Bankruptcy and Restructuring at Marvel Entertainment Group

Not since the big retailing bankruptcies of the early 1990s has so much money been lost on Wall Street. Everyone is screaming murder.[1]

—Wall Street trader

On January 28, 1997, one month after filing for Chapter 11 bankruptcy, Marvel Entertainment Group, Inc. (Marvel) filed its plan of reorganization with the United States Bankruptcy Court in Wilmington, Delaware. According to the plan, Ronald Perelman, Marvel's largest shareholder, would recapitalize the company by investing $365 million in exchange for 427 million newly issued shares. Perelman would then own 80% of the reorganized company's equity while public debtholders would receive 15% of the equity in exchange for debt with a face value of $894 million.

Carl Icahn, one of the many "vulture investors" who had purchased deeply discounted Marvel bonds with the hope of profiting on the reorganization, considered Perelman's plan an "unconscionable attempt to maintain control of Marvel at all costs" and was threatening to vote against it.[2] Perelman's spokesman responded by saying that Icahn's comments were "... slightly disingenuous and patently ridiculous."[3]

Based on the comments coming from both sides, it looked like the confirmation process might be a long and bruising one. Currently, the bankruptcy court had scheduled the confirmation hearing for March 7, 1997, at which time the interested parties would vote on the proposed reorganization plan. The question facing Carl Icahn and other debtholders was whether to accept Perelman's plan, reject it in favor of their own plan, or sell their bonds before the confirmation hearing. Perelman, on the other hand, had to determine whether the debtholders were just posturing or were, in fact, serious about voting against the plan.

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[1] Linda Sandler, "Marvel Investors Find the Perils In Perelman's Superhero Plan," *The Wall Street Journal*, November 18, 1997, p. C1. The quote refers to the numerous retailing bankruptcies including Campeau Corporation, 1/90), Ames (4/90), Carter Hawley Hale (2/91), Hills (1/92), and Macy's (1/92).

[2] "Bondholders File Motion to Take Control of Firm," *The Wall Street Journal*, January 14, 1997, p. B4.

[3] Floyd Norris, "2 Financiers Cross Swords Over Marvel," *The New York Times*, December 28, 1996, p. 41.

Jason Auerbach (MBA 1997) prepared this case with Professor Ben Esty as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This case was prepared using only public sources and has not been approved by Marvel Entertainment Group.

History of Marvel Entertainment Group

In 1939, an entrepreneur named Martin Goodman started the comic book business which today is known as Marvel Comics. He became famous for creating a number of superheros including Captain America, who fought against the Germans during World War II. Over time, Marvel illustrators created more than 3,500 comic characters including The Fantastic Four, Daredevil, The Incredible Hulk, The X-Men, Thor, and Spider-Man.

Ron Perelman, known for his successful takeover of Revlon and his unsuccessful takeover of Gillette, bought Marvel in January 1989 for $82.5 million, financed with only $10.5 million of equity. Through his MacAndrews & Forbes holding company and several subsidiary holding companies, Perelman owned a wide range of businesses including Revlon (an international cosmetics company), Coleman (an outdoor recreation equipment company), First Nationwide Bank (a California-based savings and loan association), Consolidated Cigar (a cigar company), and the Andrews Group (an entertainment and publishing holding company) (see **Exhibit 1**).

Although this holding company structure was complex, it provided Perelman with both legal and financial protection. From a legal perspective, limited liability at the subsidiary level protected the holding companies from financial liability in default situations. From a financial perspective, consolidation allowed the holding companies to share net operating losses across firms because they typically owned at least 80% of the subsidiaries, the minimum level required by the Internal Revenue Service (IRS). According to a tax analyst at Lehman Brothers, Perelman "... knows how to exploit net operating losses better than anyone."[4] Another analyst commented:

> [In 1996, his companies] ... generated more than $600 million in profits, yet a careful reading of their financial statements suggests they paid little or nothing in taxes to the U.S. government. Through skillful use of holding companies and tax laws, Perelman's people have become expert at minimizing his tax bill. If not for such handiwork, his companies would have probably owed somewhere in the neighborhood of $200 million to the Treasury last year.[5]

The Rise and Fall of Marvel Entertainment Group

In addition to being known as a shrewd financier, Perelman had a reputation for buying and reviving underperforming companies. After buying Marvel, he quickly eliminated unprofitable lines of business and streamlined operations. In its first year under Perelman's control, Marvel's net income increased from $2.4 million to $5.4 million, while revenues increased from $68.8 million to $81.8 million. Eighteen months later, he sold 4.2 million shares to the public at a price of $16.50 per share—a split adjusted price of $2.06. He used the proceeds to repay $26.5 million of acquisition debt and to pay a cash dividend of $37.2 million to his holding company. The dividend alone almost quadrupled his initial equity investment in the span of less than two years; the return counting his remaining 65% ownership position was almost 16 times his original investment. Commenting on what appeared to be the darling of Wall Street, Donald Drapkin, vice chairman of MacAndrews & Forbes, said, "We've never disappointed investors in a public offering."[6]

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[4] Leah Nathans Spiro and Ronald Grover, "The Operator: An Inside Look at Ron Perelman's $5 Billion Empire," *Business Week*, August 21, 1995, p. 57.

[5] Jacqueline Doherty, "Bulletproof Billionaire?", *Barrons*, May 19, 1997, p. 18.

[6] Randall Smith, "Can Perelman's Future IPO's Be as Good as Marvel's?" *The Wall Street Journal*, October 24, 1991, p. C1.

Perelman set out to build a diversified youth entertainment company using the comic book business as a foundation. He accomplished the diversification by acquiring other entertainment companies. First, he acquired Fleer, the second largest—after Topps Company—manufacturer of sports and entertainment trading cards, in July 1992 for $286 million, a 12% premium over the current market price. In March 1993, Perelman acquired a 46% interest in Toy Biz, a designer and retailer of children's toys, in exchange for an exclusive, perpetual, royalty-free license to use all of Marvel's characters. And then in July 1994, he acquired the Panini Group, an Italian producer of sports and entertainment stickers, for $150 million.

While he was actively diversifying outside of Marvel's core comic book business, Perelman was also attempting to consolidate the comic book industry. In the early 1990s, Marvel was the leading publisher of comic books followed closely by DC Comics and Archie Comics. During 1994, Marvel acquired four other comic book publishers including Harvey Comics and Malibu Comics. Marvel also changed its distribution strategy to concentrate on comic book specialty stores rather than subscriptions or the traditional mainstream retailers such as newsstands and convenience stores. Because sales to specialty stores were final (i.e. they could not return unsold comic books), they yielded higher margins.

