book value leverage	1.37	1.07	0.39	4.90
EBITDA/sales	-0.03	-0.05	-0.81	0.67
EBITDA/sales minus industry	-0.13	-0.13	-1.20	0.60
Change in EBITDA/sales (year -3 to -1)	-1.2%	-1.2%	-12.2%	8.2%
Change in industry adjusted EBITDA/sales (year -3 to -1)	-6.2%	-0.7%	-76.2%	3.8%

Note. Sample consists of 55 firms acquired by a public company while in Chapter 11 between 1983 and 1992. Financial data are obtained from Compustat, 10-K reports, and Moody's manuals for the fiscal year end prior to announcement of the acquisition. EBITDA: Earnings before interest, taxes, depreciation and amortization. Industry adjusted: subtracts the median EBITDA/sales of all other firms on Compustat having the same 3-digit SIC code as the sample firm.

whose prospects are sufficiently poor that management has abandoned efforts to survive as an independent company. However, there is no evidence to suggest that differences in postbankruptcy performance of firms reorganizing as independent companies from those which are acquired are driven by differences in pre-bankruptcy characteristics.

III. ANALYSIS OF TRANSACTIONS IN CHAPTER 11

A. Characteristics of Acquirers and Bankrupt Targets

Table II provides a more detailed description of the sample of 55 acquisitions of bankrupt firms for which postmerger financial data are available. The size of the target relative to the combined acquirer and target is on

average 25.8% based on total assets and 30.2% based on sales (medians are 16.6% and 21.3%, respectively). The average relative size is the same as in the sample of mergers studied by Clark and Ofek (1994) and only slightly lower than Healy, Palepu and Ruback's (1992) sample (29%), though the medians for this sample are lower. There are 5 cases where the target is less than 10% of combined assets. However, all empirical results in this paper are unchanged if we exclude these five observations from the analysis.⁹ Table II shows that acquirers are more profitable than the targets, though some acquirers are also highly levered. In contrast to studies that do not focus on distressed firms (for example, Palepu (1986)), prior to the acquisition, bidding firms experience declining levels of EBITDA/sales as well as declining performance relative to the industry.

Table III reports additional characteristics of the acquisitions in bankruptcy as well as nonbankrupt matching transactions. For each firm in the sample, we determine the closest matching transaction from Securities Data Corporation based on the 3- or 4-digit SIC code, size of the target, and date of acquisition. Targets in the matching transactions are in less serious financial condition than the bankrupt targets (not reported), but since they are matched on industry they are also frequently distressed. Acquirers in the matching transactions are also slightly more profitable than acquirers of the bankrupt companies.

To measure the relatedness of an acquisition, we follow the methodology used by Kaplan and Weisbach (1992) based on SIC codes listed in the Standard and Poor's Register of Corporations. An acquisition is related at the 3-digit level if one of the four most important businesses (ranked by sales) of the acquirer and target match at the 3-digit level. We find 36 (out of 55) cases where the target and acquirer match at least one 3-digit SIC code. There are only 9 cases identified as unrelated transactions where there is no match (at any level of SIC code) for the target and acquirer.¹⁰ The matching transactions have a similarly low proportion of cases where the acquirer and target are in unrelated industries. This result is similar to that of Clark and Ofek (1994), who find that acquirers of distressed firms are frequently in the same industry. Acquirers in the same industry as the target are more likely to be informed with respect to the best use of the target's assets and are more likely to benefit from a consolidation of operations.

Asymmetric information is less likely to impede an acquisition in bankruptcy if the target and acquirer have a prior relationship. There are a

⁹ We are less likely to detect economic gains if the target is small relative to the acquirer. However, in Section IV we look both at cash flow changes and at qualitative measures of the success of the transaction.

¹⁰ In contrast, Kaplan and Weisbach (1992) find at least one match at the 3-digit level for only 35% of the transactions and no match for 45% of the transactions in their sample.

