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Rizzo's Take: Shiekh Shoes Steps Toward Next Chapter

Unlike some retailing peers, footwear company avoids liquidation as reorganization becomes effective

By

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Shiekh Shoes LLC's reorganization plan has become effective, and the retailer can add its name to the list of those that were able to survive a bankruptcy process without a liquidation.

Shiekh joins fellow footwear retailers such as The Walking Co. and Payless ShoeSource Inc. that closed a portion of stores under bankruptcy protection but continue to live on.

For Shiekh, the key problems weren't much different than those of its competitors that sought chapter 11 protection. Unsurprisingly, lack of liquidity and overexpansion were at the top of the list. The difference is that Shiekh faced those issues early on.

"The big thing was identifying the issues early on that helped us achieve the goal of a restructuring," Asa Hami, an attorney from SulmeyerKupetz representing Shiekh, told WSJ Pro Bankruptcy.

The company owed its secured lenders, including Comvest Capital, roughly $7 million on a senior secured loan, which it was able to repay once it found $16 million in bankruptcy financing, Mr. Hami said.

The Ontario, Calif.-based retailer sought bankruptcy protection in November after it was unable to find a loan that would have prevented the filing. While Shiekh explored a sale process initially, it was formulating a reorganization plan as a Plan B, Mr. Hami said.

With the financing issue out of the way, Shiekh then focused on decreasing the number of its stores. The retailer formulated a reorganization plan that called for stores to be closed in waves.

The company will close 24 of its 76 stores in December 2018, one store in June 2019, and seven stores in December 2019. This will bring the official store count to 44 by the beginning of 2020, court papers show.

The company's lawyers and advisers focused on lease negotiations throughout much of the process. The beleaguered retail environment, precipitated by the consumer shift to online shopping and decreasing foot traffic at malls, actually played a role in the success of Shiekh's plan, Mr. Hami said.

That's because, with more and more stores permanently closing, mall landlords were more willing to renegotiate the terms of Shiekh's leases, Mr. Hami said.

By contrast, last week, the more-than-700 remaining Toys "R" Us Inc. stores in the U.S. saw their final day. And Midwest retailer Bon-Ton Stores Inc. has been in the midst of liquidating more than 250 stores after an unsuccessful sale process while under bankruptcy protection.

There were about 9,000 retail store closures in 2017 and that number is expected to increase this year, according to a recent report from consulting firm BDO USA LLP.

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