As this strategy began to succeed, Marvel's stock price began to rise, peaking in November 1994 at $34.25 per share for a total market value of $3.3 billion (see **Exhibit 2**). Given the strength of Marvel's stock price, Perelman saw an opportunity to increase his ownership of Marvel Entertainment Group above the 80% level that would allow him to incorporate Marvel into the MacAndrews & Forbes holding company for tax purposes. Through a tender offer and open market repurchases, the Andrews Group acquired more than 20 million shares, thereby boosting its consolidated ownership to 80.6%.

To finance the repurchases, Perelman issued debt through three different Andrews Group holding companies (see **Exhibits 1** and **2**). First, Marvel Holdings issued $517.4 million of zero-coupon senior secured notes yielding 11.25%. The cash proceeds from this offering were $286.6 million and the debt was secured by 48.0 million Marvel shares. Marvel Parent Holdings then issued $251.7 million of zero-coupon senior secured notes yielding 11.875%. This offering produced $144.9 million in cash and was secured by 20.0 million Marvel shares. Finally, Marvel III Holdings issued $125 million in senior secured notes yielding 9.125%. The interest payments on these bonds would be made from revenues received through tax sharing agreements between Marvel and Marvel III Holdings. Like the other two issues, this debt was secured by Marvel shares—in this case, 9.3 million shares. All three issues were scheduled to mature in April 1998.

Perelman used this financial strategy of equity-backed debt throughout MacAndrews & Forbes. In fact, he issued $1.7 billion of share-collateralized bonds in 1993 alone for Marvel, Revlon, and Coleman.[7] This debt was like margin loans in that it was secured by Marvel's equity rather than its assets or operating cash flows. Nevertheless, with the stock price trading above $25.00 per share, the 77.3 million shares of collateral had a value of more than $1.9 billion, well above the face value of $894.1 million.

Shortly after the third issuance, however, Marvel's core businesses began to falter. Marvel's CEO Scott Sassa summed it up this way: "When the business turned, it was like everything that could go wrong did go wrong."[8] The decline in sales was driven largely by disappointed collectors who had viewed comic books as a form of investment. For years, Marvel had capitalized on the speculative frenzy of collectors by increasing the number of monthly titles from 45 to some 140 and

[7] Linda Sandler, "Marvel Investors Find the Perils In Perelman's Superhero Plan," *The Wall Street Journal*, November 18, 1997, p. C1.

[8] Floyd Norris, "2 Financiers Cross Swords Over Marvel," *The New York Times*, December 28, 1996, p. 41.

doubling prices from $1.50 to $3.00 per comic book.[9] But collectors stopped buying in 1994 after failing to realize significant returns, causing sales o fall 19% across all distribution channels. The company had pandered "... to the speculative excesses of collectors, turning out pricey comics with fancy covers while neglecting their core readers," said Harry DeMott, a CS First Boston analyst covering Marvel.[10] Jim Shooter, Marvel's former Editor-in-Chief and a current competitor, was more critical. He said that Marvel had been "strip-mining the company" for years.[11]

Just as the comic book market began to turn south, so too did the trading card market due to strikes in both professional baseball and hockey. In addition to collector apathy stemming from the strikes, trading cards increasingly had to compete with other forms of entertainment. Jill Krutick, a Smith Barney analyst covering Marvel who had recently slashed her earnings estimates, remarked that "... little boys have found alternative means of entertainment, such as video games."[12] Finally, as in the comic book market, speculators who were active purchasers in the early 1990s stopped buying after failing to realize significant returns. In total, trading card sales would fall by more than 30% over the next two years. Because of declining revenues and missed profit estimates, Marvel's stock price began to fall. After Marvel reported a 33% drop in first quarter net income for 1995, "Short on Value," an investment newsletter, recommended it as an attractive stock to sell short.[13]

Despite the problems, Perelman continued building his entertainment company. In March 1995, Marvel acquired SkyBox International Inc., a maker of trading cards, for $150 million. The SkyBox acquisition provided an opportunity to buy an undervalued asset, to expand Marvel's presence in the trading card business, and to realize operational synergies with Fleer. Marvel paid a 25% premium to acquire SkyBox and financed the acquisition with $190 million of additional debt. Four months later, in July 1995, S&P downgraded the holding company debt from B to B- noting that "... Marvel's earnings from baseball and hockey cards have fallen while the company has added debt to make acquisitions."[14] Moreover, they predicted that Marvel might need to restructure its debt in the next 12 - 18 months.

Following the SkyBox acquisition, Marvel had, indeed, become a diversified entertainment company. As of year-end 1995, it had six principle lines of business, four of which were approximately equal in size:

1. **Sports and Entertainment Cards** (22.4% or revenues): sold picture cards depicting professional athletes and other entertainment figures through its Fleer and SkyBox subsidiaries;
2. **Toys** (21.7% of revenues): designed, manufactured, and distributed children's toys based on Marvel characters through its Toy Biz subsidiary;
3. **Children's Activity Stickers** (20.7%): sold sports and entertainment stickers worldwide through its Panini subsidiary;
4. **Publishing** (17.8%): published comic books;
5. **Confectionery** (10.9%): manufactured confectionery products—primarily gum;

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9 Phyllis Furman, "Perelman's Tangled Web," *Crain's New York Business*, April 28 - May 4, 1997, p. 41.

10 Linda Sandler, "Marvel Entertainment's Disarray is a Study in the Ups and Downs of Betting on Perelman," *The Wall Street Journal*, November 21, 1995, p. C2.

11 Leah Nathans Spiro and Ronald Grover, "The Operator: An Inside Look at Ron Perelman's $5 Billion Empire," *Business Week*, August 21, 1995, p. 57.

12 Linda Sandler, "Marvel Entertainment's Disarray is a Study in the Ups and Downs of Betting on Perelman," *The Wall Street Journal*, November 21, 1995, p. C2.

13 William Power, "Heard on the Street," *The Wall Street Journal*, May 19, 1995, p. C2.

14 "S&P Lowers Ratings on Debt of 3 Entities Perelman Controls," *The Wall Street Journal*, July 12, 1995, p. C18.

