Title: Bankruptcy turnaround, expensive consultants and the blind eyes of the court system: a peek into this lucrative business
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Since Ryan cohen has been alluding to expensive consultants quite frequently. I ran into this article about what happens when these consultants are hired and what happens with a company on the ropes with bankruptcy.

Described in this article is about Sanford c. Sigoloff aka Mr. Chapter 11 and his business practices and premium charges.

This is a very long read

https://www.inquirer.com/philly/news/From_the_archive__The_lucrative_business_of_bankruptcy.html

The lucrative business of bankruptcy
In the surge of bankruptcies caused by heavy corporate debt in the '80s, the winners are high-priced consultants hired to close companies. The losers: Workers thrown out of their jobs.

by By Donald L. Barlett and James B. Steele, INQUIRER STAFF WRITERS
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It was May 22, 1990, Rosalind Webb's last day of work after more than 30 years at the Bonwit Teller store in Center City.

The store was one of 14 Bonwit branches that were closing after Bonwit's parent company filed for bankruptcy protection.

That morning, Rosalind Webb did what she customarily did - she boarded the No. 48 bus at Allegheny Avenue and 29th Street in North Philadelphia and rode 25 minutes to her job in the shipping department of the store.

Somewhere aloft, Wilhelm Mallory, Steven Hochberg and Peter Dealy did what they customarily do, too.

Mallory flew from San Diego to New York, and billed a client $250 an hour for his travel. His associate, Dealy, flew from Los Angeles to Las Vegas, and billed $300 an hour. Hochberg flew from New York to Atlanta and charged $150 an hour for his time in the air.

What kind of work warrants such fees for sitting in an airplane? The same kind that charges $225 an hour for Richard Schmid to pack and unpack boxes.

Mallory, Dealy, Hochberg, Schmid - they are all in a business that reorganizes companies and puts people like Rosalind Webb out of work.

The bankruptcy business.

It pays well.

Mallory billed $1,250 that day for his five-hour flight. That money - more than Rosalind Webb earned in three weeks - came out of the dwindling cash reserves of a floundering business that was eliminating Webb's job to save money.

With the surge in bankruptcies growing out of the excessive debt load that crushed many companies in the 1980s, there are more jobs than ever like those of Mallory, Dealy, Hochberg and Schmid. But there are many millions more people like Rosalind Webb, who have been thrown out of work.

They are, overwhelmingly, middle-income employees who are being forced into lower-paying jobs, part-time employment, premature retirement or unemployment.

In the process, they are losing all or part of their pensions and having to settle for reduced benefits, or no benefits at all.

So it is with Webb, who is now unemployed and must pay $181 a month for medical insurance.

"All those years I had health insurance and didn't need it," she said. "Now I need it and don't have it. "

Rosalind Webb, like millions of Americans, is snared in an economic shift in the United States in which the middle class is being squeezed and the ranks of the working poor are growing, while new jobs paying up to $500 an hour are being created for a select group of professionals - lawyers, accountants, bankers, investment advisers, brokers and management specialists.

For all this, you can thank a series of Congresses, presidents and the heads of regulatory and administrative agencies who, during the 1970s and '80s, rewrote the rules governing the tax and bankruptcy systems.

These changes, along with Congress' failure to enact measures correcting growing inequities in the economy, benefited special interests at the expense of everyone else.

Consider Congress' handling of two issues - corporate debt and bankruptcy.

While making sweeping revisions of the Internal Revenue Code throughout the 1980s, lawmakers agreed to leave intact a provision that allows corporations a virtually unlimited tax writeoff of interest paid on borrowed money. This, even though corporate debt was ballooning to its highest level this century and was being used increasingly to buy and then dismantle companies, not to build them.

That decision followed an overhaul of the U. S. Bankruptcy Code in 1978 - the first revision in 40 years - that made bankruptcy easier for troubled businesses. Companies were given much more flexibility to stay in business while they attempted to resolve their financial problems.

The result: a bankruptcy code that encouraged an explosion in corporate bankruptcies brought on, in part, by an explosion in corporate debt that Congress failed to discourage through tax law revisions.

All this is incorporated in the government rule book, that agglomeration of laws and regulations that, through incentives and disincentives, sanctions and prohibitions, determines the course of the U.S. economy.