TABLE III
Transaction Characteristics for Firms Acquired in Chapter 11

	Chapter 11 targets		Matching transactions	
	#	%	#	%
A. Transaction characteristics:				
Multiple bidders	18	32.7%	11	20.0%
Hostile transaction	0	0.0%	4	7.3%
Target & acquirer match at 3 or 4-digit SIC code	36	65.5%	34	61.8%
No match in target & acquirer SIC codes	9	16.4%	10	18.2%
	Mean	Median	Min	Max
B. Valuation of target:				
Transaction value (\$ million)	103.183	13.600	0.400	3194.000
Enterprise value (\$ million)	106.219	12.170	0.400	3194.000
Multiple of sales:				
Bankrupt target enterprise value/sales	1.1	0.4	0.01	7.5
Industry median enterprise value/sales	1.6	1.1	0.4	8.7
Matching transaction enterprise value/sales	2.3	1.1	0.2	33.2
Multiple of book value:				
Bankrupt target enterprise value/book value of assets	0.7	0.5	0.01	3.1
Industry median enterprise value/book value of assets	1.3	1.2	0.6	3.3
Matching transaction enterprise value/book value of assets	1.9	1.2	0.05	16.4
C. Price paid versus value based on benchmark				
Discount calculated based on:				
industry median enterprise value/sales	45.1%	60.5%	-109.4%	99.4%
matching transaction enterprise value/sales	43.5%	68.8%	-342.5%	99.3%
industry median enterprise value/book value of assets	45.7%	64.7%	-104.6%	99.8%
matching transaction enterprise value/book value of assets	40.2%	59.6%	-149.7%	99.6%

Note. Match at 3- or 4-digit SIC code is based on the first four SIC codes listed for each firm in Standard & Poor's Register of Corporations in the year prior to the acquisition; no match indicates there is no overlap at any level of SIC code. Data are obtained from Compustat, 10-K reports, Securities Data Corporation, and news stories at the time of the acquisition. Transaction value is defined as the total consideration paid by the acquirer, excluding fees and expenses. Enterprise value is the transaction value plus all liabilities assumed by the acquirer. Industry median ratios are determined using all transactions reported by Securities Data Corporation for targets with the same 3-digit SIC code within one year (+ or -) of the Chapter 11 acquisition. Matching transactions are identified from Securities Data Corporation as a single transaction with the same target 3-digit SIC code and with target total assets and transaction date closest to the Chapter 11 acquisition. Discount measures the percentage difference between the actual price paid for the bankrupt target (enterprise value) and the "benchmark" price obtained by multiplying the bankrupt target sales (or book value of assets) by the industry median or matching transaction ratio of enterprise value/sales (or enterprise value/book value of assets).

relatively large number of cases where the acquirer and bankrupt target have some prior relationship (not reported). In five cases the acquirer has previously purchased assets of the target, in one case the acquirer CEO is the former target CEO, in one case the acquirer is a large customer of the target, and in one case the acquirer managed the target's operations just prior to the acquisition.

B. *Bidding in Chapter 11*

There are two ways in which a firm can sell substantially all of its assets in Chapter 11, through a Section 363 (of the U.S. Bankruptcy Code) sale or as part of a confirmed plan of reorganization.¹¹ First, under a Section 363 sale, management must first obtain an offer and then notify the court. The bankruptcy court in turn notifies creditors and shareholders. Many courts also require a marketing effort. The Bankruptcy Code invalidates any "no shop" agreements. With court approval and at the expense of the debtor firm, creditors can retain advisers to seek other possible buyers. Any sale must be approved by the judge at a hearing; if there are competing bids, the court conducts an auction in the courtroom. Second, a sale can be accomplished by way of a plan of reorganization. One plan can incorporate multiple bids. In this case, creditors and shareholders vote on the plan and then on the bid preference. Alternatively, bidders can present competing plans for a vote once the exclusivity period for management to propose a plan has expired. In the case of Public Service Co. of New Hampshire, once the exclusivity period expired, three bidders presented their own plans of reorganization.¹²

Consistent with a competitive bidding environment, Table III reports multiple bidders for 18 (32.7%) of 55 bankrupt targets. In contrast, there are only 11 (20%) of 55 matching transactions with multiple bidders. The number of multiple bidders for bankrupt targets is also at least as large as found in previous research for nondistressed targets.¹³ We also examine (not reported) the proportion of Chapter 11 transactions with multiple bidders for sales under Section 363 and for sales completed as part of a reorganization plan. Eight of the 24 (33.3%) Section 363 sales involve multiple bidders, while 10 of the 31 (32.3%) sales as part of a reorganization plan involve multiple bidders. Section 363 sales and sales as part of a reorganization plan appear to involve equally competitive bidding.

