Amid Rash Of Failures, Some Troubled Retailers Defy The Odds

By Rachel Feintzeig

Against All Odds was determined to live up to its name.

In early 2009, the seller of clothing with a hip-hop twist seemed to have few chances for survival. A dismal holiday shopping season had left its shelves nearly bare, as vendors reined in the company's credit. An expansion to the West Coast was proving disastrous, with sales slowing to a trickle at stores near ground zero of the subprime mortgage crisis. It looked like the dream that founder Kenny Khym had cooked up while earning minimum wage as a retail clerk in a New Jersey mall could be coming to an end.

But this story wouldn't end like so many tales of retail failure that marked late 2008 and 2009. Instead, Kenny and his brother, David, bought the company out of bankruptcy, guaranteeing a partial recovery for unsecured creditors. They trimmed the unprofitable stores from their lineup and rebuilt the business, focusing on 26 Northeast locations.

"They had strategy; they had money to put into the business," Cooley Godward Kronish LLP attorney Jay Indyke said of the brothers. "That's the Against All Odds story."

Although that plotline surely hasn't been the norm in recent months, Against All Odds is not alone in its ability to stage a dramatic turnaround. The downturn has seen celebrity jeweler Fred Leighton come back from the dead, Ritz Camera seized from the clutches of liquidators by its founder's nephew, and regional department store Boscov's rescued by its patriarch - and Pennsylvania's governor. These retail success stories share some common threads, but each unfolded in its own way.

Fred Leighton

When Thomas Shull was called in to oversee the ailing Fred Leighton Holdings Inc. in December 2008, the company's bankruptcy case was in shambles.

"It was almost like a patient that…was dead on arrival," said Judy Liu, an attorney who worked on the case with Shull, the company's chief restructuring officer. "He had to set about resuscitating it."

While the jeweler continued to outfit stars like Meryl Streep in its lavish designs, it had "practically no cash," said Liu, of Dewey & LeBoeuf LLP.

Sales were worst at the company's new Beverly Hills store, launched during the company's proceedings. Shull, who had previously steered retailers like Barneys and Macy's toward financial health, was shocked that the company had gone ahead with the project.

"In my view, it was not a sound business decision," said Shull, who is with turnaround firm Meridian Ventures.

But the damage was already done, and it was Shull's job to pick up the pieces. He started with aggressive cost cutting, trimming the company's budget by 49%. Next, he dug back into old customer files, launching a targeted marketing effort.

"It's almost as if he had to re-announce that Fred Leighton was there," Liu said.

The campaign worked. Fred Leighton rang up $35 million in sales in 10 months, matching the pace of its peak year.

With the company's revenue source back on track, Shull turned his attention to the bankruptcy process. The company still had to craft a plan that would satisfy lender Merrill Lynch, now a part of Bank of America.

The company and the investment bank had sparred from the beginning of the bankruptcy, but the two sides eventually worked together to maximize the company's value.

"That's where I think the beginning of the success was: a recognition we needed each other," Shull said.

Still, there were more twists to the case. Some of the jewelry securing the $185 million in loans from Merrill Lynch had gone missing or had been double-pledged for additional credit. The original appraisal of the collateral was "wildly unrealistic," Shull said, and subsequent valuations revealed it was actually worth much less than initially thought.

"It was like being on a roller coaster," Liu said. "All of us felt like we were in the middle of a bad movie."

Nevertheless, the company's bankruptcy advisers worked to orchestrate a sale that would keep the Fred Leighton brand alive. Shull leveraged some connections from his time at Barney's and eventually assembled two groups of purchasers. One, led by Madison Avenue jeweler Kwiat, bought the name and about a quarter of the inventory. The other group, which included the original owner of Fred Leighton, Murray Mondschien, bought the majority of the inventory and plans to pump much of it back into the Fred Leighton stores on consignment.

The sale was approved in November, as was a consensual reorganization plan that satisfied Merrill Lynch with a recovery of $60 million to $70 million. Shull estimates he was able to bring an additional $30 million to $40 million into the estate by turning the company around instead of handing off the pieces to liquidators.

"It was a long, winding path to success," he said. "But we managed to get there."

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Ritz Camera

A changing photography industry plunged Ritz Camera Centers Inc. into bankruptcy in February 2009. With its focus on film and prints, the country's largest specialty camera chain wasn't attracting digital consumers, something its revenue and profits reflected.

In a bid to stay alive, the company first opted to liquidate half of its 800 stores with a plan to rally around its successful locations. But by July, it acknowledged it didn't have enough cash to keep its remaining stores operating.

That's when David Ritz stepped in. Ritz, chief executive of the company that his uncle founded on the Atlantic City, N.J., boardwalk in 1918, was determined to keep his family's business alive.

"I'm sort of a fighter," he said.

As Ritz Camera worked to woo bidders like Ilex Capital Group LLC and Hilco Merchant Resources LLC, its CEO put together a bid of his own. He persuaded family members and other investors to throw millions into the deal, and he walked into a bankruptcy auction ready to challenge Ilex's $23.7 million lead bid.

The grueling auction spanned 24 hours. But when it was all over, the man who had spent nearly 30 years with the company emerged as the victor.

"There's no question that I was willing to do whatever I could do…because of the Ritz Camera family," Ritz said. "Hedge funds, investors from outside wouldn't have those feelings."

Ritz's efforts didn't go unnoticed. When he pulled up to the company's corporate headquarters after the auction, he was greeted by a crowd of employees, standing outside and applauding.

"Did I cry?" he asked. "Sure I cried."

Still, a sale wasn't going to change the company's fortunes overnight. Ritz says he's shifting his strategy to suit the digital sea change that nearly killed his uncle's vision.

The company has added electronics like high-definition televisions, netbooks and Verizon mobile phones to its lineup. It has also shifted its photographic focus from prints to memory cards and DVDs that allow consumers to

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watch their photos and video clips in movie form. The bankruptcy has taught Ritz to stay on his toes and to embrace innovation.

"What I've learned is things don't just carry on automatically," he said. "I've learned there are outside forces that can rock you around."

Boscov's

Boscov's Department Stores arrived in bankruptcy court late in the summer of 2008. Weighed down by $479 million in debt, the company immediately closed 10 of its 49 Mid-Atlantic stores and prepared to put its 46-year-old business on the auction block.

Versa Capital Management, a Philadelphia-based private-equity firm, came forward with an offer to purchase the company in a deal valued at $288 million. But the transaction fell through in late October, and it looked like Boscov's was careening toward liquidation.

But the Boscov family, led by retired chairman Albert Boscov, refused to accept that fate. Starting with its own $20 million equity pledge, the group persuaded two of its landlords as well as its lenders to back the deal.

Attorney Lawrence Gottlieb, who represented the Boscov's creditors committee in the case, said the family ties probably helped to calm the banks' concerns about financing a deal in bankruptcy.

"Banks are more inclined to work it out because the same people who used to own it are coming back," said Gottlieb, of Cooley Godward Kronish LLP.

But the would-be purchaser still needed more funding. It found it from a most unlikely source: the federal government.

Gov. Ed Rendell, a longtime supporter of the chain, was able to secure $35 million in federally guaranteed loans from the Commonwealth of Pennsylvania. Municipalities in Pennsylvania and New Jersey pitched in with an additional $12 million.

The family's investment banker, J. Scott Victor of SSG Capital Advisors, calls the company's ability to line up the financing "remarkable." But Victor, who also advised David Ritz, points to one main factor in both success stories.

"The families were the driving force. Their desire and their commitment to put in that much new money led the day," he said. "That was the secret."