More significant, the ever-changing rule book in large measure determines your place in the economy - whether you are working or not; whether your standard of living is improving or declining; whether you are a member of America's fastest growing group of workers - those earning $100,000 a year and up.

In the case of bankruptcy, a few numbers compiled from an Inquirer analysis of a half-century of bankruptcy data tell the story.

During the 1980s, businesses filed, on average, 63,500 bankruptcy petitions a year nationwide.

That was up 155 percent over the 24,900 petitions a year filed in the 1970s, and up 302 percent over the 15,800 filed in the 1960s.

The '80s, in fact, produced the largest growth in bankruptcy cases since the Great Depression of the 1930s.

Not only is the number of bankruptcies spiraling; so, too, is the size of the companies flocking into Bankruptcy Court.

When the Penn Central Transportation Co., parent company of the old Pennsylvania Railroad and New York Central Railroad, sought protection from its creditors in 1970, it was the largest bankruptcy in U.S. history - the first ever to exceed a billion dollars.

For years, it was the bankruptcy against which all others were measured.

No more.

Since 1985, more than 50 companies with assets of more than $1 billion each have filed bankruptcy petitions - including nearly a dozen with assets that exceeded Penn Central's $6.9 billion.

The combined assets of large companies seeking Bankruptcy Court protection ballooned to more than $70 billion last year.

Big-business bankruptcy has become so brisk that a new trend has emerged:

The repeat bankruptcy customer.

Braniff Inc., the airline, first sought protection in Bankruptcy Court in May 1982. It emerged two years later, in March 1984, but made a return appearance in September 1989. It emerged again in July 1991, and returned for a third time the following month.

Continental Airlines went into Bankruptcy Court in 1983. And again in 1990.

All this has been a bonanza for the burgeoning bankruptcy industry - the lawyers, accountants and other specialists who charge up to $500 an hour for their time.

They get paid to fly about the country, from courthouse to courthouse, from business to business. They get paid to talk for a few minutes on the telephone. They get paid to pack files. They get paid to unpack files. They get paid to pick up their mail. They get paid to sort their mail. They get paid to schedule conferences. They get paid to attend conferences. They get paid to keep a list of the conferences. They get paid to keep track of the way they spend their time. They get paid to fill out expense reports.

And they get paid to eliminate the jobs of people who work for two weeks to earn what they charge for one hour.

* * *

Meet Ming the Merciless.

He is otherwise known as Sanford C. Sigoloff, 61, a Los Angeles businessman who describes himself as "internationally renowned for his work in corporate turnarounds and restructurings. "

Indeed, newspaper, magazine and television reports have praised his work as a doctor of ailing companies. The New York Times called him one of the "masters of the corporate turnaround. " The Los Angeles Times described him as a "corporate savior. "

But employees of companies that Sigoloff has managed remember him better as "Ming the Merciless. "

Ming, the evil ruler of the planet Mongo in the Flash Gordon serial, is one of the more unsavory characters in science fiction. It is a nickname that Sigoloff relishes, though. In fact, he gave it to himself to signify his single-minded dedication to cost-cutting.

Sigoloff and a small group of longtime allies direct Sigoloff & Associates, a "crisis management" firm in Santa Monica, Calif., whose clients have fallen on hard times.

Its biggest client to date: L. J. Hooker Corp., the U. S. subsidiary of an Australian real estate company that once had annual revenue of more than $1 billion.

Beginning in 1987, Australian Hooker went on an American buying spree, snapping up such well-known department store chains as Bonwit Teller and B. Altman & Co.

These and other acquisitions were made, naturally, with borrowed money. So much borrowed money that Hooker quickly collapsed under the weight of its debt and entered Bankruptcy Court on Aug. 9, 1989.

That same day, Sigoloff, who had been retained to guide the company and its subsidiaries through bankruptcy reorganization, distributed a news release:

"Daily operations will continue as usual, stores will remain open and transactions . . . will go on just as before the filing. Paychecks will be issued at the same time as if no proceeding had been filed. "

Four months later, the paychecks began to stop.

First, Sigoloff closed B. Altman, the 124-year-old New York-based department store chain with seven stores in New York, New Jersey and Pennsylvania. About 1,700 jobs were lost. Next, he liquidated all but two of Bonwit Teller's 16 stores, eliminating about 2,500 jobs in a department store empire that dated back 94 years.