6. **Consumer Products and Licensing** (6.4%): licensed characters for merchandise.

Although diversification was, in theory, supposed to protect against downturns, Marvel lost $48.5 million in 1995, mainly due to the losses in its comic book and publishing segments. To address its declining profitability, Marvel announced a restructuring plan in early 1996 consisting of layoffs, elimination of unprofitable comic book titles, improved editorial content, and consolidation of operations.[15] Even with the restructuring, Marvel reported a loss of $27.9 million through the first three quarters of 1996. **Exhibits 4** and **5** show Marvel's balance sheet and income statements. Moreover, it reported losses in three or its four largest divisions: comic books, trading cards, and entertainment stickers. During the summer, Perelman bought an additional one million shares at $10.00 per share.[16]

On October 8, 1996, Marvel announced that it would violate specific bank loan covenants due to decreasing revenue and profits. Following the announcement, Moody's downgraded Marvel's public debt causing the price of the zero-coupon bonds to fall by more than 41% (see **Exhibit 3**).[17] One month later, on Thursday, November 8, 1996, Howard Gittis, vice chairman of Andrews Group, called Fidelity Investments and Putnam Investments, two of the largest institutional holders of Marvel's public debt, and asked them what they would like to see in a restructuring plan. The next day, the two firms sold more than $70 million of Marvel bonds at a price of $0.37 per dollar of face value. When a spokesman for the Andrews Group announced the details of the proposed restructuring plan four days later, Marvel's stock price fell by 41% and its zero-coupon bonds fell by more than 50% to $0.18. Reporters later asked representatives of both companies why the sold the bonds when they did. A spokeswoman at Putnam responded, "(We) received various bids ... that were attractive," while a spokeswoman at Fidelity responded, "We'd been selling since early October."[18] The sales saved the companies approximately $14 million in extra losses.

Perelman's Initial Restructuring Plan

Perelman's restructuring plan contained three parts. First, the Andrews Group would invest $350 million in Marvel in exchange for 410 million new Marvel shares to ensure it maintained 80% control. Thus, the new shares would be valued at $0.85 compared to a price of $4.625 for the existing shares the day before the announcement; the existing shares closed at $2.75 on the day of the announcement.

Second, Marvel would acquire Toy Biz, a company that made toys based on Marvel characters. Marvel already owned 26.7% of Toy Biz and would use the cash investment to buy the remaining outstanding shares at a 32% premium and some of the insiders' shares at market prices. There were two reasons to acquire Toy Biz: it had close business connections to Marvel and provided a large fraction of Marvel's revenue, and it generated approximately $60 million of cash flow per year which could be used to service Marvel's debt as well as offset more than $100 million of net operating losses (NOLs). Without 80% ownership of Marvel, Andrews Group could not use the NOLs.

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[15] "Business Brief--Marvel Entertainment Group Inc.: Charge For Fourth Quarter of $25 Million To Be Taken," *The Wall Street Journal*, January 5, 1996.

[16] Jill Krutick, Smith Barney Analyst Report, October 8, 1996, p. 2.

[17] "Credit Ratings: Moody's Downgrades Debt Issued By Marvel, Three Related Entities," *The Wall Street Journal*, October 11, 1996, p. B2.

[18] Linda Sandler, "Angry Traders Say Sale of Marvel Junk Bonds Highlights Different Rules in Non-stock Cases," *The Wall Street Journal*, December 9, 1996, p. C2.

Finally, the public debtholders would exchange debt with a face value of $894.1 million for equity in the newly recapitalized firm. Specifically, they would seize their collateral shares and hold 14.6% (77.3 million shares) of the new shares (see **Exhibit 6**). In contrast, Marvel Entertainment Group would repay its secured creditors (consisting primarily of banks) and its unsecured creditors (consisting primarily of suppliers and employees) in full.

Ever since Perelman proposed the restructuring plan, so-called "vulture investors", including Carl Icahn, had been buying the public debt. Icahn, who made his name in the 1980s with takeovers of Trans World Airlines, Interco, Southland, USX, Texaco, and several other companies, bought approximately 25% of the bonds at prices ranging from 20 to 22 cents per dollar of face value.[19] One analyst described Icahn this way:

> "His trend is to look for companies that are having trouble that he can turn around. He's been very successful. To an extent, it's the money, but it's the game more than anything ... Carl's always liked to rattle [management's] cages ... I think he gets a charge out of that ..."[20]

On December 10, 1996, Carl Icahn sent a letter to the Andrews Group proposing an alternative restructuring plan consisting of a $350 million cash infusion through a rights offering. His plan, however, did not include the Toy Biz acquisition. In the letter, Icahn indicated that he would not support Perelman's proposed restructuring plan and vowed to fight him in bankruptcy court. Publicly, Icahn said, "It is patently clear that Ron Perelman has adopted this course to realize a windfall profit for himself at the expense of those to whom he owes a fiduciary responsibility."[21]

In response, Perelman representatives warned that Marvel would be forced to file for bankruptcy unless the bondholders agreed to the plan in its current form. When it became clear that the bondholders were not going to give in, Marvel and its three primary holding companies filed for bankruptcy on December 27, 1996. Scott Sassa, Marvel's CEO said, "We would have preferred to re-capitalize Marvel without having to seek the aid of the court, but the actions and positions taken by the bondholders prevented that approach."[22]

Marvel in Bankruptcy

Although Marvel and its holding companies filed separate bankruptcy petitions, the interlocking nature of the cases made it possible that the bankruptcy court might consolidate them into a single process. Whereas Perelman wanted to keep the cases separate so the public debtholders would not have a say in restructuring Marvel Entertainment Group (the operating company), Icahn and the public debtholders wanted to consolidate the cases so they could play an active role in restructuring it. In fact, the bankruptcy trustee appointed Icahn as the chairman of the creditor committee in early January, a signal the public debtholders would be involved with the restructuring.

By filing for bankruptcy, Marvel became eligible for Debtor-In-Possession (DIP) financing. Perelman arranged for $100 million in DIP financing from Chase Manhattan Bank to "ensure Marvel had sufficient liquidity to pay all current and expected trade and employee obligations and to meet

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[19] Laura Jereski and John Lippman, "Marvel Plans Expansion Despite Filing For Chapter 11, Perelman-Icahn Battle," *The Wall Street Journal*, December 30, 1996, p. B5.

