

# ***Pieces of Zale for sale?***

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Valentine's Day is fast approaching, and so is a reckoning for troubled **Zale Corp.** (NYSE:ZLC). Bankruptcy looms if the jewelry retailer fails to restructure its debt and put in place a solid merchandising strategy, according to analysts.

The mall mainstay capped a bad year with a worse holiday season. Same-store sales for November-December fell 12%. The company lost \$57.6 million for its first quarter, ended Oct. 31, and for its 2009 fiscal year, which ended July 31. It also logged a net loss of \$190 million on total revenue of \$1.8 billion, down from \$2.1 billion the year earlier. Add in the recent Wall Street Journal report that the company made an importunate plea to vendors to buy back unsold merchandise at full price, as well as the resignation of the company's top three officers last month, and it sure looks like Zale is on the brink.

To raise money, Zale could consider putting up for sale its mall kiosk business, Gordon Jewelers chain or Canadian operations, according to Michael O'Hara, CEO at **Consensus Advisors**. Certain private equity investors and some industry investors have voiced interest in investing in Zales, he said. Zale's 683 kiosks, which operate primarily under the name Piercing Pagoda and target younger consumers with entry-level prices, posted an operating income of \$2.5 million for fiscal year 2009, the only place where Zale was net positive besides its small insurance business.

The company has a roughly \$250 million business in Canada, and in 2009 its stores there -- Peoples Jewellers and Mappins Jewellers -- boasted 2007- and 2006-level sales. In 2008 revenue was even higher, at \$322 million, because inventory that wasn't being moved in the U.S. was shipped to the Canadian stores.

Zale also has a savvy investor in former SEC chairman Richard Breeden, who sits on the company's board and whose **Breeden Capital Management** owns nearly 30% of Zale's stock.

In the event of a bankruptcy, Zale's intellectual property, which could include trademarks, customer lists and transaction history, may also generate interest, particularly from foreign buyers, according to **Streambank LLC** IP specialist Gabe Freid. Last year, online retailer Bidz.com bought Whitehall Jewelers Holdings Inc.'s IP for roughly \$100,000 shortly after the company declared bankruptcy, according to a Deal report.

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