He closed all six stores of Sakowitz, the upscale Houston-based retailer that had been in business for 88 years, eliminating 450 jobs. He sold off most of Hooker's real estate holdings, throwing more employees out of work.

Hooker employed about 12,000 full- and part-time people in August 1989 when Sigoloff took over.

When a reporter asked a Hooker spokesman for the number of people currently employed, he answered:

"Today the number is 62. "

Reporter: "6,200? "

Hooker spokesman: "No, 62. "

Reporter: "Sixty-two people? "

Hooker spokesman: "People. Exactly. "

While the 1980s corporate restructuring boom resulted in the loss of 12,000 Hooker jobs, for Sigoloff & Associates, it produced $6.5 million in fees in the first year alone.

And the fees continue - such as the ones charged for riding in airplanes.

Sigoloff and his colleagues flew often from Los Angeles, near their Santa Monica home base, to New York, Atlanta and other Eastern cities where Hooker had operations.

On Feb. 12, 1990, Sigoloff flew first class from Los Angeles to New York and billed $500 an hour for the five-hour trip. He also billed two hours' time for a conference that day on Bonwit Teller.

Three days later, on Feb. 15, Sigoloff billed $500 an hour for three hours of phone calls, a one-hour meeting and five hours for "Travel: New York to Los Angeles. " For the round trip, he collected $5,000.

In the first 12 months that Hooker was in bankruptcy, Sigoloff logged about 175 hours in the air, charging more than $90,000 in fees for riding on airplanes. First class.

Peter Dealy, a senior associate, logged 200 hours in the air. Fees for travel: $55,000.

James M. Van Tatenhove: 250 hours in planes, collecting fees of more than $75,000.

Seymour Strasberg spent 212 hours aloft and billed $60,000.

The charges are fees billed by Sigoloff & Associates, not necessarily paid directly to those doing the work. Overall, Sigoloff & Associates earned more than $500,000 for time the associates spent in planes during the first 12 months that Hooker operated under the Bankruptcy Court's protection.

The Sigoloff firm is by no means unique. It is part of a growing fraternity that manages ailing companies and charges such fees.

In fact, so many management consultants have entered the field that they have formed their own group. It is called, appropriately, the Turnaround Management Association.

The association, composed of more than 400 managers, consultants, bankers, lawyers and accountants, holds an annual conference and bestows awards on companies deemed the most successful turnarounds of the year.

Its 1990 conference had as its theme, "Corporate Reconstruction: Managing the Aftermath of the 1980s. "

James A. Schuping, the association's executive vice president, foresees a bright future:

"The misfortune of the economy and a great many of the companies that are suffering right now are to the advantage of our people because that's their specialty. We look for this business failure phenomena to continue well throughout the decade. "

A look at the billing practices of Sigoloff & Associates offers a glimpse at that future.

Packing and unpacking files, for example.

That chore led to several thousand dollars in billings by Sigoloff associate Richard Schmid, who managed Hooker's real estate operations in Washington, D. C.

Schmid accumulated the file-packing fees as he prepared to move Hooker's offices in May 1990 from one suburban Washington location to another.

A sampling from his billing logs:

May 14, 1990 - "Worked on packing files for office move. " Schmid billed four hours at $225 an hour, collecting $900.

May 15, 1990 - "Monitored removal of certain items of furniture, files and equipment . . . " Four hours, $900.

May 17, 1990 - "Continued selective packing of files for . . . move. " Two hours, $450.

May 22, 1990 - "Pack desk files for Chantilly move. Empty credenza and bookcases - sort files for storage. " Three and one-half hours, $787.50.

May 23, 1990 - "Packing for Chantilly move. " Four hours, $900.

Finally, on May 24, the move took place, with the Hooker office relocating from Vienna, Va., to nearby Chantilly, Va. After the move, Schmid began a new series of entries on his expense reports:

May 24, 1990 - "Unpack boxes and set up at Chantilly. " Four hours, $900.

May 29, 1990 - "Unpack files for use at new office. " Two hours, $450.

May 31, 1990 - "Continue unpacking boxes and set up office space. " Three and one-half hours, $787.50.

A Sigoloff spokesman, Michael Sittrick, said the firm's fees are reviewed and approved by Bankruptcy Court. As for flying time: "Sandy said they work while they're on airplanes. His comment was: 'They don't sit and watch movies. ' "

As for entries such as "packing" and "unpacking" boxes, Sittrick said that Richard Schmid might have been searching for financial records.

