turnarounds & workouts

News for People Tracking Distressed Businesses

June 15, 1996 Volume 10, Number 11

The Negative Effect of Trade Claims

Retailers Pressured to Emerge From Chapter 11

by Debra Brennan

There is no doubt that the retail bankruptcy experience is changing. While it seems that every Chapter 11 CEO complains that his or her company is facing the most competitive decade, the worst weather conditions, and the most demanding factors and financing terms, the truth is it's tough to keep up with the competition, and there is not enough room for everyone.

In order to successfully and meaningfully turn around a substantial retailer you need time. And for a retailer whose comparable store sales are declining each quarter by five or ten percent, there is no time. The American public is more savvy in its quest for value and more fickle in its buying patterns. Retailers need to re-discover their image and their concept routinely.

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PoFolks Bought by Franchisees

Restaurant Chain Could Recover from "Chapter 22"

by Debra Brennan

Since 1987, the PoFolks Inc. restaurant chain has filed twice for protection under Chapter 11. Now its owners, former franchisees, feel that its chance for survival is real. The two franchise owners in Arizona and Florida , who combined their efforts to purchase the 61-restaurant group, are continuing the chains's concept. And they reportedly paid only $500,000 to continue the business.

The new group's headquarters is in Panama City, Florida. Michael and Janice Thomas, who operate three PoFolks restaurants in Tucson, Arizona and one in Sierra Vista, Arizona joined Peter Sostheim of Panama City, Florida to form PoFolks Restaurant Ltd., thereby relinquishing their franchisee status. Sostheim operates nine of the restaurants in Florida and Alabama.

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Judge Postpones Financial Advisors

Rothschild, Inc. on Hold

by Debra Brennan

Franchisees have a very real interest in the bankruptcy proceedings of their franchisor. The franchisor is as significant to the franchisee as to every shareholder. The franchisee often relies on the franchisor as the supplier of its economic opportunity and viability as well as the source of market credibility and good name.

Therefore it should have been no surprise to Color Tile that the official committee of franchisees appointed pursuant to Section 1102 of the Bankruptcy Code has become a serious integral part of the progress of the Chapter 11 bankruptcy filed by Color Tile on January 24, 1996, and a potentially contentious partner for the creditors' committee.

The creditors' committee sought to use Rothschild, Inc., an investment banking and financial advisory firm, as its financial advisor in the Chapter 11 proceeding.

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Trade Claims, *from page 1*

Stuart Hirschfield, an attorney with the law firm Dewey Ballantine in New York, has been a strong spokesman in the industry, having developed the position that trade claim purchasers are having a negative impact on retailers emerging from Chapter 11. According to Hirschfield, who represents some major retailers involved in Chapter 11, the pressure created by trade claims purchasers on the debtor and the creditors' committee may force the debtor to emerge from bankruptcy without a viable business plan.

Claims traders, those investors purchasing vendor debt of companies in Chapter 11, are in a hurry for their money. Their belief and hope is that their investment is short term. And the lengthy operational reality is insignificant to the trader whose stake is in the return.The pressure that trade claim purchasers can exert is very real to those in the industry attempting substantial turnaround.

Hirschfield believes that vendors had more of a stake in a successful reorganization when they retained their claims, and they were more benevolent as creditors since the retailer's future would directly impact their future income. Hirschfield further stated that there is a significant value to such vendor loyalty. That is, if retailers are forced to reorganize without the benefit of formulating a strong company, there will be fewer independent retailers, and as the market dwindles, the vendors will also have a far narrower market.

Claims traders also have an interest in a solid company emerging from bankruptcy, since stock and paper are in most cases what they can expect as their return. But the reality seems to be that these financial players pressure the debtor to come out quickly without the benefit of repairing their business or testing their business plan.

And what does Hirschfield see as the answer? He is worried that the trade claims market is one which is very unregulated, allowing people to trade claims without equal knowledge. At some point he believes that more should be required than the current requirement of filing a notice.

It will be of interest to see the effect of pressure exerted by claims traders on the reorganizations of Caldor and Bradlees, as the traders have certainly left their mark on Merry-Go-Round, Ames and Jamesway.

