NATIONAL Jeweler network

Judge OKs Friedman's employee-retention plan

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By Teresa Novellino

Wilmington, Del.—A bankruptcy judge has approved an employee-retention plan that authorizes payments for Friedman's and Crescent Jewelers employees and management, easing the way for the bankrupt jewelry chains to shutter stores nationwide over the next several months and pay their creditors.

"The debtors are authorized and directed to make the payments authorized under the Employee Retention Plan and the Incentive Plan (collectively, the "Employee Plans") in accordance with the terms of the Employee Plans," U.S. Bankruptcy Judge Christopher Sontchi said in an order issued on June 25, according to court papers filed at the federal bankruptcy court in Wilmington, Del.

A previous motion to have an employee-retention plan approved was denied, leading to low employee morale and placing the success of the going-out-of-business sales in jeopardy, according to Lee E. Buchwald, president of Buchwald Capital Advisors LLC in New York, the newly appointed sole director of Friedman's and Crescent Jewelers. After he was appointed on May 21, Buchwald said he was able to work with new counsel, Nick Kajon of Stevens and Lee, to redesign the plan so that it would meet court approval.

The judge approved payments of $265,549 for 22 "retention participants" or staffers working in key areas such as information systems, accounting, store operations and loss prevention. The team will assist in store closing sales over the next one to four months. The lead distribution-center management and one merchandise planner, for instance, will handle inventory allocation to the stores and coordinate the recall and return of vendor consigned goods, court papers said.

In addition, 16 staffers will be retained for the store closings and post-closing period of five to seven months, and will be paid from a court-approved allotment of $357,634. That team will be responsible for final closure, consolidation, transfer of accounting records and the sale of remaining assets, among other responsibilities, court papers said.

Also approved was a management incentive plan specifically for attorney C. Steven Moore, the debtor's chief restructuring officer and general counsel, and Robin Urban, the debtors' vice president controller. Under the plan, incentive payments for the two executives are based on the chain's net cash balance as of Aug. 29, 2008, court papers said. If it's below $11 million, the two executives will earn no incentives, but they will receive an additional one month's salary for each $1 million of additional net cash balance over $11 million, up to one year's base salary. Under the plan, Moore's base salary is $360,500.14 and Urban's is $169,999.96.

Buchwald said he has also worked with Stevens and Lee and management on a number of issues they believe will boost the recovery potential for Friedman's unsecured creditors, including resolving issues with the liquidators, overseeing the going-out-of-business sales, coming up with a plan for residual inventory, rejecting more than 300 leases, implementing a money-saving deal with the landlord for corporate headquarters, hiring a new and more cost-effective claims and noticing agent, negotiating deals with various creditors and selling miscellaneous assets.

Editor's note: For earlier developments in this story, see Whitehall to purchase 78 Friedman's stores.