"Dick is a terrific financial guy but maybe not a real good time-slip keeper," Sittrick said. "I know Dick Schmid. Dick is a very senior guy. He would have one of his subordinates packing and unpacking boxes. He wouldn't be packing and unpacking. "

It should be noted that Schmid's billing practices were in keeping with those of his co-workers, who collected fees for performing seemingly routine tasks.

Richard A. Stemm, who was handling creditors' claims against Hooker, billed $90 an hour to "return car to airport" and "to make travel arrangements" and to "rearrange flight, hotel checkout, car return and standby" for a flight.

And then there was the "master calendar. "

That's the schedule of forthcoming meetings, court appearances and other dates affecting the business of L.J. Hooker.

Sigoloff & Associates collected thousands of dollars in fees to revise, update and delete information from this schedule.

Excerpts from Bankruptcy Court records:

On June 14, 1990, longtime Sigoloff associate Wilhelm Mallory, who was overseeing Hooker's retail properties, billed 6 3/4 hours, or $1,688, for "master calendar task review. "

Sigoloff, the highest-paid member of the firm, billed $500 an hour every time he worked on the calendar.

On Jan. 5, 1990, he spent an hour on "master calendar assignments. " The next day, he billed three hours for work on the "professional master calendar. "

The day after that he collected $3,000 in fees for the "review of corporate master calendar/professional master calendar . . . "

On Jan. 9, it was two hours of fees for "review of master calendar draft II. "

Then on Jan. 31, after all the work on the master calendar that month, it was time for what Sigoloff described as "master calendar cleansing. "

Sigoloff collected fees for working on the master calendar wherever he happened to be. On July 30, 1990, while on the French Riviera, Sigoloff phoned his office to "review Hooker master calendar. " For the call, he billed his usual hourly rate - $500.

As is so often the case in bankruptcy proceedings, some of the most detailed work is keeping track of fees. And there are fees for keeping track of fees.

Sigoloff & Associates staff billed thousands of dollars in fees to record their expenses, to fill out time sheets, to prepare an application to Bankruptcy Court for their fees, to appear in court to answer any questions the judge might have about the fee requests.

Every three months, Sigoloff & Associates petitioned Bankruptcy Court in New York for payment of its fees.

The compiling, writing, revising and drafting of the final fee application generated yet another round of fees.

On Nov. 17, 1989, Arthur Cayley billed three hours at $175 an hour for work on the "fee application. " Three days later, he billed five more hours for work on the fee application. The day after that, he billed four more hours for work on the application. On Dec. 14, Cayley billed three hours and 50 minutes for giving "support for fee application. "

After the application was completed, Sigoloff filed it with Bankruptcy Court in New York, seeking $1.8 million in fees and expenses for August through October 1989.

* * *

Not everyone does so well off the bankruptcy boom.

Ask Joyce Buckner, who lost her job as a $6.05-an-hour meat slicer at the Toppers Meat Co. in Sedalia, Mo. The plant was closed in 1990 after Doskocil Cos., a meat processor that owned Toppers, entered bankruptcy.

"I went to school for a while but financially that wasn't working," she said. "I did try to find work but some of the jobs were at night, and when you have children, it's just not possible. It took about seven or eight months before I found a job. "

Today, Buckner packages bullets in a plant that manufactures ammunition. "I'm just there," she said, "because I need the money. The hourly wage isn't that great. It's $5 an hour. Less than what I was making (at Toppers) but a little bit above minimum wage. "

Doskocil was an American success story until, like so many other businesses, it got caught up in the takeover and debt revolution of the 1980s.

The Hutchinson, Kan., company had carved out a niche in the highly competitive world of meat packing by making pizza toppings for some of the largest fast-food chains.

Doskocil grew by adding plants, employees and products until 1987, when it decided it wanted to really grow. Not slowly by selling more products and building more plants, but by acquiring a competitor.

With the help of Drexel Burnham Lambert Inc., the investment banking firm that is now in Bankruptcy Court, Doskocil sold $50 million in high-risk, high- yield junk bonds to finance an acquisition. The next year it launched a hostile takeover of Wilson Foods, an Oklahoma City meat packer. Wilson was six times larger than Doskocil.