¹¹ For further information regarding the law with respect to acquisitions in Chapter 11, see McBride (1996).

¹² Sales involving a plan of reorganization generally take longer to complete because of requirements for creditor approval.

¹³ For example, Bange and Mazzeo (1997) find multiple bidders for 103 (23.6%) of 436 transactions from 1979 to 1991 and Bradley *et al.* (1988) find multiple bidders for 73 (31%) of 236 transactions from 1963 to 1984.

Although none of the acquisitions in bankruptcy are hostile, some acquisitions are unsolicited. The target actively seeks a buyer in 23 cases; in 10 of these the search for a buyer starts prior to filing for Chapter 11.¹⁴ For the matching transactions, we find only four hostile transactions. The relatively low proportion of hostile acquisitions contrasts with studies of nondistressed targets (for example, Martin and McConnell (1991) find that 50% of transactions in their sample are hostile).

Previous research (see for example Jensen 1986b) examines the premium paid relative to the preoffer share price of the target, and cites the gains to the target as evidence of the value created in mergers. However, this measure is not meaningful for transactions involving bankrupt targets because target shareholders often receive little or no distribution in the transaction. Furthermore, for many of the targets, the common stock has ceased trading in bankruptcy.

For our purposes, a more useful measure is the price paid for the assets of the bankrupt firm relative to two benchmarks. The first benchmark compares the price paid for the bankrupt firm to all other acquisitions in the same industry reported by Securities Data Corporation within one year (+ or -) of the sample transaction. The second benchmark compares the price paid for the bankrupt firm to the matching transaction.

Specifically, the price paid is equal to the implied enterprise value of the target company; enterprise value is defined as the transaction price (total value of consideration paid by the acquirer, excluding fees and expenses) plus all liabilities assumed by the acquirer. These values are determined from news sources, 10-K reports of the acquirer, and Securities Data Corporation. For the benchmark firms, we calculate the ratio of the enterprise value to target sales (or to book value of assets); this yields the benchmark price paid as a multiple of sales (or assets). This multiple times the bankrupt target sales (or assets) tells us the price that would have been paid for the bankrupt firm if it had been valued similarly to the benchmark. The "discount" for the bankrupt firm is the percentage difference between the actual price paid (enterprise value) and the price that would have been paid based on the benchmark multiple.

Table III (Panel B) shows that relative to these two benchmarks, acquirers pay substantially lower multiples of book value; this might be expected if assets of the target are to be written down subsequent to the transaction. However, the mean and median multiple of sales are also lower than the two benchmarks. Although there are some outliers, particularly based on matching transactions, the mean (median) discounts (Panel C) using either multiples of sales or book value of assets are approximately 45% (60%).

¹⁴ In three Chapter 11 cases, a buyer was solicited by a trustee who had replaced target management.

These discounts are larger than the 9.5% to 37% discounts in Pulvino's (1998) study of sales of used aircraft by distressed firms. However, the size of the discounts in our study relative to the Pulvino study is not surprising. While we examine sales of substantially all of the assets of the bankrupt firms, Pulvino (1998) calculates discounts for piecemeal sales of highly standardized assets (used aircraft) by distressed but not necessarily bankrupt firms in a generally liquid market.