[20] Callaway Ludington, "Business Is a Game to Icahn, Money is the Score," *St. Louis Business Journal*, September 3, 1990, p. 12A.

[21] Floyd Norris, "2 Financiers Cross Swords Over Marvel," *The New York Times*, December 28, 1996, p. 41.

[22] Marvel Entertainment Group, Press Release December 27, 1996, p. 1.

all of its operating and investment needs during the reorganization process."[23] What was unique about this loan was the fact that it was contingent upon Perelman remaining in control and would immediately come due in the event of a change in control.[24]

According to standard bankruptcy procedure, Marvel's management had an exclusive 120-day period in which to propose a reorganization plan. The bondholders immediately challenged this provision claiming that Perelman had "a negligible economic interest in Marvel" because he had pledged the shares to the bondholders as collateral.[25] Given their ownership of the collateral shares, the bondholders argued that they, not Perelman, should have the right to propose the first reorganization plan. The bankruptcy court, however, enforced the automatic stay by rejecting the bondholders' motion.

One month after filing for bankruptcy, Marvel announced its preliminary financial results for 1996. It expected to report a loss of approximately $425 million for the year largely due to a write-off of goodwill associated with its trading card business. The non-cash charge of $370 would reduce stockholders' equity to negative $245 million.

Marvel's Amended Reorganization Plan

To assist with the reorganization plan, Perelman hired Bear Stearns & Company. After a month of financial analysis and legal work, Marvel filed an amended reorganization plan with the bankruptcy court on January 28, 1997. Much to the bondholders' chagrin, it was virtually identical to the first plan albeit with some minor changes. Rather than investing $350 million to buy 410 million new shares, Perelman was now proposing to invest $365 million to buy 427 million new shares—the average price would still be $0.85 per share compared to a current market price of $2.00 per share. According to Bear Stearns, "the current market price of Marvel's common stock (did) not reflect the reorganization value of Marvel."[26] CS First Boston provided a fairness opinion to Marvel's board in support of the Andrews Group investment.[27]

As part of its review, Bear Stearns conducted three sets of analysis. First, as required under Chapter 11, it prepared a liquidation analysis to show that Marvel was worth more as a going concern than it would be under a Chapter 7 liquidation (the "best interests test," see **Exhibit 7**). According to the liquidation scenario, Marvel debtholders (primarily banks) would recover approximately 70 cents on the dollar while the holding company debtholders and equityholders would get nothing. Second, Bear Stearns prepared an analysis of Marvel as a going concern without the Toy Biz acquisition. Bear, Stearns estimated that the total enterprise value was between $520 and $660 million. Given Marvel's projected net indebtedness of $725 million as of March 31, 1997, the equity would again be worthless.

Finally, Bear Stearns prepared financial projections for the company as a going concern assuming Marvel acquired Toy Biz (**Exhibits 8, 9, and 10** contain financial projections and other related information). Perelman's vision was "to transform the company into an integrated entertainment and sports content company prominent in all forms of media, print, electronic

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23 "Marvel Entertainment Files for Chapter 11," Reuters, December 27, 1996.

24 Laura Jereski and John Lippman, "Marvel Plans Expansion Despite Filing For Chapter 11, Perelman-Icahn Battle," *The Wall Street Journal*, December 30, 1996, p. B5.

25 Floyd Norris, "Marvel Bondholders Seeking Control of Company," *The New York Times*, January 14, 1997, p. D20.

26 Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization*, Wilmington, Delaware, January 28, 1997, p. 143.

27 Ibid., p. 76.

publishing, toys and games."[28] In the future, Marvel would operate theme restaurants, own a movie studio, and produce entertainment software and on-line applications. The projections assumed "modest" growth for Marvel and "significant" growth for Toy Biz due to new media exposure. In addition, the projections assumed that Marvel would exist as a stand-alone entity filing its own federal and state income tax returns, and that the deal would close on March 31, 1997. Under this scenario, Marvel's secured and unsecured creditors would be paid in full.

Based on this analysis, Bear Stearns concluded that Marvel was worth more as a going concern because of (i) increased administrative costs associated with Chapter 7 liquidation, (ii) lower asset values in liquidation because of a 'forced sale,' (iii) lower asset values for key parts of business due to exit of key employees and loss of customers, and (iv) the amount of claims which would need to be satisfied on an absolute priority basis in a liquidation.[29] Besides showing that the reorganization yielded equal or greater value to all classes of claimants, the Andrews Group had to show that the plan was feasible (the "feasibility test"). In other words, that it was not likely to be followed by liquidation or another reorganization. Convincing the court that a company with a debt-to-total capital ratio of 88% ($805.4 million in total debt and $107.4 million in equity) might not be easy even though the company would initially have considerable cash balances.

The Vote on March 7th

The vote on March 7th would pit Carl Icahn against Ronald Perelman. Because Perelman had filed for bankruptcy, he no longer needed the unanimous support debtholders that was required for out-of-court settlement. He did, however, need a majority (51% by number and two thirds by dollar amount) of the claimants in each creditor class to vote for the plan. Even if he were unable to secure these votes, there was still a chance that the bankruptcy judge would approve the plan. Judge Balick could approve such a plan provided it did not discriminate unfairly against non-accepting creditor classes and provided it was fair and equitable to all classes.

As the days went by, tempers began to rise on both sides. A lawyer representing the bondholders challenged Bear Stearns conclusions. "How objective is a valuation if investment bankers have a financial interest in the outcome (a reference to the $1 million contingency fee Bear Stearns would receive if Perelman's plan succeeded)?"[30] What bothered people the most was Perelman's valuation. One analyst commented, "People thought he'd buy in at a discount, but no one expected it would be this dramatic."[31] To which Howard Gittis, the Vice Chairman of Andrews Group responded, "Bondholders ought to be thankful that Ron is willing to put up $365 million in cash to save this company."[32]

With a little more than a month to go before the confirmation hearing, it was unclear whether enough creditors would vote for Perelman's plan.

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28 Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization*, Wilmington, Delaware, January 28, 1997, p. 33.