Doskocil had sales of $215 million, compared with Wilson's $1.3 billion. Doskocil had 900 employees, compared with Wilson's 5,000. Doskocil had five plants, compared with Wilson's 12.

Wilson had a corporate history dating to 1853, when it was one of the first of the great national meat packers.

Doskocil dated to 1963, when founder Larry Doskocil slaughtered a hog in a former chicken coop on the outskirts of Hutchinson and sold the parts.

Nevertheless, the times were such that a small company with access to the easy money of Wall Street could take on larger prey.

Although Wilson initially rejected the bid, the Doskocil company eventually won out after a bitter three-month battle.

The takeover fight generated millions of dollars in fees for lawyers, investment bankers and accountants.

For Wilson, the price was steep, creating an $11.8 million loss in the last quarter of 1988.

The Doskocil company formally took control of Wilson in January 1989, firing the president, chief executive officer and more than 100 salaried employees at Wilson's corporate headquarters in Oklahoma City.

Just 15 months later, the deal that took millions of dollars in fees to put together came apart. Unable to sell off parts of Wilson as planned, Doskocil could not pay the interest on the huge debt it took on to buy Wilson. Citing a "liquidity crisis," Doskocil filed for bankruptcy protection on March 5, 1990.

Squeezed for cash, Doskocil sought to lower costs by closing plants or imposing layoffs or wage cuts at other plants.

Carol Jean Smith was one of the casualties.

For more than six years, she had made meatballs for pizza toppings at the Doskocil-owned Toppers plant in Sedalia, 70 miles east of Kansas City. She earned $6.25 an hour.

Then in May 1990, two months after Doskocil filed for bankruptcy, she lost her job. The Sedalia plant closed. Permanently.

To Carol Jean Smith and her co-workers, the shutdown came as a shock.

"We thought the plant was doing OK," she said. "Everyone was always telling us what a good plant it was. Then they began laying off people and we began to wonder if they were going to close the plant. But they said no. They had no plans to do that.

"But then before it happened, we knew something was up. They began calling people in for a meeting. Even those who were on vacation got a call and were told to come to the plant. The meeting was in the cafeteria. (The manager) read a letter saying they were going to close the plant in two weeks. We were all shocked. We couldn't believe it."

Since then, Carol Jean Smith has looked for a job, but hasn't yet found steady work. Meantime, she cleans houses - at $5 an hour.

* * *

If the Doskocil bankruptcy has been a financial hardship for Carol Jean Smith, Joyce Buckner and others who lost jobs that paid $6 an hour, it has been a windfall for another group of workers.

Lawyers, accountants and consultants from across the country have swarmed to U.S. Bankruptcy Court in Topeka, Kan., to grab a share of the fees for representing a variety of interests.

Nightingale & Associates Inc. of New Canaan, Conn., bills at a rate of $250 an hour as management consultant for the Official Committee of Unsecured Creditors of Doskocil.

Andrews & Kurth, a Houston law firm, bills $250 an hour as counsel for the Official Committee of Unsecured Creditors of Doskocil.

Stutman, Treister & Glatt, a Los Angeles law firm, collects up to $400 an hour as Doskocil's lead bankruptcy counsel.

Paul, Weiss, Rifkind, Wharton & Garrison, a New York law firm, bills $435 an hour as special counsel for the Official Unsecured Creditors' Committee of Wilson Foods.

Pepper, Hamilton & Scheetz, a Philadelphia law firm, bills $260 an hour as attorney for the Official Committee of Unsecured Creditors' of Wilson Foods.

Kensington & Ressler, a New York law firm, bills $220 an hour as counsel for Doskocil.

Not so long ago, such cross-country travel in the pursuit of bankruptcy business was rare. That's because such fees were rare.

Until Congress rewrote the bankruptcy rule book in 1978, bankruptcy cases were processed in U. S. District Courts, along with other civil cases.

But most of the daily work was presided over at a lower level by so-called referees, who were appointed by District Court judges.

Fees were comparatively modest. So was the number of bankruptcy lawyers.

When Congress revised the code, it created a separate Bankruptcy Court to deal solely with bankruptcy cases. Fees closer to the going corporate rate could now be charged.

The result was predictable: Cases, fees and the number of lawyers specializing in bankruptcy soared.

So much so that Working Woman magazine has singled out bankruptcy practice as one of the 25 best career choices for women today.

