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FREIDMAN'S INC: Below 30% Recovery Seen for Unsecured Claims

Freidman's Inc. and Crescent Jewelers filed their joint plan of liquidation with the Official Committee of Unsecured Creditors on December 31, 2008.

The Plan contemplates that the Effective Date will occur on or before March 31, 2009. The hearing on approval of the adequacy of the disclosure statement is scheduled for February 3, 2009, in the United States Bankruptcy Court for the District of Delaware.

The Plan does not provide for substantive consolidation of the Freidman's and Crescent Jewelers estates. The Plan provides for the creation of separate liquidating trusts for Freidman's and Crescent Jewelers. The trusts will liquidate and distribute each of the Debtors' assets. The trusts will also investigate and, if possible, prosecute certain causes of action.

The Plan also incorporates the resolution of intercompany claims between Friedman's and Crescent. The Plan Settlement provides for the allowance of the Intercompany Claim of Friedman's against Crescent for \$31,509,81611 and the payment of that Intercompany Claim as a Class 4 Claim against Crescent and Friedman's receipt of its dividend under Crescent's Plan.

The \$31,509,816 Intercompany Claim is comprised of these three component claims of Friedman's against Crescent:

- (1) Friedman's claim for \$26,000,735 against Crescent as of the Petition Date representing net inventory purchased by and paid for by Friedman's but transferred to and sold by Crescent, the proceeds of which Crescent retained;
- (2) Friedman's claim for \$3,893,173 against Crescent as of the Petition Date representing the net memo (consigned) inventory consigned to and, to the extent paid for, paid for by Friedman's but transferred to and, to the extent sold, sold by Crescent, the proceeds of which Crescent retained -- the claim represents gross memo inventory of \$11,862,649 for which Friedman's was liable and unsold memo inventory of \$7,969,476 returned to the consignor; and
- (3) Friedman's claim for \$1,615,908 against Crescent as of the Petition Date representing the net portion of operating expenses incurred for Crescent's benefit for which Friedman's was liable which were contemporaneously allocated to but not paid for by Crescent, including a monthly management fee of \$416,666.67.

The Plan Settlement also establishes a formula for allocating

indirect operating expenses of the Plan Trusts. The Plan Settlement provides that post-petition overhead and Professional Fee Claims be allocated 83% to Friedman's and 17% to Crescent. Since all post-petition overhead and Professional Fee Claims have been incurred expressly in Friedman's name, adjustment for the Stipulated Expense Allocation requires that on the Plan Effective Date, Crescent will pay Friedman's an amount equal to 17% of the post-petition overhead and Professional Fee Claims paid by Friedman's on behalf of both Debtors from the time of Crescent's Petition Date until the Effective Date.

Friedman Waives Claim on Equity Note

Another component of the Plan Settlement is the recharacterization of an Equity Note, dated as of October 28, 2006, with Crescent as payor and Friedman's as payee, for \$7.6 million principal at 8% interest per annum, memorializing a Loan Agreement, dated as of October 28, 2006, with Crescent as borrower and Friedman's as lender. Pursuant to the loan, Friedman's lent Crescent \$7.6 million at 8% interest per annum on an unsecured but not subordinated -- except as to secured debt -- basis. The effect of this recharacterization is that the Equity Note will not be added to the Intercompany Claim and therefore Friedman's will not receive its pro rata share of the Trust Assets allocable to Crescent along with holders of Class 3 Claims; rather, Friedman's will neither receive nor retain any property under Crescent's Plan on account of the Equity Note. The Equity Note will be recharacterized as equity, treated as a Class 5 Interest, and discharged and canceled upon the Effective Date.

Recovery of Unsecured Claims

The Plan estimates a distribution of roughly 29.5% to unsecured creditors of Friedman's in Class 3 and roughly 21.5% to unsecured creditors of Crescent in Class 4. The Debtors estimate that the amount of Allowed Unsecured Claims asserted against Friedman's will be roughly \$67,499,126 and the Allowed Unsecured Claims asserted against Crescent, including Friedman's Intercompany Claim, will be roughly \$39,371,435.

General unsecured creditors in Classes 3 and 4 are impaired and may vote on the Plan.

