

# ***BANKRUPTCY PROFESSIONAL:***

## **SPOTLIGHT**



**Paul M. Buxbaum**  
*Chairman & C.E.O.*  
**Buxbaum Group**

Founded by David Buxbaum more than 30 years ago, Buxbaum Group has established itself as a leading North American liquidator and appraiser of retail and wholesale consumer products inventories. Using the knowledge gained from its long-time service niches in asset-recovery and appraisals, Buxbaum Group has also emerged as a prominent distressed-debt advisory firm, offering its expertise with turnarounds, expansion and/or downsizing strategies. Additionally, two affiliate companies offer highly specialized services to the jewelry and apparel industries:

- **Buxbaum Jewelry Advisors** provides a wide range of services for profitable and financially distressed jewelry retailers and wholesalers, including liquidation, inventory augmentation and special promotional sales, as well as guidance on all aspects of merchandising, operations and finance.
- **Buxtradefina** offers financial and marketing services to apparel manufacturers, including the affiliate-owned company Rio Garment S. de R. L., a Honduran knit-top manufacturer for which Buxtradefina provides advisory and accounting services as well as sales support.

In working with companies facing financial difficulty, Buxbaum Group offers a full range of strategic consulting services, including turnaround management consulting, creditor and debtor financial advisory services, finance sourcing, operational, financial asset assessments, valuations, liquidation planning and implementation. To help companies manage a crisis, its distressed-debt advisory team thoroughly analyzes the situation to develop alternative turnaround strategies, including downsizing, reorganization, divestiture and operational or financial restructuring.

Paul M. Buxbaum, Chairman and C.E.O. of Buxbaum Group, has been a Partner with the firm and its successor companies for more than 30 years. His corporate bio states, "Through his family and successor companies, Buxbaum is a veteran of the insolvency industry and literally grew up in the liquidation business." As a turnaround expert, Buxbaum's current assignments include his appointment in March 2009 as C.E.O. of Haggag Clothing Co.

As a nationally recognized authority on corporate turnarounds, asset-based lending, retailing, consumer-products manufacturing and bankruptcy, Buxbaum has served on numerous industry panels and is frequently quoted in the media. We spoke with him about the "art of the process," running a business with your name on the door and lessons learned from corporate boards.

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BP: How did you originally become involved in this industry?

PB: My father started by doing liquidations in what was then a small, carriage trade industry. At that time, there were only a select few people in the liquidation business. It was anything but the technical, data-driven industry we see today. Back then, you'd make a bid, buy all of the inventory in the stores, pack it up and take it out.

My father's idea was: why couldn't we run an on-site liquidation sale with the inventory in place and capitalize on the retailer's or wholesaler's goodwill in the marketplace—meaning the company's name on the door? That way, we could leverage advertising to everyone's advantage.

That's really how it came about. I got an opportunity, at 22 years old, to go on the road for my father, and it never stopped. I worked all facets of the liquidation business:

running stores, negotiating contracts, financing the deals...I've been in the business for more than 30 years now and have negotiated hundreds of deals and contracts.

BP: What changes have you seen over the past several decades?

PB: For sure, technology. From its beginnings as a carriage trade, the liquidation industry has gradually grown to be more sophisticated and complex. Back in the '70s, technology played a minimal role in liquidations. Over time, though, we saw the advent of fax machines, word processors and, finally, computers and generations of software advances such as Excel. This data-rich environment meant that we had to become more technologically savvy to stay competitive, and we did precisely that. There was also growth: Having started with three original liquidation companies, by the economic boom of the 2000 era, the industry had grown to a total of six liquidators. Some of these companies, which began beefing up their organizations and marketing very heavily, had actually grown out of the original three firms.

Back in the 1970s and '80s, liquidators were thought of as "the men in black hats." People sometimes made it hard for us because they took the view that we were putting them out of work. My father would always say, "If we don't do it, someone else will. You're here to do a job and do it right; your name is on the door." And that's what we did.

One key change that contributed to the growth of our industry was the rapid emergence of junk bonds during the '80s. Financing was easy and many companies were over-leveraged. They went from being run by merchants who had vision and creative dreams to executives who got excited whenever their spread sheets tallied correctly.

Numbers are important, yes, but they only tell part of the story. Business is like a road: There are always potholes. You don't know until you drive down that road where the potholes could be. I learned that the road is never smooth, and you always have to be prepared for rough spots.

All these years of watching these transactions made us better able to plan for the future. We responded to the changing needs of the market by evolving our business and broadening our abilities. For example, we became adept at helping private equity firms make educated bets. Financial experts can look at a company's balance sheet and accounting, but they can't tell you what the true values are, as they don't fully comprehend the potential of off-balance-sheet items. We help people understand that merchandising is both an art and a science.

BP: You joined Buxbaum & Associates back in 1977, left the firm in 1980 and returned in 1983. What did you do during your hiatus from Buxbaum, and what prompted you to return?

