

The agony of defeat

Bankruptcy can put your company back together, if you manage it right

By Louise Daly
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As a director of the now-defunct Archibald Candy Corp., Shepherd G. Pryor IV watched the Chicago confectionery giant limp from one bankruptcy filing to another.

When Mr. Pryor joined the board in November 2002, Archibald, then-owner of Fannie May candies, was emerging from its first trip through Chapter 11. In January 2004, the company filed for bankruptcy protection again, reporting debts of more than \$100 million.

By the end of last year, it had shut down its West Loop factory and closed the 228 Fannie May and Fanny Farmer stores, selling the two brands to Utah-based Alpine Confections Inc. for \$38.9 million. Alpine has since reopened 47 Fannie May stores, but Archibald sold its former Chicago plant to a developer.

In hindsight, Mr. Pryor says, it didn't have to turn out so bad. The first filing could have been averted if Archibald had been able to convert debt into equity for its creditors. Once the company was in bankruptcy, management should have been more aggressive about ditching liabilities.

"They could have used the court proceedings to reject some of the (retail) leases that were unprofitable," Mr. Pryor says. "It would have relieved the company of an additional burden."

Bankruptcy restructuring is designed to allow business owners to get a grip on their debts and emerge with a chance to succeed. And while admitting defeat is never easy, there are a few things you can do to make your first trip into Chapter 11 the last:

► **Face the music.**

Insolvency experts say the toughest part of their job can be convincing the owner of a crippled business that

the company is no longer viable and must be restructured. Like a gambler on a bad streak, the bankrupt business owner clings to foolish optimism that they can turn everything around with just a little more time from her creditors.

"A lot of people won't accept the obvious," says Dan Dooley, a senior principal in the Chicago office of turnaround consulting firm Morris Anderson & Associates. "You have to get people to accept their fate and move them through the psychological circle, beyond the denial and bargaining."

▶ **File voluntarily.**

Many companies postpone a bankruptcy filing until they run out of options or their creditors drive them to it. Filing early gives you more options and a greater chance of salvaging the business.

▶ **Bring in the experts.**

You may be reluctant to call in a group of \$500-an-hour lawyers and consultants when the company is bleeding cash, but it can lead to faster resolution of the problem.

"There's often resistance to pay for professional help, but most owners and managers won't have a clue how to operate a distressed business," Mr. Dooley says.

▶ **Take action. Now.**

The first order of business is to start working toward the endgame, whether it's terminating product lines, closing stores or preparing the business for sale. Further stalling will just make it more expensive: a trip through bankruptcy can cost a company hundreds of thousands, possibly millions, of dollars in professional consulting fees.

▶ **Make a plan.**

Central to any restructuring is drafting a viable business plan — one that addresses your company's structural problems, not just balance sheet issues. In most cases, this will be a major test of the owners' credibility with their vendors, lenders, clients and employees.

▶ **Broadcast your progress.**

Those you do business with have probably lost confidence in your company, so it's imperative not only to sell them on the new plan, but also to keep them updated on your progress.

"The customers, employees and vendors have to have some sense of the endgame," Mr. Dooley says. "If

they don't understand where you are going, it's hard to keep them on board."

Mr. Dooley recommends sending monthly progress reports to those with a stake in the business.

▶ **Don't come out till you're ready.**

Make sure your company is on firm financial footing before giving up the protection of bankruptcy court.

There's nothing to be gained from emerging prematurely.

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