"Just a few years ago," the magazine said in July 1990, "corporate bankruptcy law, like real estate law before it, was the poor sister of the bar . . . but (the Bankruptcy Reform Act of 1978) allowed judges to award fees in line with regular corporate rates. Bankruptcy law suddenly became more lucrative, and large law firms that previously had farmed out bankruptcy work to smaller firms began to develop in-house departments. "

Today, in many jurisdictions, Bankruptcy Court judges routinely approve the fees. Sometimes they explain their reasons.

Like the charges for "word processing expenses" billed in 1990 by the New York law firm of Debevoise & Plimpton, which represents L.J. Hooker Corp.'s creditors. These were not stenographic fees, but fees for the use of the firm's computers.

The law firm billed $25 an hour for its own staff to use its own computers during regular working hours to prepare letters and legal documents, and $50 an hour outside of the normal workday.

Arthur H. Amron, a member of the firm, explained the procedure to the court:

"There's a usage charge, that is an hourly fee for the use of the system. There's an overtime usage by the word processing department outside of the normal hours. That is a charge added on to the usual charge for overtime use. "

Replied Judge Tina L. Brozman:

"I think that billing practices citywide have changed. I am not sure that I necessarily agree with them, but if it's standard, I think my mandate is to compensate firms as they are compensated in other matters and not to be niggardly. "

During that particular hearing, at which Brozman approved the awarding of millions of dollars in fees, she did reject one expense item - a $16 tip on an $88 taxi bill turned in by an Australian bank.

"Take out the tip," said Brozman, "we will deal with it at -"

Attorney Alan Hyman interrupted with a little Bankruptcy Court levity:

"It's expensive to take a cab to Australia."

As might be expected, the generous fees have prompted strong reactions from creditors, who get only what's left. Consider those with a stake in the reorganization of American Continental Corp. in Phoenix.

American Continental is the parent company of Lincoln Savings & Loan Association, a California thrift controlled by Charles H. Keating Jr. that was seized by federal regulators in April 1989.

The American Continental bankruptcy case and related litigation have been a perpetual money machine for scores of lawyers, accountants and other professionals.

One law firm alone, Wyman, Bautzer, Kuchel & Silbert of Los Angeles, estimated in February 1991 that it had "devoted approximately 40,000 hours, the equivalent of 20 lawyer years, of professional services" to the American Continental case.

When another law firm filed petitions in Bankruptcy Court in Phoenix, seeking payment of more than $1.5 million in interim fees in the case, a man and woman from Riverside, Calif., wrote the court, complaining that the lawyers were "asking for money faster than the U. S. Mint can make money."

They were among the thousands of investors, many of them retirees, who had purchased American Continental bonds and who now stood to lose most of their money.

They argued that if American Continental had "this kind of money in the bank to pay attorneys, then the investors should be paid off first and the attorneys afterwards."

A Westminster, Calif., investor, adding up the fee requests from several law firms, told the court: "All the available monies will be discharged to counsels and the creditors will be left holding the bag; again."

To be sure, not all Bankruptcy Court judges are so liberal in dispensing fees.

Judge Joseph L. Cosetti, who presides over bankruptcy proceedings in Pittsburgh, has rejected fees for some expenses that New York judges have approved.

Among them: The charges for word-processing, or computer use, during the bankruptcy reorganization of Allegheny International Inc., a Pittsburgh-based conglomerate.

In an opinion dealing with fees, Cosetti took special note of the billings for computer time: "Secretarial time, both regular and overtime, as well as charges for word-processing, are clearly overhead. . . . Therefore, those entries are disallowed. "

He also disallowed charges for meals and local cab fares. He cut the hourly fees charged by lawyers, saying they were too high. And he complained that lawyers from the same firm were billing for too much time in office meetings, and that multiple lawyers from the same firm appeared in court.

Nonetheless, the fee petitions were so voluminous - as they are in many cases - that Cosetti conceded it was impossible to go over every claim. He wrote:

"Unfortunately, the court lacks the resources because of its other cases to review, line-by-line, every fee petition filed in this case. The fee petitions which are the subject of this opinion, when stacked together, are over two feet high. "

Law firms spend many hours preparing fee applications that even the most conscientious judges lack the time to sift through.

How many hours?

