

Addison, Texas—Two trips to bankruptcy

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By Michelle Graff

Addison, Texas—Two trips to bankruptcy court proved too much for Friedman's Jewelers, which is expected to be officially out of business by the end of June.

Friedman's is the third-largest jewelry-specific chain in North America, according to National Jeweler's Top 50 list, which ranks chains in terms of the number of store units. But a recent call and a visit to the retailer's Web site tell the tale of a company in the midst of shutting down.

Operators no longer answer the phone at the company's Addison, Texas, headquarters, and a recorded message intones: "We are currently in the process of closing the corporate office and are operating with a reduced staff."

The Friedman's Web site advertises merchandise at up to 70 percent off, as the majority of its stores conduct going-out-of-business sales.

Michael O'Hara, president of Consensus Advisors, who is advising the committee of unsecured creditors in the case, says this is most likely it for Friedman's, a retail chain in business since 1920.

"I think this is the end of it, sadly," O'Hara says.

After battling back from bankruptcy in 2005 and then filing again in January, the retail jeweler announced last month that it was conducting store-closing sales at 377 of its 455 stores. The sales began April 5 and were expected to last 10 to 12 weeks, concluding around the end of June.

WFC Acquisition Corp., a subsidiary of Chicago-based Whitehall Jewellers Holdings, purchased the remaining 78 stores for \$14.3 million in a deal announced April 11. Court documents reveal that the Whitehall-purchased stores are spread among 17 states in the West, Midwest and South regions of the country.

Whitehall did not purchase any Friedman's or Crescent stores in Indiana, Illinois and Ohio—near Whitehall's Chicago hub—also skipping Oklahoma and Maryland.

An analysis of these purchases by National Jeweler reveals that Whitehall is not entering any new states through the acquisitions. The company now owns 375 stores in the same 39 states, operating them as either Whitehall Jewelers or Lundstrom Jewelers.

Edward Dayoob, who announced his retirement from the chief executive officer post at Whitehall Jewelers just before press time, was unavailable for comment, but said in a previous statement that the company's plan was to grow through acquisitions.

"The acquisition of these assets considerably increases the number of jewelry stores that we will operate and will increase our market share," Dayoob said. "It also will allow us to strengthen our current Whitehall operations as well as leverage our management team and existing infrastructure, which we expect will result in a more competitive company overall."

The company refused to provide any further information or a statement on its strategy going forward. Dayoob will remain actively involved as chairman and as a consultant to Whitehall, but Michael Don, former president and chief operations officer, moved up to CEO, effective April 30.

Industry analyst Ben Janowski of Janos Consultants says it is very hard to say if acquisition is a good survival strategy for Whitehall.

But, Janowski points out, a reduction in competition is never a bad thing for jewelers that do manage to stay afloat. "That business is going to go someplace," he says, adding that Whitehall got quite a bargain when it purchased the 78 Friedman's locations, paying less than \$200,000 per store, including merchandise.

This deal came only after Friedman's held an unsuccessful auction of its assets on March 6.

"The bids received at the auction were not at a level sufficient to be presented to the court for approval," court papers said. After the auction, WFC Acquisition Corp. submitted a bid to buy some of Friedman's assets and leases, and the latter decided that it was the "highest and best offer," court papers said.

"At about \$183,000 a store, they got a very, very cheap deal," Janowski says.

Friedman's latest financial troubles began bubbling to the surface late last year.

O'Hara says vendors met with Friedman's and its advisors in November, December and January in an attempt to resolve their issues out of court.

But, like so many retailers, Friedman's suffered a downturn in holiday sales, further driving a wedge between the company and its creditors.

"In my opinion, the macro-economic problems impacting jewelry and retail, more generally, became crystallized through the Christmas holiday," O'Hara says. "And, I think, rightly so, caused increased vendor nervousness in early January."

That unease reached a fevered pitch among Friedman's creditors about a month after Christmas.

On Jan. 22, a group of creditors led by a consortium of diamond companies filed an involuntary Chapter 7 bankruptcy case against the retail jeweler. Those creditors were: Rosy Blue Jewelry, which claimed Friedman's owed the company \$3.8 million; Rosy Blue, claiming \$2.4 million; Jay Gems, claiming \$479,341; Simply Diamonds, claiming \$469,482 and Paul Winston/ Eurostar LLC, claiming \$1.9 million.

The filing forced Friedman's hand and, on Jan. 25, it filed to have the case converted to a voluntary Chapter 11.

In addition to the liquidation sales—which are being run by a group of liquidation specialists led by the Great American Group LLC—and the store sales to Whitehall, Friedman's also sold more than \$60 million in customer accounts to collection outfit Monterey Financial Services, O'Hara says.

All that's left of the 88-year-old retailer at this point is the Friedman's name and some intellectual property, such as customer lists. O'Hara says the creditors remain hopeful that a company might acquire either the Friedman's or Crescent name, though he admits this is unlikely.

"But, hope springs eternal," O'Hara says. "We hope someone will show up and acquire these names." nj

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