PoFolks, *from page 1*

Bob Ovington, the former President of PoFolks, continues as President of the debtor in possession and remains in the office in Mt. Sterling, Kentucky, which used to be the PoFolks corporate headquarters. In a most unusual scenario, Ovington now owns five of the PoFolks restaurants himself, with a perpetual license to use the name PoFolks.

When asked how the relationship has developed between himself and the current owners, Ovington said, "To tell you the truth it's better than ever." Ovington stated that currently 42 restaurants are operating, the company having closed those unprofitable restaurants which could not sustain their high rents. The protection of Chapter 11 relieved the company of the leases, providing the smaller chain of most profitable restaurants with the best chance of survival.

Since Ovington has become the owner of five restaurants in Kentucky, Indiana and Tennessee, he is now reliant on the advertising and promotion by Sostheim and Thomas, as they once looked to the debtor .

PoFolks has not emerged from Chapter 11, and the resolution of the bankruptcy case remains in the hands of the court. Attorney Gregory Schaaf, of the law firm Greenebaum, Doll & McDonald in Lexington, Kentucky who handled the Chapter 11, described the case as "a spiraling down Chapter 11." And he agreed that the stores left are all solid franchised stores.

Franchise businesses have a lower risk of failure than other businesses, but when franchisors become troubled, franchisees risk goodwill damage, the essence of the franchise association. Analysts point out that franchisees of a failing franchise may experience unreliable product supply, poor training, no protection against infringing competitors and minimal or no group advertising.

In other situations, notably some pre-bankruptcy situations, franchisees have joined as a unit to bid for ownership of the franchisor. It is that change of direction, assumed by new ownership directly familiar with the operation of the company, that can effect meaningful change.

The PoFolks solution to franchisor difficulty is significant as an alternative to franchisees breaking off and attempting to go it alone. If successful, it may be the ultimate example of creative cooperation.

Franchisees, *from page 1*

According to the application filed by the creditors' committee, Rothschild agreed to render financial advisory services to the committee for a monthly advisory fee of $75,000 plus reimbursement of expenses. In addition, Rothschild reserved the right to seek compensation based on its contribution to the successful resolution of the cases.

The franchisee committee objected to the appointment of Rothschild for several reasons. First, the franchisee committee stated that the compensation to Rothschild was excessive in light of the limited amounts available for professional fees. Both the franchisee committee and the creditors'committee combined were limited to $100,000 per month for professional fees. The franchisee committee anticipates that a significant amount of legal fees will be incurred. In addition,the franchisee committee was seeking approval of the appointment of its own financial advisors. The franchisees further complained that they do not know what services Rothschild would provide for such high fees. Finally, the franchisees expressed the view that the fee structure violated Section 330 of the Bankruptcy Code since the fee sought was in the form of a monthly retainer with no hourly rates. Therefore, there existed no vehicle for the court to consider actual time spent, as required by the Code.

At this point, the court has decided to resolve the dispute by ruling that the employment of financial advisors for the committees at this point in the bankruptcy proceeding is premature. Accordingly, motions seeking appointment for both committees were dismissed and adjourned without prejudice for future court approval.

Wilbur Ross, President of Rothschild, Inc. was his usual unflappable self. Although disappointed not to be involved in Color Tile at this time, he is looking hopefully at future involvement in the case.

Color Tile is currently well under professional financial analysis as Larry Raemakers of Jay Alix and Associates is currently heading up the restructuring.

With professional fees as high as they currently are, the committees of Color Tile will surely seek a cost/benefit analysis of such fees at some point in the future. Certainly the value of professional financial advice will be justified by the strength of proposed changes if they effect an actual turnaround of the debtor.

Research Report

Who's Who in Hamburger Hamlet, Inc.

by Nancy L. Wolfe

Hamburger Hamlet Restaurants, Inc. filed for bankruptcy protection under Chapter 11 on December 6, 1995, along with 41 of its affiliates. At the time of filing, the company had estimated trade debts of nearly $5 million as well as bank loans of $10.7 million. On November 9, 1995, Hamburger Hamlet reported third quarter operating losses amounting to $.43 per share, up from a $.16 per share loss the previous year. At the same time, it was in covenant default with its bank lender and the bank was no longer allowing borrowings under the revolving credit facility.