We also use multivariate regressions to examine how the prices paid (as a multiple of sales or assets) vary with characteristics of the target (not reported). Prices will be higher if there is more to gain from combining the operations of a distressed target with an acquirer. On the other hand, prices will be lower if bankrupt targets have less bargaining power in the takeover process due to their weak financial condition or a limited number (if any) of competing bidders. Prices paid are greater for firms with better preacquisition industry adjusted profitability (EBITDA/sales greater than the sample median). Prices paid are also greater for targets with public debt outstanding. However, we find no significant differences based on the size of the target or the number of long-term debt contracts outstanding. The mean and median multiples paid are also not significantly different when there is more than one bidder for the target, although in some individual cases the purchase price increases substantially when a second bidder appears.¹⁵

In summary, although prices paid are generally lower when compared to the two benchmarks, Chapter 11 does encourage competitive bidding. While asymmetric information is a deterrent to bidding by unrelated firms from outside the industry of the target, firms related in some way to the target frequently bid. Most acquirers are firms with a prior relationship to the target and/or firms operating in the same industry as the target. Given the relationship between the acquirer and target, the acquirer is more likely to possess the information and/or expertise necessary to effectively redeploy the assets of the bankrupt target.

IV. POST-MERGER PERFORMANCE

A. *Cash Flow Performance*

We use pretax operating cash flow return on sales to measure improvements in operating performance. Operating cash flows are measured as earnings before interest, taxes and depreciation (EBITDA). We deflate

¹⁵ In protracted bidding for Financial News Network, the winning bid was 70% higher than the first bid for the company (New York Times, 5/10/91).

TABLE IV
Cash Flow Performance of Combined Target and Acquirer

Year relative to merger	Firm median	% positive	Industry- adjusted median	% positive	N
Firms acquired in Chapter 11					
-3	0.116	87.5%	0.016	59.6%	48
-2	0.080	77.1%	0.009	51.1%	48
-1	0.073	77.6%	-0.004	44.7%	49
1	0.081	90.4%	0.012	56.9%	52
2	0.079	94.0%	0.011	57.1%	50
3	0.085	91.5%	0.003	58.5%	47
Matching transactions:					
-3	0.120	91.7%	0.028	68.8%	48
-2	0.132	98.1%	0.031	71.2%	52
-1	0.130	92.3%	0.033	69.2%	52
1	0.140	87.0%	0.049	70.4%	54
2	0.142	90.7%	0.040	79.6%	54
3	0.148	91.1%	0.030	68.9%	45

Note. Median cash-flow performance of 55 combined targets and acquirers in the years surrounding the acquisition. Combined performance for years -1 to -3 relative to the year the merger takes place is measured as the sum of the bidder's and target's earnings before interest, taxes, depreciation and amortization (EBITDA) divided by the combined revenues of the target and bidder. Performance for years +1 to +3 relative to merger completion is measured as the ratio of EBITDA to revenues of the bidder. Industry adjustment subtracts the median ratio of EBITDA to revenues of all firms with the same 3-digit SIC code. If the bidder and target have different SIC codes, the industry median cash flow is the weighted average of the median ratios in each of the bidder's and target's industries.

EBITDA by sales to provide a measure comparable across firms. Results are similar based on cash flow return on assets; we choose to report the return on sales because it is not affected by differences in accounting treatment across transactions and differences in the degree of asset write-downs which can be substantial for these transactions. Before the merger, the combined cash flow ratio is calculated as the sum of acquirer and target EBITDA divided by the sum of acquirer and target revenues. After the merger, we use the acquirer's cash flow ratio. If the premerger acquirer and target are not in the same industry, the combined industry median is calculated as the weighted average of the industry medians for the acquirer's and target's industries (weighted respectively by the acquirer or target revenues divided by the combined revenues).

Table IV reports median levels of firm and industry adjusted cash flows from three years before the merger to three years after the merger for the combined firm. For the firms acquired in Chapter 11, the combined firms'

cash flow returns decline in the years prior to the merger and improve somewhat in the postmerger years. For matching transactions, the level of these returns appears similar across the entire time period. The median levels, however, do not provide information about whether there is an improvement in cash flow for specific transactions.

