

Creative tactics help restructure Sir Walter Raleigh restaurant chain

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Bankruptcy.

It may sound like a dirty word, but for those businesses that can reorganize successfully, bankruptcy can mean rebirth.

That's what happened to Sir Walter Raleigh Inn, a Maryland-based chain of casual restaurants specializing in steak dinners and bountiful salad bars, when it entered Chapter 11 bankruptcy in 1995.



Expanding too fast, the Sir Walter Raleigh restaurant chain became mired in debt.

Fifteen years later, a topsy-turvy economy has Chapter 11 filings on the rise, but Sir Walter Raleigh Inn has a renewed and streamlined business. While the company's method of working off its debt remains anything but conventional, the positive outcome is undeniable.

Sir Walter Raleigh Inn owed nearly \$1.2 million to creditors, vendors and landlords based on the reorganization plan approved by a committee of creditors and the U.S. Bankruptcy Court, but the cash flow wasn't enough to cover the payments.

"I kept thinking, well, we don't have the money to pay the unsecured creditors, but we do have the power of money," said Jerry Cosker, the current owner and one of four partners at the time of the bankruptcy.

Using his background as a math teacher, Cosker began approaching the vendors who were owed the most money, to see if he could get them to waive debts with the promise of future business.

His first stop, U.S. Foodservice, which was owed \$60,000, was a bust. Cosker said the comptroller would not let him speak with the head of the company.

Undeterred, Cosker went to Brian Willard, president of Metropolitan Meat, Seafood & Poultry in Landover, to pitch a different idea.

Sir Walter Raleigh Inn did not owe Willard's company a cent. But Cosker said that if Metropolitan would pay off the money he owed to U.S. Foodservice that year, Sir Walter

Raleigh Inn would give the company business.

“He goes, ‘Let me get this right – you need me to give you \$20,000 to pay off U.S. Foodservice and in return you’re going to give me \$600,000 of COD business?’ And I said, ‘Yeah, that’s pretty much it,’” Cosker said.

“He said, ‘Well, when you do you need the check?’” Cosker recalled.

Willard said he remembers little of the transaction, other than there “was something very different about it.” On the whole, he said, Metropolitan tries to work through financial problems with customers because it likely means future business.

In the case of Sir Walter Raleigh Inn, other businesses followed Metropolitan’s lead, including the Baltimore arm of Sysco, the country’s largest food supplier. Cosker offered Sysco about \$500,000 a year in business to cover the next \$20,000 installment he owed to U.S. Foodservice.

“All the sudden, all these ducks just started falling into place, because people saw a greater value of keeping the Raleigh Inns going than they did seeing it go out of business, and that’s what I was counting on,” Cosker said.

He worked out deals with food distributors Hearn Kirkwood and Kraft Foods. Flatware and glassware provider Adams-Burch agreed to waive the company’s debt.

John Cinotti, a sales representative at Adams-Burch, has worked with the restaurant company since its early days.

“He’s been as loyal as they come and everything he said he’d do with our company he did,” Cinotti said of Cosker. “We’ve sold him big stuff since then. He’s always paid. He’s been a good customer of the company.”

Eventually, the president of U.S. Foodservice came knocking to find out why his company had lost its business with Sir Walter Raleigh Inn. To get its foot back in the door, Cosker said, U.S. Foodservice agreed to waive the last of the debt in exchange for \$150,000 worth of business.

Creative tactics

Chapter 11 bankruptcies allow failing businesses the flexibility to continue to operate while they work on repaying debts as prescribed in court-approved plans. Sir Walter Raleigh Inn’s reorganization should have paid off its debts over a five-year period, but things were not working out as planned.

The restaurants were falling apart and there was no money to replace tattered carpets stained with salad dressing spills or repaint walls discolored by years of smoking in the dining rooms.

Morton Faller, an attorney with Shulman, Rogers, Gandal, Pordy & Ecker P.C. in Potomac who helped Sir Walter Raleigh Inn through bankruptcy, said the way Cosker went about clearing debts was not part of the original reorganization plan, but it did not break any rules.

“How you pay [the debts], the creditors don’t care,” Faller said.

Lawrence D. Coppel, an attorney with the Baltimore firm Gordon, Feinblatt, Rothman, Hoffberger & Hollander LLC, called Cosker’s tactics “creative” and said he had not seen them before.

“My gut tells me that would be a hard sell today because of the economy, because there have been lots of bankruptcies over the years, for lots of reasons,” he said. “I’m not saying it couldn’t happen, but it would be rare.”

Coppel, who chairs his firm’s bankruptcy and reorganization practice group, said the companies covering debts to other businesses would need hefty incentives to make it worthwhile.

John Penn, an attorney with Hayes and Boone LLP, a Texas law firm, and the former president of the American Bankruptcy Institute, said vendors have been cutting deals with clients for years to help keep them afloat.

“Some do it through bankruptcy or some do it outside of bankruptcy because what they want more than anything is future business,” he said. “It does them no good to have a stable of former customers.

“As far as having the vendor paying off the debts, that’s different,” he said. “It’s certainly creative.”

A mountain of debt

Like many other businesses, Sir Walter Raleigh Inn got buried under debt by expanding too fast. The first restaurant opened in 1970 in Bethesda and grew to nine locations in Maryland, Virginia and Washington in the mid-1980s. Cosker started there as a waiter in 1970 while he was in graduate school at Catholic University of America.

Although the strategy was to open one restaurant every two years, the company's comptroller told the owners that they could open up to 15 stores without changing the corporate structure, putting more money in their pockets.

"In 1989, our little company opened three stores in one year in Northern Virginia, to the tune of half a million dollars a store ... that all failed, losing \$100,000 a year for three years," said Cosker, who by that time had become the company's purchasing director. Then two more opened, for a total of 14 restaurants.

By 1992, the company had a \$2.5 million debt structure, and two of its partners wanted out.

The remaining two partners asked Cosker and his college roommate Jack Karwin, the company's general manager, to buy in. Cosker and Karwin would handle restaurant operations, while Carl Sturges and Tom Bradford would handle the real estate, most of which they owned.

But, Cosker said, the debt structure was too top-heavy to pay all of their bills, and instead of paying rent and taxes, the vendors were being paid to keep the restaurants stocked. He urged Sturges and Bradford to sell some profitable restaurants and in 1994, they sold off some locations, including the Ellicott City and Wheaton restaurants, leaving just three.

"But, instead of the money coming back into the company, the money went back to the property owners," Cosker said. "Jack and I were under the impression that they were selling the real estate to support the company. Well, that didn't happen."

Cosker said he and Karwin had tied their livelihoods to the business and could not let it fail. He said he decided bankruptcy could work after reading an article in The Washington Post about the quick Chapter 11 turnaround of Bread & Chocolate, an Alexandria, Va.-based chain of cafes. Morton Faller was their lawyer.

"I read that and I said, 'This is the guy that we need to survive bankruptcy,'" he said.

Despite the \$1.2 million mountain of debt, the company managed to emerge from bankruptcy with a single location today near College Park.

Thanks to Cosker – and \$387,000 in waived debts owed to Sturges and Bradford – the debt became much more bearable.

When it was all over five years later, Sir Walter Raleigh Inn paid about \$425,000 of debt, plus lawyer's fees of more than \$50,000.

"From a bankruptcy perspective, this is a classic example of where it helped reorganize, create and save a viable business," Faller said. "The restaurants that existed were viable, the skeletons in the closet, as you might call them, were enormous, and the viable business couldn't support the skeletons in the closet."