PB: I was presented with an opportunity. Having liquidated so many companies and gained exposure to so many different types of assets, I felt I had a strong grasp of the retailing business and the many factors that can drive the success or failure of a company. Certainly, I knew what mistakes to avoid. I decided to leverage this experience to build my own retail business and, in 1978, started Clothing Clearance Centers, a discount men's clothing business in downtown L.A. The idea was to open a high-volume discount operation that bought brand-name products but did not advertise the brands. It became quite successful despite some very difficult economic times. Unfortunately, during our biggest sale, our store was hit in the middle of the night by burglars who literally drove a truck through the back wall of the building. They stole all of the altered garments—the entire alteration department, which was loaded from what had been our biggest sale to date—and took half the store's inventory. This created a huge challenge. The insurance company was moving so slowly that we were forced to go find and borrow money to restock the store—at a time when interest rates were pushing 17 percent. We were able to raise the needed funds, bring in inventory and pay or replace the suits for all of our alteration customers. Talk about a pothole. But we managed it. We got the store going again in less than 30 days. Ultimately, we grew the chain to eight locations before selling it in 1983 to what was then Anders Clothing, a national chain.

That's when I went back into business with my father. We evaluated the liquidation market at that time and realized that there was a simple reason so many companies couldn't be saved: when they ran into trouble, they waited too long to ask for help.

Instead of seeing the handwriting on the wall and seeking some expert help, they would stay quiet, sit at their desks and sweat. Their inventory levels would slowly deplete, leading to an inability to maintain cash flow and keep the business afloat. Bankruptcy was the inevitable result.

In this era, the 1980s and early '90s, we saw an opportunity to bring in extra inventory, which would enhance the return and allow creditors to get some extra value from the sale. In our liquidation contracts, we began making provisions for court-approved inventory augmentations. This was a new twist—one that our competitors quickly copied—that made us highly successful.

BP: You have been the sole owner and C.E.O. of Buxbaum since 1997. What changes have you implemented since then, and what are the advantages and/or disadvantages of full ownership?

PB: Prior to this, our company had always been focused on liquidating, evaluating and appraising consumer-product assets for banks and other institutions. We knew there were other opportunities. We decided to use our expertise to create value by advising companies and putting together investments to take ownership interests. This was the beginning of a new chapter for the company. We discovered other opportunities as well, such as helping banks and other companies find alternative solutions to their financial problems, outside of bankruptcy. It was all about using our expertise to create value for our clients.

In '92, I was asked by the problem-loan department at CitiBank to take a look at Ames Department Stores, and I served as chairman of that chain from 1992 until '98. Being on the board was a rewarding experience that gave me additional insight. I truly enjoyed the challenge, and it made me want to get more involved in the day-to-day operations of troubled companies. From time to time, this involvement included acquiring a stake in these companies. In the late '90s, we were pretty busy assisting banks in all kinds of workouts. We were still doing liquidations, but this area became very interesting to us. We decided to make some investments and help restructure certain companies.

BP: How competitive are client solicitation and pricing in your industry, and what differentiates Buxbaum Group from its competitors?

PB: Competition has become fierce and technology is playing an ever-more-predominant role. That can mean that, sometimes, the science and math of an individual transaction eclipse the art of the deal. I'm certainly interested in all aspects of the business, but it's the art, in particular, that most excites me.

BP: How does Buxbaum Group secure new clients?

PB: The lenders are on the front lines and tend to be the first to contact us, but we also are finding increasing opportunities with professional advisory, accounting and legal firms, all of which approach us on a regular basis. Meanwhile, over the past ten years, hedge funds have been taking bigger bets and becoming high-yield, high-risk lenders. Their lending sometimes puts them into the equity area, and so we have been working with many more of these clients as well. They need outside expertise.

We understand downside risks and can be a better barometer for them. Just looking at the data doesn't show the potential potholes. We help. We try to help them understand risk.

In addition, with the rise of the Internet and the proliferation of fast-paced, industry-specific news, it makes it easier to be a nationally-recognized firm, and that has certainly led to a lot of new opportunities for us.

BP: When and why did you launch Buxbaum Group Turnaround Management?

PB: We had been doing turnaround-management work for quite some time, but weren't publicly touting that part of our business because, frankly, people just weren't ready for it. We officially launched the business in '98 and, around 2000, began making more investments in troubled companies.

BP: What do you see in the turnaround industry's future?

PB: Liquidations will always be there. With all the consolidation, technology shifts, globalization and other challenges out there, companies have to be pretty sharp to stay competitive. Businesses will always have unprofitable locations or stores they need to move. Companies hold a grand opening and, ten years later, the surrounding area has completely changed. A lot of these retailers will hire us to run professional sales while they concentrate on the business going forward. We've done this for profitable companies, closing or relocating stores in connection with their overall growth strategy and will continue to do so.

When will the next wave break? That's what we all look for; that's when liquidations will become a more lucrative business again. Over the last several years, there have been very few liquidations. The business has been quieter since 2007.

BP: What are some of your current or recent engagements?

PB: I've been working with Haggard Clothing Co. as the C.E.O. since 2009. It's a great, iconic brand that's been around for over 84 years. We and the company's shareholders are very pleased with the turnaround. We have done the job and now have a strong platform. In fact, we are now looking for new, complementary opportunities.