Panel A of Table V shows more directly the changes in cash flow relative to the year prior to the merger. For the firms acquired in bankruptcy, we observe positive and significant changes from the year prior to the merger to years +1 and +2.¹⁶ Relative to industry performance, the median change is also positive but not significantly different from zero. In contrast, Hotchkiss (1995) finds poor postbankruptcy cash flow performance of firms independently reorganized. Hotchkiss and Mooradian (1997) find improved postrestructuring performance of firms where a vulture investor gains control and argue that vulture investors possess the expertise needed to improve performance. It is possible that both vulture investors and acquirers of bankrupt firms merely select firms likely to experience improved performance. However, since most acquirers of bankrupt firms operate a business related to the target, it is likely the improved operating performance can be attributed to the combination of the businesses. Changes for the matching firms in Table V are not significant.

Panel B of Table V provides an alternative measure to assess cash flow performance.¹⁷ Postmerger performance is influenced by economy-wide as well as industry factors. It will also reflect a continuation of firm-specific performance before the merger, particularly when the target is a smaller proportion of the combined assets. Therefore, we measure abnormal performance as the intercept in the following cross-sectional regression of postmerger cash flow returns on the corresponding premerger returns,

$$CR_{\text{post},i} = \alpha + \beta CR_{\text{pre},i} + \varepsilon_i,$$

where CR is the cash flow return on sales. We also report regressions which include the change in the industry cash flow return over the same time period.¹⁸ The slope coefficient β captures any correlation in cash flow returns between the pre- and postmerger years so that $\beta * CR_{\text{pre},i}$ measures

¹⁶ Observations exclude matching transactions if data for the corresponding bankrupt firm is missing. Results are unchanged when all matching firms are included.

¹⁷ A similar approach is described in Healy *et al.* (1992). Barber and Lyon (1995) also suggest the use of these measures to detect abnormal operating performance.

¹⁸ Missing observations in Panel B are due to seven firms which are missing preacquisition cash flow data and two (four) firms which are missing data for year +1 (+2) acquirer performance. Of these 11 firms, only 3 transactions are qualitatively characterized as failures as described below, either because the acquirer subsequently files bankruptcy or because the target's operations are subsequently divested.

TABLE V
Postmerger Abnormal Performance

A. Change in combined cash flow performance (EBITDA/sales) relative to year prior to merger							
Years	Median change	Median % change	% positive	Median change	Median % change	% positive	<i>N</i>
Firms acquired in Chapter 11							
-1 to +1	0.010	8.09%**	58.7%	0.018	29.70%	59.1%	46
-1 to +2	0.011	9.40%**	61.4%	0.015	44.90%	59.5%	44
-1 to +3	0.010	11.70%	58.5%	0.010	42.27%	60.0%	41
Matching transactions							
-1 to +1	0.006	5.62%	56.9%	0.010	20.69%	58.8%	49
-1 to +2	0.003	2.39%	52.9%	0.005	17.57%	54.9%	48
-1 to +3	0.007	6.38%	53.5%	0.009	15.74%	53.5%	45
B. Abnormal postmerger cash flow returns (<i>t</i> -values in parentheses)							
				Adj <i>R</i> ²		<i>N</i>	
Firms acquired in Chapter 11							
CR _{+1,<i>i</i>}	=	5.2%	+	.48 CR _{-1,<i>i</i>}		.25	46
		(2.25)**		(3.90)***			
CR _{+1,<i>i</i>}	=	4.9%	+	.53 CR _{-1,<i>i</i>}	+	.27 Δ ICR _{+1,<i>i</i>}	45
		(2.24)**		(4.10)***		(0.95)	
CR _{+2,<i>i</i>}	=	6.5%	+	.34 CR _{-1,<i>i</i>}		.16	44
		(3.03)***		(2.91)***			
CR _{+2,<i>i</i>}	=	5.9%	+	.45 CR _{-1,<i>i</i>}	+	.55 Δ ICR _{+1,<i>i</i>}	43
		(2.83)***		(4.01)***		(1.68)*	
				Adj <i>R</i> ²		<i>N</i>	
Matching transactions							
CR _{+1,<i>i</i>}	=	2.0%	+	.87CR _{-1,<i>i</i>}		.22	49
		(0.52)		(3.92)***			
CR _{+1,<i>i</i>}	=	1.9%	+	.90 CR _{-1,<i>i</i>}	+	.24 Δ ICR _{+1,<i>i</i>}	49
		(0.49)		(4.02)***		(0.97)	
CR _{+2,<i>i</i>}	=	4.6%	+	.79 CR _{-1,<i>i</i>}		.25	48
		(1.40)		(4.21)***			
CR _{+2,<i>i</i>}	=	4.6%	+	.82 CR _{-1,<i>i</i>}	+	.11 Δ ICR _{+1,<i>i</i>}	48
		(1.38)		(4.26)***		(0.64)	