In one month, a couple of lawyers and legal assistants in the Atlanta law firm of Trotter, Smith & Jacobs billed 150 hours - at rates up to $215 an hour - to prepare one fee application in the bankruptcy reorganization of Southmark Corp., a Dallas real estate and financial services firm.

Herewith a sampling from Trotter, Smith reports for April 1990:

"Review . . . of court's Dec. 18, 1989, order to determine date next fee application by Trotter Smith & Jacobs must be filed. "

"Drafting . . . of memorandum . . . regarding filing date for next fee application by Trotter Smith & Jacobs. "

"Preparation . . . of file containing prior fee application information. "

"Conference . . . regarding assignments to individual attorneys for writing narrative summaries to include in application by Trotter Smith & Jacobs for interim award of attorneys' fees. "

"Preparation, assembly and review . . . of distribution packets to thirteen billing attorneys . . . regarding the preparation of summaries to be used in connection with the preparation . . . of the third fee application . . . for interim awards and reimbursement expenses. "

Not too surprisingly, the nation's bankruptcy courts are choking on paper.

Keeping track of hearings attended, hearings rescheduled, letters sent, letters not received, expense reports compiled and expense reports filed, obviously requires a massive amount of record-keeping.

The cases are so voluminous that they have forced bankruptcy courts to take special steps to handle the flow.

Around the country, bankruptcy courts have limited hours, rented additional space, hired more clerks, restricted access to records, installed telephone answering machines to route the flow of requests, and invoked other emergency measures to try to manage what one Bankruptcy Court official described as a "tidal wave" of paper.

In St. Louis, 10 additional clerks have been hired to deal with the largest bankruptcy in the city's history, Interco Inc., whose holdings include such familiar names as Florsheim shoes and Broyhill furniture.

In Phoenix, the bankruptcy case of American Continental Corp. is so gargantuan that the clerk's office retained a legal-services management firm, which rented an entire warehouse to store documents that fill nearly 10,000 boxes. That's for one case.

In Los Angeles, the influx of documents is so great that the clerk's office in Room 906 is beginning to resemble a supermarket, with specialized lanes to handle specific requests.

Inside the main door are these signs above the public counter: "Advanced Request Here," "Return Files Here," "Request Files Here," "Photo Copying" and "Cashier. "

Unlike most supermarkets, however, there are no express lanes in Bankruptcy Court.

In Manhattan, the Bankruptcy Court clerk's office has created a special division to try to manage the volume of paper produced by a series of massive bankruptcies stemming from the era of easy debt.

Until four years ago, all bankruptcies - however large or small - were filed in Room 525 on the fifth floor of the historic old U. S. Custom House at the foot of Manhattan.

Today, most still are - except L. J. Hooker, Eastern Airlines, Ames Department Stores, Drexel Burnham Lambert, Integrated Resources, Pan American Airways, Best Products and other mega-bankruptcies. They're in a new office down the hall.

Until the summer of 1989, Room 510 was a dark, unused storage area, piled high with old furniture from the days that the building was New York's principal custom house.

Today, it looks much like a typical clerk's office found in bankruptcy courts across America. Except that it is handling fewer than three dozen cases. They are so enormous they require a section all their own.

"The purpose of that room was because we simply could not deal with the public otherwise," said Cecilia Lewis, the Bankruptcy Court clerk.

After the large cases began to be filed, she said, the court discovered "there were not enough telephone lines, not enough people, not enough copies of the petition available to give to people. "

What accounts for the runaway growth of paperwork?

In four words: the government rule book.

When Congress rewrote the rule book in 1978 to revise the bankruptcy law, it opened the floodgates to a specialized proceeding called Chapter 11.

Under the old law, companies in trouble tended to file petitions under a section of the code called Chapter 7. That section provides for the liquidation of the company. Its assets are sold and the proceeds distributed to creditors. The business ceases to exist.

Chapter 11 is different. It allows a company to continue operations and existing management to stay in control. The company reorganizes under court supervision, protected from its creditors. Chapter 11 had existed previously, but the new law made it a more appealing option.

It came at a time of shifting values in the world of business, when bankruptcy began to lose the stigma once attached to it.

Those same shifting values permitted companies to engage in practices they once would have avoided - such as unrestrained borrowing - out of fear of bankruptcy.

