

## BANKRUPTCY

# Credit crunch complications

Expert: Firms struggle to obtain loans vital to survival

BY DAN PROCHILO  
OF THE MONTCLAIR TIMES

To many people, a bankruptcy filing is synonymous with a business closing its doors and sending out pink slips in bulk.

That's not how Kate Logan views it.

Logan, 49, president and chief executive officer of the Montclair-based bankruptcy administration firm Logan & Company Inc., said the bankruptcy process is designed to give businesses a second chance — an opportunity to restructure, reorganize and bounce back.

"That doesn't come without pain," Logan acknowledged.

And the recession isn't helping. Businesses that have filed for Chapter 11 bankruptcy protection during this economic crisis have been finding it harder to turn a corner and emerge as more efficient, sustainable operations, Logan said.

The problem: Many companies that have filed during the downturn have a limited ability to restructure due to a "short supply of liquidity" resulting from banks' unwillingness to lend, observed Logan, a Montclair resident since 2003.

"You need money to cut the fat, cover administrative expenses," close some outlets and spruce up others to make a corporation profitable, Logan said. "Usually, you take out a large loan to do that."

But from a bank's perspective, dispensing such a loan is risky, and if a bank has already stuck its neck out by lending to other bankrupt corporations, it might be hesitant, Logan noted. These days, there are plenty of companies vying for such loans.

The lack of credit can prove fatal. If firms are unable to get the capital they need to restructure and "fix the issues" that landed them in bankruptcy to begin with, then they often need to sell their leftover inventory and simply shut down, Logan said.

Even when companies land hefty loans to refurbish stores and trim operations, "I could have the most beautiful store, state-of-the-art, but if I don't have the foot traffic" since consumers are low on disposable income, then the business could still fail, Logan said.

The recession is providing "that perfect storm," she said.

A grim example is a Tennessee-based clothing retailer whose recent bankruptcy Logan was hired to manage. That company, which she did not name, filed for Chapter 11 in June 2008 and swiftly emerged from bankruptcy last October.

"They did a great job. They had great



STAFF PHOTO BY ADAM ANIK

Kate Logan, president and chief executive officer of Logan & Company Inc., a Montclair firm that helps large companies manage the complex, paperwork-laden bankruptcy process, says the recession has made it harder for corporations to weather bankruptcy and emerge as profitable businesses.

lawyers, got great advice, saved a lot of money on administrative expenses because they got through so quickly," Logan said.

But the company based its sales projections on historical data, and due to the bleak economy, those estimates did not hold up. After Christmas sales turned out "horrible," the company filed for bankruptcy again in January, according to Logan.

The pain caused by a large company shrinking or collapsing ripples out in many directions. One of her large clients, who she did not identify, closed 400 stores, many of which were anchor retailers in strip malls. As a result, traffic to smaller, neighboring shops declined and landlords lost huge rent-payers, while the anchor stores' laid-off employees cut back on their spending. "We're all so connected," observed Logan.

She noticed a marked upswing in bankruptcy filings at the end of 2008, and that was just the beginning.

This year "is huge," Logan said. Worldwide, "there are probably 80 or 90 significant filings, like the GMs and Chryslers.

"The volume of companies filing is so incredibly high in '09," she said.

That's where her company comes in.

Large businesses across the United States retain Logan & Company to handle the crush of paperwork and information archiving that accompanies the bankruptcy process. Her

client list includes such major corporations as Napster and U.S. Airways Group Inc., both of which filed in 2002. Such big businesses hire Logan's firm before filing, and she and her staff gather "all their data" into one system.

That can sometimes be an enormous deluge of data. A large company with many employees and suppliers can have thousands, or even millions, of creditors who the bankrupt entity is obligated to regularly update on its bankruptcy proceedings.

For instance, when Logan & Company was retained by Montgomery Ward, which filed for bankruptcy in 2000, Logan kept tabs on the names and addresses of the retail giant's 1.3 million creditors.

For nearly any move a bankrupt company makes, it must file a legal motion, and its scores of affected creditors then need to be sent a notification and given an opportunity to voice concerns in court.

"My expertise is managing their data," said Logan. The massive quantities of information her company collects are warehoused on 10 computer servers in a back room at her office in the Upper Montclair Business District.

When Logan founded her company in July 1990 in Hoboken, it consisted of her and one other employee. The business moved to Montclair in 1999, and today it has about 35 full-timers working out of the Montclair headquarters and a Seneca Falls, N.Y., satellite office.