Note. Median cash-flow performance of combined targets and acquirers in the years following the acquisition relative to the year preceding the acquisition. Combined performance for year -1 relative to merger completion is measured as the sum of the bidder's and target's earnings before interest, taxes, depreciation and amortization (EBITDA) divided by the combined revenues of the target and bidder. Performance for years +1 to +3 relative to merger completion is measured as the ratio of EBITDA to revenues of the bidder. CR_{*t,i*} is the cash flow return on sales in year *t* for the combined targets and acquirers. The intercept of the cross-sectional regressions of postmerger cash flow returns on corresponding premerger returns provides a measure of abnormal performance. Regressions also include the change in industry cash flow return (Δ ICR) over the same time period.

*,**,*** Significance at 10, 5, and 1% level, respectively.

TABLE VI
Sources of Operating Gains

Years	Median % change	% positive	Industry adjusted:		N
			Median % change	% positive	
A. (Cost of goods sold + SG&A expense)/sales					
Firms acquired in Chapter 11					
-1 to +1	-6.6%**	31.9%	-12.6%**	31.9%	43
-1 to +2	-2.9%**	34.2%	-57.1%**	34.1%	41
-1 to +3	-1.7*	35.9%	-11.1%	46.2%	39
Matching transactions					
-1 to +1	0.2%	51.2%	-0.4%	48.8%	43
-1 to +2	0.1%	51.2%	-1.4%	43.9%	41
-1 to +3	-0.8%	47.4%	-1.3%	47.4%	38
B. Employment growth					
Firms acquired in Chapter 11					
-1 to +1	-3.5%	45.2%	-13.6%*	35.7%	42
-1 to +2	-3.1%	45.9%	-18.6%*	32.4%	37
-1 to +3	-5.9%*	39.5%	-36.8%***	31.6%	38
Matching transactions					
-1 to +1	13.7%***	66.7%	1.5%	50.0%	42
-1 to +2	19.6%***	70.0%	11.1%	55.0%	40
-1 to +3	24.5%***	73.7%	7.1%	55.3%	38
C. Revenue growth					
Firms acquired in Chapter 11					
-1 to +1	12.3%***	70.2%	-10.6%*	29.8%	47
-1 to +2	15.0%***	66.7%	-25.2%	35.6%	45
-1 to +3	15.2%**	61.9%	-31.4%*	26.2%	42
Matching transactions					
-1 to +1	24.6%***	78.0%	4.6%	62.0%	50
-1 to +2	38.2%***	77.6%	3.5%	57.1%	49
-1 to +3	49.7%***	78.2%	9.9%	54.4%	46

Note. Changes in operating expenses, employment and revenues for combined targets and acquirers in years following the acquisition relative to the year preceding the acquisition.

*** Median significantly different from 0 at 10, 5, and 1% level, respectively.

the effect of the premerger performance on postmerger returns. For each regression the intercept indicating abnormal performance is positive and significant. The magnitude of cash flow improvements range from approximately 5% to year +1 and 6% to year +2. In contrast, the matching transactions show no significant improvement. This evidence is consistent with the hypothesis that mergers of firms in Chapter 11 can create value.

Table VI suggests that potential sources of operating gains for the bank-

rupt acquisitions are reductions in operating expenses and employment. Based on the changes in expenses (measured as cost of goods sold plus sales and general administrative expense) relative to sales, there is a significant decline in expenses for the bankrupt acquisitions, but not for the matching transactions. We also observe a significant decline in industry-adjusted employment for the Chapter 11 acquisitions; the matching firms in contrast are increasing employment, though not significantly relative to their industries. Despite the fact that distressed firms generally sell assets and reduce their size in Chapter 11 (Brown *et al.* (1994), Hotchkiss (1995)), revenues increase for the combined firms, though these increases are of smaller magnitude than observed for the matching transactions and are lower than industry increases. We also examine changes in capital expenditures and asset turnover (not reported), and find no significant changes for either the Chapter 11 or matching transactions.