The Delaware company owned and operated a chain of restaurants under the names of Hamburger Hamlet, Portner's and Hamlet Gardens. The company opened its first facility in 1950 in Hollywood. There are currently 19 restaurants remaining, ranging from the moderately-priced Hamburger Hamlet to the more upscale Portner's. The former Hamlet Gardens have been sold. Corporate headquarters are in Sherman Oaks, California, with restaurants located in Northern and Southern California, Las Vegas, Chicago, and Washington, D.C.

In November 1995, the company announced its intention to file for bankruptcy protection and stated that it would be closing 12 unprofitable restaurants. Company officials said that, despite hiring new managers, renovating various restaurants, and improving food quality and service, the company still found it necessary to close the weaker restaurants to facilitate its return to financial profitability. The Chapter 11 filing was needed, they said, to terminate or negotiate changes to the company's real property and equipment leases. All the restaurants were located on leased properties. Income from operations had fallen within the past five years in addition to the debts and default.

In support of Hamburger Hamlet's turnaround plan, the company's bank funded some of its pre-petition working capital needs and agreed to Hamburger Hamlet's use of the funds for the Chapter 11 activities subject to certain conditions.

On March 28, the Bankruptcy Court extended the company's exclusivity period to July 8, 1996. It also extended to July 8 the stipulation which allowed the company to use cash collateral during the Chapter 11 proceedings. If the company files its reorganization plan by July 8, which it hopes to do, this stipulation will be automatically extended to September 9, 1996. In addition, Hamburger Hamlet filed documents with the Securities and Exchange Commission stating it would not be able to file its 10-K form on time due to the loss of key financial employees, but that it expects to do so as soon as its 1995 financial audit is completed.

The Debtor

Allan Shawn Holder is President and Chief Executive Officer of Hamburger Hamlet and **Jack Lavine** is Executive Vice President and Chief Financial Officer. The new Chairman of the Board is **Richard Matthews**, who replaces James J. Gaffney.

Bankruptcy counsel for the debtor is **Stutman, Treister & Glatt**, P.C. in Los Angeles. Partners **Richard M. Neiter** and **George C. Webster II**, and associates **Michael C. Standlee** and **Thomas Kreller** are handling the case for the firm. Other bankruptcy cases include the debtors in Orange County and House of Fabrics.

The firm of **Sheppard, Mullin, Richter & Hampton** L.L.P in Los Angeles is special labor counsel to the debtor. Partners **David A. Maddux, Ryan D. McCortney** and **Marsha D. Galinsky** work on the case.

Price Waterhouse L.L.P. in Los Angeles is the debtor's financial advisor. Partner **Dennis I. Simon** and Senior Manager **Michael Dulberg** head the firm's efforts in the case.

Official Committee of Unsecured Creditors

The members of the creditors' committee are **Western International Media Corp., S.E. Rykoff and Co., Edward Fineman, G & G Produce, Northridge Holdings, Inc.**, and the **K.I.A.**

Greenberg & Bass in Encino, California is counsel for the creditors' committee. Partner **Arthur Greenberg** is in charge, assisted by associate **Andrew Goodman.** Other bankruptcy clients include the debtor in Madison Associates and the creditors' committee in Image Laboratories.

D.W. Harrow & Associates in La Cresenta, California provides financial advice to the creditors' committee. **Daniel Harrow** is in charge of the case.

Secured Creditor

Banque Paribas Agent & Bank in Los Angeles is a secured creditor in the case. **William Wexler** handles the case.

Counsel for Banque Paribas is **Kirkland & Ellis** in Chicago. Partner **James H. M. Sprayregen** is in charge. Also working on the case are associates **Matthew Kleiman** and **Thomas Heller**. Other bankruptcy cases they have handled include City Corp. Venture Capital Ltd. in Rax Restaurants and the debtor in Seven-Up/RC Bottling Co. of So. California.

Deloitte & Touche LLP in Los Angeles is financial advisor to Banque Paribas. Partners **Sandy Davis** and **Richard Vander Ploeg** work on the case there.

Official Equity Committee

The committee consists of **Thomas McFall** (Chair), the former Chief Executive Officer of Hamburger Hamlet, **Edward H. Arnold, Roberto Ferrarotti, Michael Minchin, Jr.** and **Roger Bensen.**

The proposed counsel to the committee is **Pryor, Cashman, Sherman & Flynn** in New York City. Partner **Peter Wolfson** and associate **Suzanne Lovett** are on the case there.