All Interests will be discharged, canceled, and terminated on the Effective Date. Moreover, the Plan provides that no distribution of money or property will be made on account of the secured and unsecured claims that Harbinger assigned to the Debtors under a Global Settlement, including the Claims that Masterpiece Diamonds LLC and Masterpiece Color LLC had previously assigned to Harbinger.

Claims classified under the confirmed plans of reorganization in Friedman's first bankruptcy case, commenced January 14, 2004 in Savannah, Georgia, and Crescent's first bankruptcy case, commenced August 11, 2004, in Oakland, California, are not Claims against the present Estates, are not classified under the Plan, and

holders of those Claims receive nothing under the Plan.

The major liquid or liquefiable assets to be contributed to the Plan Trusts include:

- Cause of action against Sam Cusano for avoidance of preferential transfer. Preliminary review indicates that the former Friedman's CEO received \$1.95 million in severance pay after termination, in four installments, all within one year preceding the Petition Date. As an insider, Section 547 of the Code provides that Mr. Cusano may be liable on transfers made on account of an antecedent debt within one year of the entry of an order for relief if the Debtor was then insolvent. The Plan Proponents expect that Mr. Cusano will deny liability;
- Recharacterization as equity of roughly \$7.96 million of unsecured Claims filed against Friedman's by Goldman Sachs and other shareholders. Goldman Sachs and other shareholders, including Harbinger, lent Friedman's funds with which to acquire Crescent in 2006. One component of the global settlement with Harbinger included a release to Harbinger of all claims relating to Harbinger's loan. The remaining shareholders who have not received releases have asserted unsecured claims of approximately \$7.96 million against Friedman's. The Plan Proponents are investigating the potential to move to recharacterize their debt as equity; and
- Other Causes of Action, consisting primarily of potential preference claims against a variety of transferees. ASK Financial, special counsel retained by the Debtors to pursue preferential transfer actions, has undertaken its preliminary analysis of potential preferential transfer actions and likely defenses, and has begun pre-litigation communications with recipients of significant preferential transfers. ASK Financial estimates gross recoveries (without deduction for fees and expenses) in favor of the Friedman's Plan Trust in the range of \$3 to \$5 million. Increasing the Trust Assets of the Friedman's Plan Trust by the \$3 million to \$5 million projected recovery would increase the likely distribution to holders of Class 3 Claims by between 4.4% and 7.3%, from a total projected recovery of 29.5% to between 33.9% and 36.8%. ASK Financial is unable at this stage of investigation to estimate recoveries in favor of the Crescent Plan Trust. Additional Causes of Action include, without limitation, claims against many state taxing authorities for sales tax refunds arising from bad debt.
- Remaining Cash -- all Cash held by or for the benefit of the Estates upon entry of the Confirmation Order.

Lee E. Buchwald, President of Buchwald Capital Advisors LLC and the sole Director of the Debtors, attributed the significant recoveries to a number of factors including the efforts of Moses &

Singer, counsel to the Committee, in negotiating a global settlement with Harbinger -- the Debtors' private equity sponsor - - under which, among other things, Harbinger gave up its \$10 million second lien loan and yielded control of the Debtors to Mr. Buchwald in May 2008; the successful liquidation of assets under the supervision of Mr. Buchwald, Steve Moore (the Debtors' then CRO) and a dedicated management team; and the efforts of Stevens & Lee, new Debtors' counsel brought in by Mr. Buchwald, who were instrumental in guiding the Debtors during the critical phases of the asset disposition process.

Exclusivity Period Moved Until March 1

By Order dated December 3, 2008, the Court further extended (i) the Debtors' and the Committee's exclusive filing period through and including December 31, 2008, and (ii) the exclusive solicitation period through March 1, 2009.

The Debtors originally asked for an extension of the plan filing period to Feb. 23, 2009, and the solicitation filing period to April 23, 2009. However, the Debtors agreed with the U.S. Trustee to limit the extension to Feb. 15, 2008, and Feb. 16, 2009, without prejudice to their rights to seek further extensions. In seeking another extension of the Exclusive Periods, the Debtors told the Court that because discussions about various plan alternatives involving third parties failed to bear fruit, the Debtors and the Committee have determined that it was best to move forward with a liquidating plan.