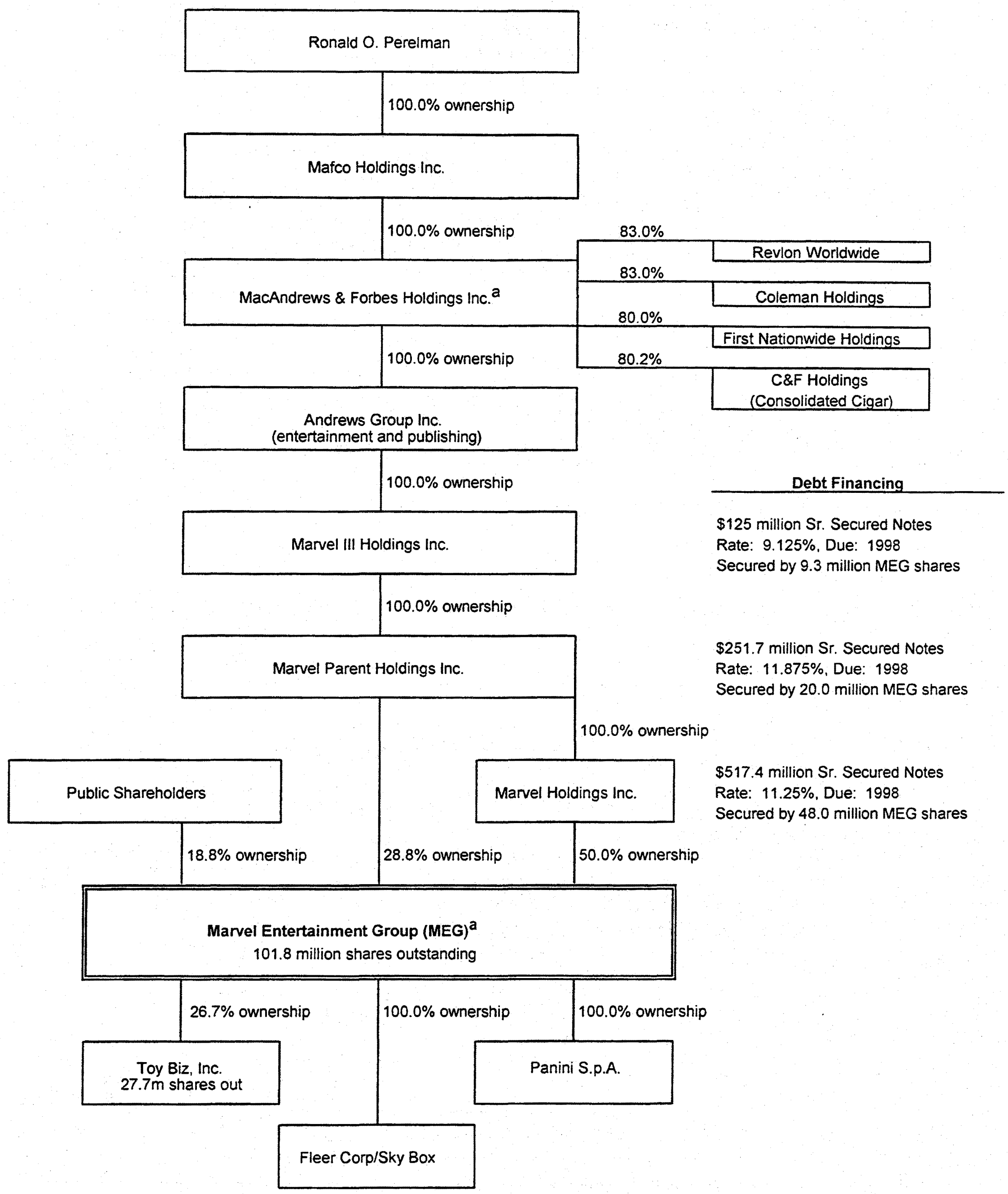
29 Ibid., p. 160.

30 Linda Sandler, "Heard On The Street: Perelman Faces Web Worthy of Spider-Man As He Strives To Push Through Marvel Plan," *The Wall Street Journal*, February 18, 1997, p. C1.

31 E.S. Browning and John Lippman, "Marvel Shares Plunge 41% on News of Perelman's Plan to Buy New Stock," *The Wall Street Journal*, November 13, 1996, p. A6.

32 Leah Nathans Spiro, "Did Ron Zap His Cash Tap?" *Business Week*, January 20, 1997, p. 76.

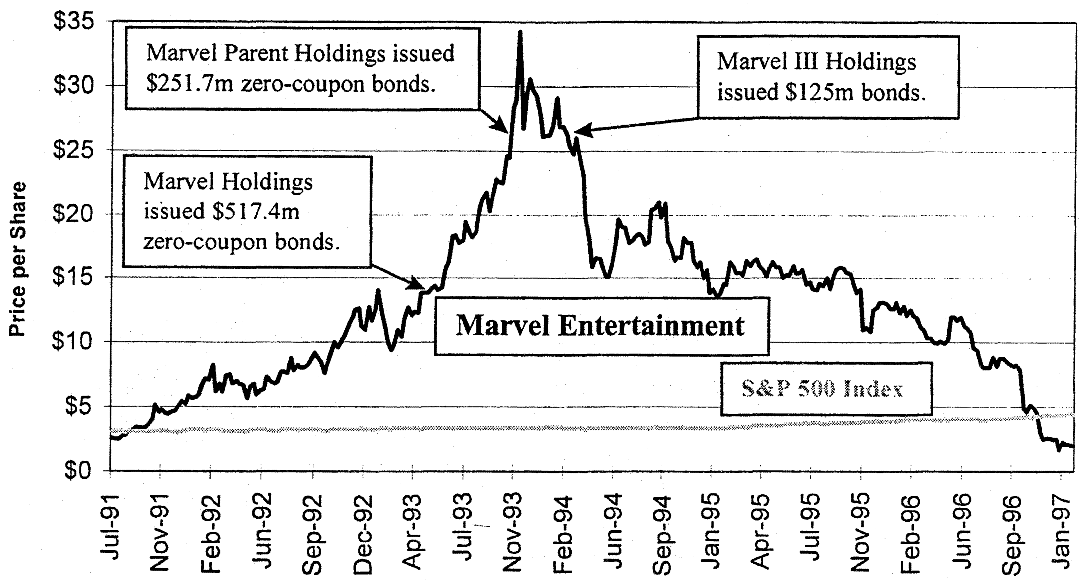
Exhibit 1 Ownership of Marvel Entertainment Group



Source: Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization,* Wilmington, Delaware, January 28, 1997.