The proposed local counsel for the Equity Committee is **Angel and Neistat**, P.C. in Los Angeles. Partner **Alan Stomel** handles the case.

The Trustee

In the office of the U.S. Trustee in Los Angeles, **Ron Maroko** is involved in the case.

The Judge

The judge is **The Honorable Geraldine Mund** in the Central District of California.

Tracking

Dow Corning

Judge Sam Pointer, presiding in more than 21,000 implant cases nationwide, is taking the unusual step of appointing a panel of experts to help sort out the scientific debate over the implants' health effects. A court-appointed panel would provide a third opinion for a jury to assess, in addition to the evidence from the plaintiffs and the defendants. While the use of court-appointed experts is rare, it has increased in recent years where scientific issues are involved.

The Appellate Division of the New York State Supreme Court dismissed more than 1,200 lawsuits filed in New York against The Dow Chemical Co., one owner of Dow Corning Corp., once the largest breast-implant manufacturer. The Appellate Division stated in its ruling, "A party who gives advice to a manufacturer of consumer goods does not owe a duty to then-unknown individual purchasers of the manufacturer's goods."

Barney's

Barney's Inc. announced a number of management changes. John P. Brincko and Charles W. Bunstine II will serve as co-chief operating officers reporting to Gene and Robert Pressman. John Dubel joined the company as senior vice president and chief financial officer. Steven Feldman joined the company as controller. Robert Pressman said of Dubel and Feldman, "this gives us added fire power in the areas of corporate restructuring, operations and finance. With the new team on board, we can now move more rapidly to resolve the issues and challenges we face, not only in our reorganization, but in strengthening the foundation for the company's future."

Isetan Co., the Japanese department store, reported $297.5 million in losses for the fiscal year ending in March. Isetan said the future of its investment in Barney's will depend on how the Chapter 11 proceedings play out. Barney's employs approximately 2,000 in 14 stores, seven outlet stores, corporate offices in New York City and a distribution center in Lyndhurst, N.J.

Bradlees

Despite poor sales results for its first quarter of fiscal 1996, Bradlees' chairman and chief executive Mark A. Cohen said "our gross margin rate was well above last year and our plan for the quarter." Cohen must be an optimist since total sales were down $50 million compared to the same quarter of fiscal 1995. Comparable store sales declined a whopping 12.6 percent for the quarter. Cohen blamed the discouraging results on "difficulties in promptly offsetting discontinued merchandise categories, unfavorable weather conditions and delayed implementation of store closing sales." There seems to be no successful change being effected, and Bradlees continues in a downward spiral. With no reorganization plan in sight, one has to wonder when the court or the creditors will balk.

Hills

Hills Stores Company released its first quarter financial results, tallying a $14.7 million loss compared with a net loss of $4.3 million for the same quarter last year. Sales rose 2 percent to $370.2 million from $362.9 million.

Gregory K. Raven, president and chief executive officer of Hills, stated, "We knew entering this year that the first quarter was going to be our toughest from a prior year comparison standpoint. We could not predict, however, the significant impact of the weather patterns in our geographic area." He may be referring to the strong winds blowing from the booming business at Wal-Mart, where the lower prices and newer stores are impacting the smaller discount operators such as Bradlees and Hills.

Clothestime

The Clothestime Inc. reported results for the first quarter of 1996. Sales for the quarter were $43.7 million, compared with $72.3 million last year. The company claimed that a significant portion of the total sales reduction was due to the lower number of stores this year as compared with last year. However, comparable store sales for the quarter decreased by 23 percent. Clothestime currently operates 397 women's apparel stores in 20 states and Puerto Rico.

Sizzler

Sizzler International, the nationwide steakhouse chain, has filed for bankruptcy protection despite a seemingly healthy $272 million in assets. While the company expects to emerge from the Chapter 11 proceedings within eight months or less, 4,600 employees (mostly part time) will be seeking other employment.