And they permitted corporate executives whose faulty judgments resulted in the failure of their businesses to seek sanctuary in Bankruptcy Court and, perhaps more important, retain their jobs.

An Inquirer analysis of a half-century of bankruptcy caseloads shows what happened:

From 1976 to 1979, businesses filed, on average, 3,700 bankruptcy petitions each year under Chapter 11.

During the 1980s, with the new law in effect, businesses filed, on average, 15,200 petitions each year under Chapter 11. That was an increase of 313 percent.

By contrast, Chapter 7 petitions rose just 43 percent, from an average of 28,200 to 40,300.

The dramatic growth in Chapter 11 proceedings - in which a business conducts its affairs under the supervision of the courts and an army of lawyers, accountants and management consultants - brought on the avalanche of paperwork.

As with so many legislative actions involving the government rule book, lawmakers failed to understand the consequences of their bankruptcy code revisions in 1978.

Sen. Malcolm Wallop, a Wyoming Republican, promised that "no longer will needless litigation in several courts be required to determine all the matters involved in a bankruptcy case. "

Rep. Don Edwards, a California Democrat, hailed the Bankruptcy Reform Act, saying that it "encourages business reorganizations by a streamlined new commercial reorganization chapter. "

No more needless litigation? Streamlined?

As for the end of litigation, take a look at the bankruptcy proceedings of Integrated Resources Inc., the financial services company that collapsed in February 1990.

There has been litigation involving unpaid merchandise, breach of contract, unpaid rent, default on promissory notes, fraud and misrepresentation in the sale of partnership interests, securities law violations, fraud and negligence in the sale of investment programs, conspiracy and fraud in the marketing of partnerships, nonpayment of notes, and a class-action lawsuit by stockholders.

There is so much litigation overall that in 1990 Andrews Publications of Westtown in Chester County, Pa., began publishing a twice-monthly newsletter, the Failed LBO Litigation Reporter, just to report on bankruptcy cases in state and federal courts.

Frank Reynolds of Andrews Publications said that the Failed LBO Litigation Reporter follows major cases with an eye on "who might be liable for the mess and who is going to sue who and what is the proportion of the liability among various parties. "

As for streamlined, take a look at the number of law firms representing some of the interests in the Hooker bankruptcy case.

There are Attorneys for the Creditors Committee, General Counsel to the Debtor, Special Counsel for Debtor, Attorneys for Debtor, Co-counsel to Debtor, Attorneys for the Official Committee of Unsecured Creditors, Special Local Counsel, Attorneys for Plaintiff, Special Corporate Counsel, Special Counsel for the Debtors Trade Creditors, Consultants for Debtors and Accountants to the Official Creditors' Committee.

All those committees beget a prodigious volume of paperwork, which, in turn, begets prodigious fees.

When the L. J. Hooker Corp., the U.S. division of the Australian real estate company, filed for bankruptcy in New York in August 1989, it submitted one petition for Hooker Corp. - and 14 separate petitions for 14 Hooker subsidiaries.

Now, each time Hooker files an accounting, it submits 15 separate statements covering operations and liabilities.

One such statement, Document No. 47, is 1,510 pages long, seven inches thick, weighs 10 pounds, and contains the names of 15,000 potential creditors of one Hooker subsidiary - Bonwit Teller.

At the Bankruptcy Court in Dallas, there is the Southmark Corp., the real estate combine. Instead of 15 subsidiaries, Southmark had 550 subsidiaries and 350 public and private real estate partnerships. The collapse of hundreds of those entities in turn spawned about 850 lawsuits.

In Phoenix, the bankruptcy cases have grown so large that the Bankruptcy Court was compelled to retain a private firm, Ameriscribe Management Services Inc., to handle the flood of legal documents.

So it is with the reorganization of Circle K Corp., a convenience store chain based in Phoenix that in 1990 had annual sales approaching $4 billion.

Thus far, Circle K has produced nearly 5,000 legal documents - some of which are thousands of pages long - that have been submitted to the court and Ameriscribe.

It is "generating huge, huge amounts of paper," said Mark A. Scipione, an Ameriscribe official. When the company filed its list of assets and liabilities, Scipione said, they were "25 volumes long. There were 40,000 pages of creditors. "

"We had some people call and say, 'I want that list of assets and liabilities. '

"And I said, 'Sure, do you want to pick them up with a truck or should I send them air freight?' "