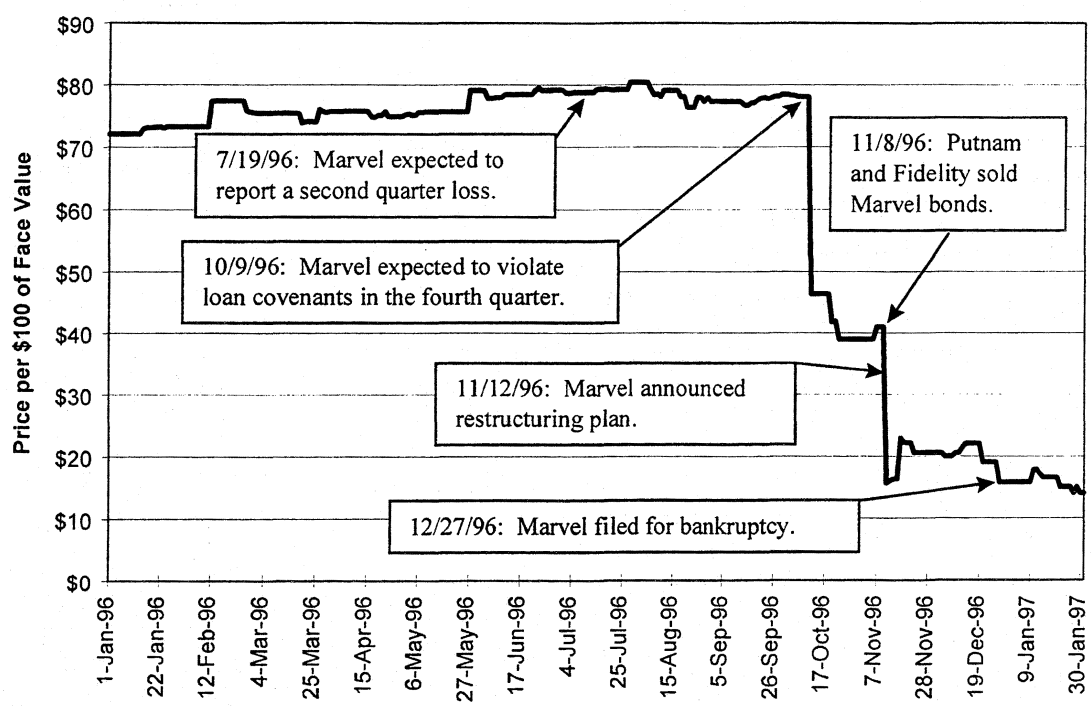
[a]MacAndrews & Forbes owned an additional 2.4% of Marvel Entertainment through other entities.

Exhibit 2 Marvel Entertainment Group, Inc.—Weekly Stock Price, 1991-1997



Source: Datastream, Inc.

Exhibit 3 Marvel Parent Holdings Inc., Price of Zero-Coupon Bonds From 1/96 to 1/97



Source: Bloomberg

Exhibit 4 Marvel Entertainment Group, Inc.—Consolidated Balance Sheets ($ millions)

	9 months ending Sept. 1996	For Years Ended December 31, 1995	1994	1993	1992
Assets					
Current Assets:					
Cash	$35.9	$37.0	$18.1	$17.0	$10.6
Accounts receivable, net	257.2	240.0	189.5	77.9	69.0
Inventories	99.1	82.4	51.0	23.2	16.3
Deferred income taxes	32.5	50.4	7.3	8.3	12.3
Income tax receivable	18.2	24.6	-	-	-
Prepaid expenses and other	58.2	42.9	31.0	6.1	2.2
Total current assets	501.1	477.3	296.9	132.5	110.4
Property, plant and equipment, net	87.7	71.3	39.7	12.4	10.9
Goodwill and other intangibles, net	595.7	603.6	433.6	299.0	302.0
Investment in and advances to unconsolidated subsidiaries	3.2	3.2	20.6	14.2	-
Deferred charges and other	72.7	57.6	37.9	13.9	16.7
Total assets	$1,260.4	$1,213.0	$828.7	$472.0	$440.0
Liabilities and Stockholders' Equity					
Current Liabilities:					
Accounts payable	$95.8	$104.8	$69.6	$19.9	$14.9
Accrued expenses and other	170.1	194.8	110.8	44.5	64.3
Short-term borrowings	28.7	-	-	-	-
Current portion of long-term debt	625.8	5.2	20.2	45.1	35.1
Total current liabilities	920.4	304.8	200.6	109.5	114.3
Long-term debt	-	581.3	364.1	205.1	201.2
Other long-term liabilities	56.6	48.7	21.0	10.1	39.8
Total liabilities	977.0	934.8	585.7	324.7	355.3
Minority interest in Toy Biz	102.9	70.4	-	-	-
Stockholders' Equity:					
Preferred stock, $.01 par value; 50,000,000 shares authorized, none issued	-	-	-	-	-
Common stock, $0.1 par value; 250,000,000 shares authorized, 101,702,664 and 100,655,724 shares issued and outstanding on Dec. 31, 1995 and 1994, respectively	1.0	1.0	1.0	1.0	1.0
Additional paid-in capital	93.1	92.4	81.2	47.0	39.8
Retained earnings	86.1	114.1	162.5	100.7	44.7
Cumulative translation adjustment	0.3	0.3	(1.7)	(1.4)	(0.8)
Total stockholders' equity	180.5	207.8	243.0	147.3	84.7
Total liabilities and stockholders' equity	$1,260.4	$1,213.0	$828.7	$472.0	$440.0

Source: Company Annual Reports

Exhibit 5 Marvel Entertainment Group, Inc.—Consolidated Statement of Operations ($ millions)