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Calendar

Western Mountains Bankruptcy Law Institute
June 27-30, 1996
Jackson Lake Lodge
Jackson Hole, Wyoming
Sponsor: Norton Institutes
Contact: (800) 628-9988

Northeast Bankruptcy Conference
July 25-28,1996
Mt. Washington Resort
Bretton Woods, New Hampshire
Sponsor: American Bankruptcy Institute
Contact:(703) 739-0800

American Bar Association Annual Convention
August 2-6,1996
Disney Contemporary Resort
Orlando, Florida
Contact: American Bar Association
Diane Maytum
(312) 988-5587
Fax (312) 988-5578

Southeast Bankruptcy Workshop
August 22-25, 1996
Westin Resort
Hilton Head Island, South Carolina
Contact: American Bankruptcy Institute
(703) 739-0800

Workshop on Bankruptcy & Business Reorganization (Basic and Advanced)
August 27-29, 1996
New York University School of Law
40 Washington Square South, New York
Contact: (212) 998-6415 or 6417

ABI Winter Leadership Conference
December 5-7, 1996
Westin Mission Hills Resort
Rancho Mirage, California
Sponsor: American Bankruptcy Institute
Contact: (703) 739-0800

InSol '97- Insol International 5th World Congress
March 23-26, 1997
The Sheraton, New Orleans
Contact: Richard A. Gitlin, Chmn.
(203) 240-2720

Special Report

Bankruptcy Tax Specialists in the Nation's Major Law Firms

Firm	B'kcy. Tax Attorneys	Senior Bankruptcy Tax Partners	Recent Representative Clients
Andrews & Kurth Houston, TX Tel. (713) 220-4456 Fax (713) 220-4285	7	Thomas Ford, Jr. Crawford Moorefield Avery Stok	Rubus Development Corp. (Creditors) First City Bank Corp. (Creditors' Comm.) Compuad (Creditors) Magic Restaurants (Debtor)
Buchalter, Nemer, Fields & Younger, Los Angeles, CA Tel. (213) 891-0700 Fax (213) 896-0400	**	Philip J. Wolman Gregory Keever	Angeles Corporation (Creditors' Comm.) Mission Insurance (Debtor) Bank of America (Creditor)
Davis Polk & Wardwell New York, NY Tel. (212) 450-4000 Fax (212) 450-4800	35	M. Carr Ferguson Lydia E. Kess Samuel Dimon	Lomas Financial Corp. (Debtor) LTV Corp (Debtor) Dow Corning (Creditors' Comm.) Columbia Gas Syst. (Bank Creds. Group)
Duane, Morris & Heckscher Philadelphia, PA Tel (215) 979-1000 Fax (215) 979-1020	6	Sheldon M. Bonovitz Donald R. Auten Victor F. Keen David M. Flynn	**
Fried, Frank, Harris, Shriver & Jacobson, New York, NY Tel. (212) 859-8000 Fax (212) 859-8588	10	Peter Cobb Jack Jacobson Joel Sharfstein	McCrory Corp. (Debtor) Bill's Dollar Stores, Inc. (Debtor) Pullman (Debtor) Rickels Home Centers (Debtor)
Gibson, Dunn & Crutcher New York, NY Tel. (212) 351-4000 Fax (212) 949-7606	4	David B. Rosenauer Paul S. Issler	Resorts International ICH Corporation (Creditors' Comm.) Hawaiian Airlines (Debtor) NRG Energy, Inc. (O'Brien Acquisition)
Jones, Day, Reavis & Pogue Cleveland, OH Tel. (216) 586-3939 Fax (216) 579-0212	62	Carl Jenks Jack Sterling Dan Kusnetz	Dow Corning (Debtor) Phar-Mor (Creditor) Federated Dept. Stores (Macy Acquisition)
Kaye, Scholer, Fierman, Hays & Handler, New York, NY Tel. (212) 836-8000 Fax (212) 836-8689	4	Willys Schneider Sydney Undger	Hills Department Store (Debtor) LTV (Debtor) G. Heileman Brewing Co. (Debtor)
Latham & Watkins New York, NY Tel. (212) 906-1290 Fax (212) 751-4864	10	John Hart Mark Harris John Clair Sam Weiner	Northview (Creditor's Comm.) MCorp. (Creditors' Comm.) Workwear (Debtor)
LeBoeuf, Lamb, Greene & MacRae, New York, NY Tel. (212) 424-8000 Fax (212) 424-8500	15	Robert A.N. Cudd Charles R. Glasheen	Barney's (Debtor) America West (Debtor)