B. *Qualitative Measures of Performance*

Information from news stories is used to determine whether the cash flow returns adequately characterize “successful” transactions. We identify 11 cases from the acquirer’s annual report or news stories where the acquirer specifically reported the acquired assets are performing well. In six cases the target is later divested, though this does not necessarily indicate failure (Kaplan and Weisbach, 1992). In contrast, we find 7 cases where the acquirer either reports operating problems related to the acquisition or write-offs (unrelated to the initial transaction) due to the performance of these assets. For 11 cases the acquirer (or the target as a subsidiary of the acquirer) later files bankruptcy, though the bankruptcy is not directly related to the acquisition.¹⁹

Based on these descriptions, we make a qualitative assessment of whether the acquisition is successful. We classify 22/55 (40%) as clearly successful, 14/55 (25%) as marginally successful, and 19/55 (35%) as failures. This measure of performance is highly correlated with our measures of cash flow improvement. The failure rate is somewhat lower than the 53% found by Clark and Ofek (1994) using similar classifications. When we perform the same exercise for the matching transactions, we classify 19/55 (35%), as clearly successful, 21/55 (38%) as marginally successful, and 15/55 (27%) as failed. While we detect improvements in cash flow performance on average, there are clearly a significant number of failures. However, our failure rates are not surprising given the failure rates for acquisitions of nonbankrupt firms. In a study of acquisitions followed by divestitures,

¹⁹ In 9 cases the acquirer subsequently files; in 2 cases only a subsidiary (the former target) files.

TABLE VII
Stock Price Effects at Announcement of Acquisition

Acquisitions in Chapter 11:									
Bidder ($n = 41$)					Target ($n = 22$)				
	AR		CAR			AR		CAR	
-1	-0.5%	(-0.51)	-0.5%		-1	5.3%	(5.14)	5.3%	
0	1.2%	(0.21)	0.7%	(0.22)	0	12.9%	(13.81)	18.2%	(13.40)
1	1.8%	(2.66)	2.5%	(1.36)	1	2.9%	(4.72)	21.1%	(16.74)
2	0.4%	(1.88)	3.0%	(2.12)	2	1.0%	(-0.04)	22.1%	(16.72)
3	0.4%	(0.13)	3.3%	(1.95)	3	-0.6%	(-1.61)	21.4%	(15.58)
4	0.3%	(1.19)	3.6%	(2.27)	4	-2.0%	(-1.52)	19.4%	(14.51)
5	0.4%	(1.02)	4.0%	(2.48)	5	-0.3%	(-0.24)	19.1%	(14.34)

Matching transactions:									
Bidder ($n = 50$)					Target ($n = 50$)				
	AR		CAR			AR		CAR	
-1	-0.5%	(-1.65)	-0.5%		-1	2.9%	(5.99)	2.9%	
0	0.1%	(0.21)	-0.3%	(-1.02)	0	10.4%	(16.88)	13.2%	(18.24)
1	-0.1%	(-0.54)	-0.4%	(-1.14)	1	1.5%	(3.16)	14.7%	(20.47)
2	0.8%	(1.98)	0.3%	(0.00)	2	-0.1%	(0.54)	14.7%	(20.85)
3	-0.5%	(-0.41)	-0.2%	(-0.18)	3	-0.5%	(-1.52)	14.1%	(19.78)
4	-0.1%	(-1.64)	-0.3%	(-0.84)	4	0.1%	(-0.30)	14.2%	(19.57)
5	-0.8%	(-1.77)	-1.2%	(-1.45)	5	0.1%	(-0.14)	14.3%	(19.47)

Note. Daily abnormal returns (AR) and cumulative abnormal returns (CAR) for companies acquired in Chapter 11 and matching nonbankrupt transactions, from day prior to 5 days following the announcement of the offer. Abnormal returns are market model residuals using common stock returns from the period 250 to 30 days prior to the announcement. Test statistics (shown in parentheses) are calculated as in Mikkelson and Partch (1986).

