Bond Rally Aside, It's Still A Bull Market For Bankruptcy Firms

By Melissa Korn

Yield-hungry investors have driven a robust rally in junk bonds this year, allowing many weak companies to avoid or postpone appearances in bankruptcy court by refinancing their debt at attractive rates.

But it's still been a bull market for those morticians of corporate finance, the bankruptcy-servicing firms that provide software to law firms and coordinate the administrative side of restructurings.

Though the volume of work has dropped a bit as a result of the credit market thaw -companies with credit ratings below investment grade have almost tripled the amount of bonds issued this year compared with 2008 - the docket is still full.

There were 7,955 commercial bankruptcy filings in October, compared with a high of 8,183 in April, according to bankruptcy data company Automated Access to Court Electronic Records, or AACER. That's still more than 25% above the 6,248 filings last October.

"The decrease we've seen in the last six months or so in the volume of filings, it's relative," said Jonathan Carson of Kurtzman Carson Consultants, a claims agency that worked on the **Circuit City Stores Inc.**, **CIT Group Inc.** and **Pilgrim's Pride Corp.** bankruptcy cases. "It's still at a rather frenetic pace."

Epiq Systems Inc. said it is keeping busy, too. Revenue at its bankruptcy unit rose 93% year-on-year in the third quarter, and increased at an even faster rate in October, Chairman and Chief Executive Tom Olofson said. Epiq works on corporate as well as consumer bankruptcies, the latter of which have soared in line with the unemployment rate.

Aacer President Mike Bickford said he expected 2010 to be "a very big filing year," and even when filings do slow a few years from now, "The dropoff is going to be not as precipitous as the run-up."

Many firms expect business bankruptcy filings to grow until late 2010 or early 2011 before slowly starting to decline.

In addition to an anticipated change in hard numbers, bankruptcy servicers are already noticing a shift in the kinds of cases being filed. More large companies are coming to court with prepackaged plans, such as those arranged for General Motors Co., Chrysler Group LLC and CIT. That means the whole process takes just a few months, rather than a few years. Because servicers recognize revenue throughout the bankruptcy process, they make less money on each case.

"These are cases that hit hard and fast," said Scott Stuart, a partner at claims management firm Donlan Recano & Co. The change, he added, has been "stark."

However, Stuart said, "What we're lacking in true reorganization cases, I think has been made up for in the volume of cases," so overall revenue hasn't suffered much.

Bickford of Aacer said smaller companies continue to go to court for "slug-it-out" bankruptcies, and Epiq's Olofson said some of his cases still take years.

Still, some bankruptcy servicing firms are turning more defensive. Kurtzman Carson, which more than doubled to over 300 employees in the last year, was acquired by shareholder services company Computershare Ltd. in March and is now diversifying into class-action lawsuit servicing.

Donlan Recano, which was bought out in October by Sage Holdings (now DF King Worldwide), is also widening its scope to include Sage's financial document processing and proxy services units.

Companies that aren't reaching out beyond bankruptcy might face trouble down the line. Moody's Investor Services recently downgraded the debt of Bankruptcy Management Solutions Inc. two notches further into junk territory to Caa2, citing, among other things, its "narrow focus on bankruptcy case management services."

Bankruptcy Management Solutions, which works on Chapter 7 and 11 filings, had no comment on the downgrade.