***Not Provided*

Worth Reading

Norton Creditors' Rights Handbook

A Guide to the Debtor-Creditor Relationship 1995-1996 Edition

by William L. Norton III and Roger G. Jones
Publisher: Clark Boardman Callaghan
Price: $125.00 (plus shipping/tax)
Pages: 563 (soft cover)
by Nina Novak

The 1995-1996 Edition of this valuable guide to creditors' rights replaces the earlier 1993-1994 Edition (published as *Creditors' Rights Handbook*), and is compiled by a different set of authors. The previous edition has been revised and updated. It is organized by covering the rights of creditors during three major stages of a debtor-creditor relationship: the inception of the credit relationship, the out-of-court workout for the debtor in distress, and extensive coverage of the debtor in bankruptcy. The Handbook integrates relevant amendments made by the Bankruptcy Reform Act of 1994, and provides discussion and analysis of recent trends and case decisions on key issues that may arise in the debtor-creditor relationship.

In addition, this updated edition addresses several new topic areas. These new topics include: true leases and finance leases under UCC Article 2A; true consignments under UCC Article 2; invalidation of the EPA's interpretive rule on lender liability for environmental clean-up; the new value exception to the avoidance of preferential transfers; and an overview of the types of claims in a bankruptcy case.

Part One of the book is a five chapter guide to structuring a credit agreement. It is geared primarily toward the consensual creditor who is in a position to control some or all of the terms upon which the debtor-creditor relationship is established. The dominant chapter in this part of the handbook is the one that covers the issue of "security" and the creation of security interests. The chapter covers secured transactions in which the creditor receives a security interest in personal property or real property, unsecured transactions, and finance leases of personal property. Extensive reference is made to the Uniform Commercial Code.

The second part of the book deals with issues related to troubled or distressed debtors. It covers alternatives available to a creditor, lender liability, remedies, and out-of-court workouts. Of particular interest is an excellent discussion of the differences between, and the pros and cons of, an out-of-court workout versus a reorganization under Chapter 11 of the Bankruptcy Code.

The final part of the Handbook covers an array of fundamental issues related to dealing with a debtor in bankruptcy, including an explanation of causes of action, a discussion of the operations of a debtor in bankruptcy during the pendency of Chapter 11 proceedings, creditors' committees, and the principal remedies of creditors.

The Handbook is interspersed with several sample forms, which are included as examples only. As stated in the Introduction to the Handbook, it was written for a diverse audience and is not intended as a scholarly work or a form book. Rather, it is a general narrative outline dealing only with the voluntary debtor-creditor relationship, usually involving business debtors (such as corporations and partnerships).

The book should serve as a useful guide to loan officers and other creditor representatives, as well as accountants and attorneys new to the representation of creditors.

William L. Norton III and Roger G. Jones are both attorneys with the firm of Boult, Cummings, Conners & Berry in Nashville, Tennessee

Tracking, *from page 4*

Sizzler was founded in a converted trailer, and has made a determined effort in the 1990's to stay current with salads, vegetables, pastas and soup. The company is now changing its image from a buffet to a sit-down restaurant and a made-to-grill format, which tested successfully in Sacramento.

"We're trying to get back to the essence of Sizzler, to what made it work," said Kevin Perkins, CEO of Sizzler International. Escaping costly leases is the company's primary motivation for filing the Chapter 11. For fiscal 1995, Sizzler yielded $6.7 million profit on revenue of $462.2 million.

Melville Corp.

In an effort to speed up restructuring and focus on CVS drugstores, Melville will close its Thom McAn shoe store chain and sell off both Linens 'N Things and Bob's discount apparel stores. In 1995, Thom McAn had operating losses of $14 million.

Bennett Funding

Richard Breeden, the trustee appointed by the U.S. Bankruptcy Court, sued the lease-financing company Bennett Funding Group for $165 billion, charging the Bennett Companies with selling the same leases to more than one investor and selling other leases that did not exist. Allegedly, the company then used money from new investors to pay off earlier investors. The SEC has filed a civil lawsuit accusing Bennett and its subsidiaries of selling $70 million of fraudulent securities to investors. Breeden also asked the bankruptcy court to block all class-action lawsuits filed in federal and state courts that seek money from Bennett saying that he wants the cases under one judge who can evenly divide the company's assets among the creditors. The Bennett companies are accused of running the biggest pyramid scheme in U.S. history.