Kaplan and Weisbach (1992) report that 34% to 50% of acquisitions in their sample are unsuccessful.

C. Stock Price Effects at Announcement of Acquisition

We also perform an event study (Table VII) to determine whether the market perceives the acquisition as favorable for both the acquirer and target shareholders. Abnormal returns are market model residuals using common stock returns from the period 250 to 30 days prior to the announcement. Test statistics are calculated as in Mikkelson and Partch (1986). Test results based on medians are qualitatively similar.

For announcements of acquisitions in Chapter 11, Panel A shows that there are positive significant returns to the bidder in the days surrounding the announcement of the acquisition. This contrasts with most studies of announcement returns to bidding firms which are generally negative or insignificant (see Jensen (1986b) or Jensen and Ruback (1983) for a survey). There are only 22 firms for which the target stock is traded and has data

available on CRSP at the announcement of the acquisition. Target shareholders also benefit from large, positive, and significant gains. These results are consistent with the hypothesis that acquisitions in Chapter 11 create value for both the acquirer and target firm.

Panel B provides a similar analysis for the matching transactions. While returns to the target company are again positive, in this case we do not observe gains for the bidding firms. As described in the introduction to this paper, acquisitions of bankrupt firms may be less desirable to empire-building managers because they require complex negotiations. While it is difficult to directly test whether this leads to less “bad bidders” for bankrupt companies, one might expect managers of bidders for bankrupt firms to hold large equity stakes if these managers are more disciplined. In our sample, acquirers of bankrupt firms have higher average CEO ownership than acquirers in the matching sample (11% vs 7.5%), but the median CEO ownership is similar (3.4% vs 3.7%); holdings by all officers and directors are also similar between these groups. The comparison of management stock ownership does not suggest that bidders for bankrupt firms have incentives that are more strongly aligned with their stockholders’.

V. SUMMARY AND CONCLUSIONS

This paper provides empirical evidence that takeovers can facilitate the efficient redeployment of assets of bankrupt firms. We first examine whether the current structure of Chapter 11 or asymmetric information problems impede acquisitions. Comparing firms acquired in Chapter 11 to firms which are independently reorganized, we find that firms with more complex debt structures are less likely to be acquired. Based on a detailed analysis of 55 transactions in Chapter 11, we also find that bidders for bankrupt companies are often in the same industry as the target, have performed poorly prior to the acquisition, and frequently have some prior relationship with the target. Our evidence is consistent with the idea that asymmetric information deters bidding by firms potentially less well informed with respect to the target firm value and the best use of the target’s assets. The prices paid by bidders for bankrupt firms are at substantial discounts when compared to prices paid for matched nonbankrupt firms, in spite of efforts by the court to encourage competitive bidding.

We also provide evidence that acquisitions in bankruptcy can create value. The postmerger performance of firms acquired in bankruptcy is better than the postbankruptcy performance of firms independently reorganized in Chapter 11 based on the findings of Hotchkiss (1995). The postmerger performance of firms acquired in bankruptcy is also better than that of matching nonbankrupt transactions. The potential sources of op-

erating gains for the bankrupt acquisitions are reductions in operating expenses and employment. Furthermore, we find positive abnormal stock returns to both the bidder and bankrupt target at the announcement of the acquisition. In contrast, for matching nonbankrupt transactions we find positive returns to the target but not to the bidding firm.

The evidence presented in this paper is useful in the ongoing debate over the efficiency of the Chapter 11 mechanism and proposals to reform the process. However, one cannot conclude from the evidence that a bankruptcy law that mandates the sale of all bankrupt firms enhances efficiency relative to a bankruptcy law that encourages (but does not mandate) takeovers. Before one can conclude that bankruptcy law ought to be reformed to mandate a sale, one must consider the impact of the reform on the choice to seek bankruptcy and, as suggested in Mooradian (1994), the impact on out-of-court restructurings.

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