About Friedman's Inc.

Addison, Texas-based Friedman's Inc. -- <http://www.friedmans.com/> -- and -- <http://www.crescentonline.com/> -- prior to the filing of their bankruptcy cases, comprised a leading specialty jewelry retail company.

On Jan. 14, 2005, Friedman's and eight of its affiliates filed for Chapter 11 in the United States Bankruptcy Court for the Southern District of Georgia, Case No. 05-40129. On Nov. 23, 2005, the Court confirmed the Debtors' Amended Plan and that Plan became effective on Dec. 9, 2005.

Crescent Jewelers, the largest jewelry retailer on the West Coast, filed for Chapter 11 protection on Aug. 12, 2004 (Bankr. N.D. Calif. Case No. 04-44416). On July 13, 2006, the California Bankruptcy Court confirmed Crescent Jewelers' Second Amended Plan of Reorganization.

On July 28, 2006, Friedman's acquired Crescent's equity in Crescent's own chapter 11 bankruptcy case in California. Crescent became a wholly owned subsidiary of Friedman's.

On Jan. 22, 2008, five parties declaring claims aggregating \$9,081,199, filed an involuntary Chapter 7 petition against Friedman's. The petitioners were Rosy Blue, Inc.; Rosy Blue Jewelry Inc.; Jay Gems, Inc., dba Jewelmark; Simply Diamonds Inc.;

and Paul Winston-Eurostar LLC.

As of commencement of these cases, Friedman's operated 388 stores in 20 states with over 2,890 employees while Crescent Jewelers operated 85 stores in 3 states with over 600 employees. Friedman's and Crescent Jewelers filed for chapter 11 protection on Jan. 28, 2008 (Bankr. D. Del. Case Nos. 08-10161 and 08-10179).

The Debtors were originally represented by Athanasios E. Agelakopoulos, Esq., and Paul M. Rosenblatt, Esq., at Kilpatrick Stockton LLP; Chun I. Jang, Esq., Jason M. Madron, Esq., Mark D. Collins, Esq., and Michael Joseph Merchant, Esq., at Richards, Layton & Finger, P.A. On June 2, 2008, the Court entered orders allowing Kilpatrick Stockton LLP and Richards, Layton & Finger, P.A. to withdraw as bankruptcy counsel to the Debtors, and the Court subsequently authorized the Debtors to retain Stevens & Lee, P.C. as general bankruptcy counsel.

David M. Green, Esq., Jocelyn Keynes, Esq., and Nicholas F. Kajon, Esq., at Stevens & Lee, P.C., in New York; and John D. Demmy, Esq., at Stevens & Lee, P.C., in Wilmington, Delaware, serve as counsel to the Debtors. The Debtors' professionals also include Rothschild, Inc. as investment banker and financial advisor; Retail Consulting Services, Inc. as real estate and lease consultants; ASK Financial as special counsel to review, analyze, and prosecute preference claims; Grant Thornton LLP as Tax Advisors; and KZC Services, LLC's Salvatore LoBiondo, Jr. as Chief Restructuring Officer, and Charles Carnaval as Director of Restructuring.

The Official Committee of Unsecured Creditors appointed in the Debtors' cases is represented by Christopher J. Caruso, Esq., Alan Kolod, Esq., Lawrence L. Ginsburg, Esq., at Moses & Singer LLP in New York; and Charlene D. Davis, Esq., at Bayard, P.A., in Wilmington, Delaware. The Committee also retained Consensus Advisors as its financial advisors.

On April 10, 2008, the Court approved the sale to Whitehall Jewelers, Inc., and a joint venture led by Great American Group LLC to sell to Whitehall the inventory and related property at 78 of the Debtors' stores, and to assume and assign to Whitehall the leases with respect to those 78 stores. On June 30, 2008, the liquidation of the balance of the Debtors' assets through store closing sales were concluded.

As of Dec. 28, 2007, the Debtors listed total assets of \$245,787,000 and total liabilities of \$171,877,000.