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Special Report

Bankruptcy Tax Specialists in the Nation's Major Law Firms

Firm	B'kcy. Tax Attorneys	Senior Bankruptcy Tax Partners	Recent Representative Clients
Milbank, Tweed, Hadley & McCloy, New York, NY Tel. (212) 530-5000 Fax (212) 530-5219	6	Robert A. Jacobs Dale L. Ponikvar Simon Friedman	Rockefeller Center (Investors) Olympia & York (Secured Creditors)
Morgan, Lewis & Bockius Philadelphia, PA Tel. (215) 963-5000 Fax (215) 963-5299	**	Thomas Vallone Robert D. Comfort Greer L. Phillips	Salant Corp. (Note Holders) Interco (Creditors' Comm.) Carter Hawley Hale (Equity Comm.)
Sheppard, Mullin, Richter & Hampton, Los Angeles, CA Tel (213) 620-1780 Fax (213) 620-1398	7	Robert Joe Hull Michael Fernhoff John Bonn Jim Lowy	Standard Brands (Creditors' Comm.) Thrifty Oil (Creditors' Comm.) Solid Waste Transporters (Trustee) Orange County (Various Creditors)
Sidley & Austin Chicago, IL Tel. (312) 853-7000 Fax (312) 853-7036	9	Frank Battle, Jr. John Simon Edwin Norris Adam Handler	Olympia & York (Creditor) Plaid Clothing Group (Debtor) Dow Corning (50% Stockholder)
Skadden, Arps, Slate, Meagher & Flom, New York, NY Tel. (212) 735-3000 Fax (212) 735-2000	20	Matthew A. Rosen Barnet Phillips IV David Rievman Mitchell Solomon	UDC Homes, Inc. (Debtor) Great American Rec. (Debtor) Grand Union (Bank Group) Lomas Financial Corp. (Acquiror)
Streich Lang Phoenix, AZ Tel. (602) 229-5200 Fax (602) 229-5690	2	Fred Witt, Jr. Ronald Platner	Elsinore (Debtor)
Stroock & Stroock & Lavan New York, NY Tel. (212) 806-5400 Fax (212) 806-6006	7	Mark A. Levy Jeffrey Uffner Micah W. Bloomfield	JWP, Inc. (Debtor) Columbia Gas Systems (Debtor) Hillsborough Holding (Creditors' Comm.) Barney's Inc. (Creditors' Comm.)
Stutman, Treister & Glatt Los Angeles, CA Tel. (213) 251-5265 Fax (213) 251-5288	1	Mark Wallace	Thrifty Oil Co. (Debtor) Orange County (Debtor) House of Fabrics (Debtor)
Weil, Gotshal & Manges New York, NY Tel. (212) 310-8000 Fax (212) 310-8127	11	Martin D. Pollack Paul H. Asofsky Stuart J. Goldring Kenneth H. Heitner	Rockefeller Center Properties (Debtor) Olympia & York (Debtor) Eagle-Picher (Debtor) First City Bancorporation (J-Hawk)
Winston & Strawn Chicago, IL Tel. (312) 558-5600 Fax (312) 558-5700	**	Thomas Fitzgerald Edward Buchholz Andrew W. Ratts	Federated Dep't. Stores (Unsec. Creditors) Gillette Holdings/SCI TV (Debtor) New York Post (Unsecured Creditors)

***Not Provided*

Gnome de Plume

It's Over When It's Over

by Christopher Beard

"First and foremost, this case is a success.... I have rarely reached the point of confirmation in a case with any more confidence than I have this afternoon that this will go on to be a successful company." On August 14, 1994, Judge William H. Gindin got caught up in the moment as Herman's was putting the finishing touches on its Chapter 11 reorganization plan.

Nineteen months after emerging, Herman's filed again on April 26, 1996. Gindin got it wrong, but he doesn't suffer from Stockholm syndrome, the malady that afflicts some bankruptcy judges in the bear hug of a needy debtor.