	9 months ending Sept. 1996	For the Years Ended December 31, 1995	1994	1993	1992	1991
Net revenues	$581.2	$829.3	$514.8	$415.2	$223.8	$115.1
Cost of sales	372.4	538.3	275.3	215.3	112.6	58.2
SG&A expenses	168.0	231.3	119.7	85.3	43.4	21.4
Restructuring charges		25.0	-	-	-	-
Amortization of goodwill, intangibles and deferred charges	32.4	29.5	10.9	10.1	4.6	2.1
Interest expense, net	42.7	43.2	16.5	14.6	6.5	3.5
Other income	19.8	14.3	1.7	-	-	-
Equity in net income of unconsolidated subs.	(0.6)	1.7	10.2	4.5	-	-
(Loss) Income before provision for income taxes, minority interest and extraordinary item	(15.1)	(22.0)	104.3	94.4	56.7	29.9
Provision for income taxes	(0.7)	5.7	42.5	38.4	24.1	13.4
(Loss) income before minority interest and extraordinary item	(14.4)	(27.7)	61.8	56.0	32.6	16.5
Minority interest in earnings of Toy Biz	13.5	17.4	-	-	-	-
(Loss) income before extraordinary item	(27.9)	(45.1)	61.8	56.0	32.6	16.5
Extraordinary item, net of taxes	-	(3.3)	-	-	-	(0.4)
Net (loss) income	($27.9)	($48.4)	$61.8	$56.0	32.6	$16.1
(Loss) earnings per share:						
(Loss) income before extraordinary item	($0.27)	($0.45)	$0.60	$0.55	$0.33	$0.17
Extraordinary item	-	0.03	-	-	-	(.01)
Net (loss) income	($0.27)	($0.48)	$0.60	$0.55	$0.33	$0.16
Weighted average number of common and common equivalent shares outstanding (in millions)	101.8	101.3	103.7	102.6	98.6	97.7

Source: Company Annual Reports

Exhibit 6 Marvel Public Debt at the Time of the Reorganization Plan

Issue	Face Value	Promised Interest Rate	Market Price on[a] 10/8/96	Market Price on[a] 1/31/97	Collateral Shares (millions)	Percent of Old Shares[b]	Percent of New Shares[c]
Marvel Holdings senior secured discount notes	$517.4	11.25%	$0.774	$0.175	48.0[d]	47.2%	9.1%
Marvel Parent Holdings senior secured discount notes	$251.7	11.875%	$0.781	$0.140	20.0	19.6%	3.8%
Marvel III Holdings senior secured notes	$125.0	9.125%	$0.899	$0.139	9.3	9.1%	1.8%
Total	$894.1				77.3	75.9%	14.6%

Sources: Bloomberg, Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization*, Wilmington, Delaware, January 28, 1997.

Notes:

[a]Market prices are quoted per dollar of face value.

[b]Total number of existing ("Old") shares was 101.8 million.

[c]Total number of post-reorganization ("New") shares was 528.8 million.

[d]Marvel Holdings held an additional 2.93 million shares of Marvel stock for other creditors.

Exhibit 7 Liquidation Analysis ($ millions)

Gross proceeds from disposition of operating assets[a]	$447.0
Chapter 7 costs	
Transaction costs[b]	4.5
Case related administrative expenses[c]	6.0
Total Chapter 7 costs	10.5
Net proceeds from disposition of operating assets	436.5
Less Panini debt	192.1
Net proceeds available for other creditors	244.4
Net proceeds available for other creditors from sale of Toy Biz shares[d]	124.7
Total net proceeds available for other creditors	369.1
Secured claims[e]	535.4
Percent recovery against secured claims (mainly debt)	68.9%
Proceeds available for other claims	0.0
Other administrative claims[f,g]	94.1
Percent recovery against other administrative claims	0%
Unsecured deficiency claims	166.3
Percent recovery against unsecured deficiency claims	0%
Proceeds available for common equity shareholders	**$0.0**

Source: Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization*, Wilmington, Delaware, January 28, 1997.

Notes:

[a]Assumes that purchasers discount the low end of the going concern value by 20% to reflect the "fire sale" nature of the liquidation. The disposition is assumed to be completed at the end of the third quarter of 1997.

[b]Investment banks' fees, legal fees, closing costs and other expenses were estimated at 1% of gross sales proceeds.

[c]Includes estimated Chapter 7 trustee's fees, professional costs and other associated administrative expenses.

[d]Assumes sale of 7.39 million shares at $17.75 per share, the closing price of Toy Biz stock on November 11, 1996. Gross proceeds are reduced by 5% to reflect the costs associated with such sales.

[e]Amounts projected to be outstanding at March 31, 1997.

[f]Includes $5.0 million of severance payments to certain officers and employees.

[g]Includes estimates for accounts payable and other accrued liabilities.

Exhibit 8 Marvel Entertainment Group, Inc.—Projected Pro Forma Consolidated Balance Sheet

	Projected Pre-confirmation	Proposed Toy Biz Investment	Proposed Bank Debt Agreement	Projected Pro Forma as Reorganized
ASSETS				
Current assets:				
Cash	$ 13.3	$33.5[a]	$52.0[c]	$ 98.8
Accounts receivable, net	210.0			210.0
Inventories, net	77.5			77.5
Deferred income taxes	40.1	48.5[b,2]		88.6
Income tax receivable	11.1			11.1
Prepaid expenses and other	55.0			55.0
Total current assets	$ 407.0			$ 541.0
Property, plant and equipment, net	78.7			78.7
Goodwill and other intangibles, net	317.4	202.3[b]		519.7
Deferred charges and other	65.9		8.0[c]	73.9
Total assets	$ 869.0			$1,213.3
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$99.4			$ 99.4
Accrued expenses and other	143.1	10.0[b,1]		153.1
Short-term borrowings	40.0			40.0
DIP financing	50.0		(50.0)[c]	—
Current portion of long-term debt	635.4		(624.7)[d]	10.7
Total current liabilities	$ 967.9			$ 303.2
Long-term debt	—	20.0[b]	624.7[d] 110.0[c]	754.7
Other long-term liabilities	49.7	(1.7)[b]	—	48.0
Total liabilities	$1,017.6			$1,105.9
Minority interest in Toy Biz	$ 109.0	(109.0)[b]		
Stockholders' equity:				
Common stock	1.0			1.0
Additional paid-in capital	93.1	365.0[a]		458.1
Retained earnings	(351.7)			(351.7)
Total stockholders' equity	$ (257.6)			$ 107.4
Total liabilities and stockholders' equity	$ 869.0			$1,213.3

Source: Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization*, Wilmington, Delaware, January 28, 1997.

Notes: See accompanying notes below.

Exhibit 8 (continued) Projected Pro Forma Consolidated Balance Sheet

Proposed Toy Biz Investment: Marvel will issue approximately 427 million of common shares to Andrews Group Incorporated in consideration for $365 million in cash or, at the option of Andrews Group, Inc., an equal value of shares of Class A common stock of Toy Biz or a combination of the foregoing. The shares of Toy Biz common stock to be so transferred would be valued on the basis of the costs to Andrews of acquiring Toy Biz common stock.