Lots of people blew the call, including me. Herman's was a sporting goods retailer that Isosceles, a British conglomerate, bought and expanded from a regional to a national chain. Under Isosceles, Herman's got overextended and ignored important regional differences in customer preferences. But the company still had a good image, clean stores, fresh merchandise and competent staff.

The people behind the Herman's subsequent restructuring are among the best in the business: Whitman, Heffernan & Rhein and Carl Marks. Upon getting control, they filed for bankruptcy and rejected the leases on the under-performing stores to take Herman's back to its original core market in the Northeast. Made sense to me.

When Herman's filed the second time I thought there must have been an earthquake in the sporting goods business that I missed. But there was no catastrophe, just a rapid decay of its franchise. The profitable core business they were returning to wasn't there when they got back.

The restructured Herman's never got out of the gate. They emerged in September 1994. That Christmas comparable store sales declined 10.2 percent. That sinking feeling was back. Competition was brutal. Herman's couldn't hit stride. Lower margins. Tight cash. Reduced inventories. Slower sales. Less cash. And there was no bounce from the next Christmas. In February 1996, the major vendors gave the company a moratorium deferring $34 million. They put the company up for sale. No takers.

Talk about vultures. Every species of retail predator is competing for the sporting goods business—discounters, category killers and niche players. Wal-Mart. Sports Authority. Just For Feet. And they're all ugly.

Additionally, the impact of corporate downsizing sucked the growth out of the market. A big portion of sporting goods sales is an adult fantasy business. Nobody buys a new putter because the old one is worn out. They buy a new Fred Couples putter. Or maybe a new Greg Norman putter. But if money's tight, they make due with their Arnold Palmer clubs another year.

All too often in bankruptcy it's not over when it's over. Too many times the case drags on and nobody seems to know why. Not with this bunch. Al Fasola, Herman's CEO, isn't spending the creditors' money attempting Hail Mary passes. They gave it a good shot. It didn't work. It hurts, but now it's over. Liquidate the inventory. Turn out the lights. Give the people their money. You can't ask for more.

Herman's $100 million Going Out of Business sale will blow out the sporting goods market in the Northeast. The remaining retailers are hoping the market stabilizes by Christmas. If not, you can look forward to getting Pete Sampras tennis rackets for Christmas from GOB sales for a few years to come.

Christopher Beard is the publisher of Turnarounds & Workouts

Future Issues:

- *Who's Who in Color Tile*
- *Bankruptcy Information Sites on Internet*
- *Who's Who in Standard Brands*

Recent Filings

EWI, Inc. a/k/a South Bend Stamping filed for Chapter 11 protection in the Northern District of Ohio on April 30, 1996. The company manufactures automotive stampings. Attorney for the debtor is **Harry W. Greenfield** of Cleveland, Ohio. Accounting services are provided by **Arthur Andersen, LLP.**

Homeland Stores, Inc. filed for Chapter 11 bankruptcy protection on May 13, 1996 in the District of Delaware. The company operates a supermarket chain in Texas and the Southwest. Accounting services are provided by **Coopers & Lybrand.**

Seven-UP/ RC Bottling Co. of So. California filed for Chapter 11 bankruptcy protection on May 13, 1996 in the District of Delaware. The company makes and distributes beverage products throughout the Southwestern United States, Puerto Rico and the Virgin Islands. Accounting services are provided by **Arthur Andersen, LLP.**

Bryant Universal Roofing, Inc. filed for Chapter 11 bankruptcy protection on April 17, 1996 in the District of Arizona. The company is a roofing contractor. Attorney for the debtor is **Squire, Sanders and Dempsey.** Accounting Services are provided by **KPMG Peat Marwick.** The company is privately held.

Kenetech Corp.'s unit, **Kenetech Windpower, Inc.**, filed for Chapter 11 on May 29, 1996 in the Northern District of California. The company manufactures and develops wind powered electric products. Attorney for the debtor is **Stutman, Treister & Glatt, P.C.** Accounting services are provided by **Deloitte & Touche.**

Sizzler International, Inc. filed for Chapter 11 on June 3, 1996 in the Central District of Los Angeles, California. The company owns, operates and franchises chain restaurants. Accounting services are provided by **Arthur Andersen, LLP.**

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