Notes to the Projected Pro Forma Consolidated Balance Sheet

(a) The pro forma balance sheet reflects the following increase in cash from the proposed acquisition.

Total equity investment by Andrews	$365.0
Cash paid upon acquisition for	
outstanding Toy Biz Class A common stock	(326.8)
options for Toy Biz Class A common stock	(5.0)
Toy Biz preferred stock convertible in Class A common stock	(1.7)
Estimated fees and expenses related to the acquisition	(3.0)
Increase in cash	$33.5

(b) The excess of purchase price over the net assets of Toy Biz not owned by Marvel (or "Minority interest in Toy Biz") at the projected date of acquisition is determined as follows:

Cash paid upon acquisition for Toy Biz Class A common stock	$326.8
Liability for Toy Biz preferred stock	1.7
Promissory note assumed by Marvel	20.0
Liability related to achievement of Toy Biz's 1997 operating plan (1)	10.0
Estimated fees and expenses related to the acquisition	3.0
Total purchase price	$361.5
Less minority interest in Toy Biz and redeemed preferred stock	(110.7)
Less increase in Marvel's deferred tax valuation allowance (2)	(48.5)
Excess of purchase price over net assets (3)	$202.3

Note (1): An additional $10 million will be paid if Toy Biz's actual operating results exceed the Toy Biz projections included within these consolidated projections by $10 million. Since the net cash effect would likely be zero, no provisions for this additional payment has been included within these projections.

Note (2): Since the acquisition of Toy Biz should enable Marvel to use its NOLs, GAAP requires that goodwill and other intangibles related to the Toy Biz acquisition be reduced. As the multi-year projections assume that Toy Biz operating results will enable to utilization of Marvel NOLs, this presentation reflects this adjustment. The actual adjustment made upon the acquisition of Toy Biz will depend on several factors and may be different from that presented here.

Note (3): The projections reflect amortization of this amount assuming a useful life of 40 years.

(c) The pro forma balance sheet reflects the following increase in cash from the proposed bank debt agreement.

Proceeds from new term loans	$110.0
Payment of DIP financing	(50.0)
Payment of fees to banks and other	(8.0)
Increase in cash	$52.0

(d) To reclassify bank debt from current to long-term as a result of the restructuring.

Exhibit 9 Projected Financial Data (in millions)

	At Closing 3/31/97	Years Ending December 31, 1997	1998	1999	2000	2001
INCOME STATEMENT						
Net revenues		$929.8	$1,128.3	$1,155.8	$1,200.6	$1,247.5
Cost of sales		550.4	647.2	666.9	694.9	724.2
Gross profit		379.4	481.1	488.9	505.7	523.3
SG&A expense		262.4	305.4	313.4	324.5	336.0
Depreciation and amortization		34.5	43.4	44.1	44.8	45.9
Operating income		82.5	132.3	131.4	136.4	141.4
Reorganization expense		6.7	—	—	—	—
Amortization of goodwill		30.5	21.8	21.5	21.2	21.5
Interest expense, net		71.0	68.0	64.6	61.0	56.6
Toy Biz performance plan expenses		—	—	55.0	—	—
Equity in net (loss) income in unconsolidated subsidiaries		(0.1)	(0.2)	2.2	3.2	4.4
(Loss) income before taxes		(25.8)	42.3	(7.5)	57.4	67.7
Provision for income taxes		6.9	24.8	4.6	29.8	34.1
(Loss) before minority interest		(32.7)	17.5	(12.1)	27.6	33.6
Minority interest in Toy Biz		3.0	—	—	—	—
Net (loss) income		(35.7)	17.5	(12.1)	27.6	33.6
CASH FLOW DATA						
Provision for deferred taxes		$9.8	$8.3	$6.3	$8.1	$5.8
Undistributed earnings in unconsolidated subsidiaries		0.1	0.2	(2.2)	(3.2)	(4.4)
Minority interest in Toy Biz earnings		3.0	—	—	—	—
Change in net working capital		(75.4)	(11.5)	44.3	(42.0)	2.0
Capital expenditures		(83.0)	(67.4)	(47.4)	(46.7)	(45.1)
BALANCE SHEET DATA						
Cash balance	$98.8	$19.1	$2.0	$2.0	$2.0	$2.0
Goodwill and other intangibles	519.7	504.8	484.9	465.1	445.2	425.4
Total assets	1,213.3	1,213.5	1,234.5	1,230.3	1,206.6	1,191.6
Short-term debt	40.0	33.0	28.7	40.8	37.3	37.3
Long-term debt	765.4	769.5	744.4	612.2	389.8	120.0
Refinanced long-term debt	—	—	—	65.5	281.2	492.5
Shareholders equity	107.4	102.7	120.3	108.3	135.9	169.4
Total capital	912.8	905.2	893.4	826.8	844.7	819.0
Debt-to-Total Capital (book value)	88.2%	88.7%	86.5%	86.9%	83.9%	79.3%

Source: Marvel Entertainment Group, Inc., *Disclosure Statement Relating to First Amended Joint Plan of Reorganization*, Wilmington, Delaware, January 28, 1997.

Note: Projections assume Marvel acquires Toy Biz for $326.8 million and issues 427 million common shares to Andrews Group Incorporated for $365 million.

Exhibit 10 Selected Financial Market Data

	January 31, 1997
Yields on U.S. Treasury Bills, Notes, and Bonds	
3 month	5.04%
6 month	5.10
1-year	5.62
2-year	6.03
5-year	6.36
10-year	6.62
10-year inflation indexed bonds[a]	3.33
30 year	6.89
Yields on Long-term Corporate Bonds	
Aaa	7.48
Aa	7.69
A	7.75
Baa	8.12
Interest Rates	
Federal Funds	5.18
3-month Commercial Paper	5.45
3-month Certificate of Deposit	5.42
Prime Rate	8.25
Marvel Entertainment Group Asset Beta[b]	0.65

Source: Bloomberg, *Federal Reserve Bulletin*, Casewriter estimates.

Notes:

[a]On January 29, 1997, the U.S. Treasury Department issued the first inflation-indexed Treasury Notes which provided a guaranteed rate of return above the rate of inflation.

[b]The equity beta used to calculate the asset beta was estimated using daily data from 1/1/95 to 6/30/96 and the Scholes-Williams adjustment for non-synchronous trading.