In another recent success, in late 2006 we took over an apparel manufacturing company in Honduras. Since then, we have grown the company's business four-fold, supply-

ing one of the top retailers in America with approximately half of its screen-printed t-shirts. We direct the manufacturing operations in Honduras and manage the sales support, customer service, billing and collections operations in the U.S.

BP: What unique challenges do you face running a turnaround in the current environment?

PB: We focus on companies that deliver a great value to the customer. That is where the market is today. And fortunately, consumers clearly do see real value in the businesses we are now working with. They might be thinking twice about where and how much they spend, but they are still spending.

BP: What other opportunities do you see in Buxbaum's future?

PB: Today, we also have a jewelry-advisory business that my brother, Stevan, runs. The focus is on helping jewelers, whether distressed or profitable, adapt to the changing market and make the most of their operations. We sit down with the owners and managers and study their businesses to give them a fresh and informed perspective. We evaluate their expenses, ramp up their marketing and promotions and bring in stylish, in-demand inventory to help them generate cash. We also perform evaluations geared toward helping them position themselves for the future by getting rid of underperforming stores. This is much more than liquidation. It is about advising clients, augmenting their inventories and providing hands-on management help. Our jewelry division has performed very well over the past two years.

Another arena for us is affordable housing. We've redeveloped a couple of very old historic hotel buildings to create approximately 800 units of what we call, "affordable work-force housing" in the historic downtown corridor of L.A. There simply is not enough rapid transit in Los Angeles, and housing continues to be very costly. These developments create a place for people to live and work for anywhere between \$350 to \$800 per month, including utilities. We're always looking at giving back to the community and are very pleased to be a part of the resurgence of downtown Los Angeles.

BP: In February 2010, CRG Partners' William Snyder told Bankruptcy Professional, "I don't have a lot of friends in my former clients because, in a turnaround, you're not allowed to have friends. Once you become familiar, you can't be objective. It's a lonely world." Has this been your experience?

PB: Our focus is on the positive. We try to make the best of difficult situations and, hopefully, restore distressed companies to health. So what we find, actually, is a lot of appreciation and good references from many of our former clients, and I still talk to a lot of people who work at companies we have helped move forward and be successful.

BP: Buxbaum Group's corporate site explains that when financing is needed, "the firm can call on its extensive contacts in the financial community to assist in obtaining additional equity capital with financial restructuring affected by our corporate finance professionals." How would you rate lenders' willingness to finance in this environment?

PB: Financing is a difficult thing today—no question. Banks don't have a good appetite in the middle-market world. That makes it challenging for these businesses to ride through the balance of the storm. The trade-off for some of them is to go to secondary sources, causing them to pay horrendous fees, high interest rates and to offer warrants to entice a lender. Others can turn to sources like hedge funds and distressed private-equity firms. We have access to a variety of financial institutions and groups to try and get the right mix together.

BP: How important are personal relationships in your business?

PB: My father always told me, "You're only as good as the last job you did and never burn a bridge." These are key things you never want to forget. Personal relationships are very important. However, if you don't do your job right the first time, a future opportunity or relationship can be lost forever.

It's difficult when you run a business with your name on the door. You think very carefully about opportunities, and I've turned down a lot of them over the years.

BP: Do you have any children in the business?

PB: My oldest son has been working for me for the past year. He's just out of college and still looking at where he might specialize.

BP: You've served on the boards of several high-profile public and private companies, including Ames Department Stores, where you served as Chair; Global Health Sciences, where you served as C.E.O. and Herbalife International. How does your tenure on corporate boards impact your turnaround approach?

PB: Being on boards was, in the early days, a great learning experience. Being able to view multiple perspectives is incredibly valuable. And that's what serving on boards allowed me to do. It afforded me the ability to sit back, study the situation, listen to and consider other people's approaches. By dropping back, absorbing all of this information and all of the differing perspectives, you are able to see the field more clearly, then develop a better game plan. The experience helps you in many ways later on down the road. Plus, you get to work with a lot of talented and interesting people.

BP: Global Health filed for U.S. Bankruptcy Court protection in 2001, and Ames made two Chapter 11 filings: one in 1990 and a second in 2001. Were you involved with any of these proceedings?

PB: Yes, I was. Global Health was a very successful company that had a few unfortunate problems not of its own making. There was no reason for it to be put in that position. The company needed to develop a game plan for recovery, but the bondholders made a horrible mistake: essentially, they bet wrong and lost. Global Health was sold to Nature's Bounty and ended up being very successful.

With Ames, meanwhile, the problems were all economy-driven. The whole Northeast corridor retail sector was riddled with challenges, as evidenced by the troubles also engulfing three of our major competitors: Caldor, Bradlees and Kmart. The credit organizations were consolidating, and CIT was buying everybody in the factoring world. Every time factors consolidate, there is more pressure on vendors, and vendors can only do so much. Economic conditions at that time put more pressure on the company. The credit market had dried up so you couldn't reorganize it, so the best thing to do was liquidate in an orderly fashion. Ames was the fourth-largest discounter in America at the time.

Some 37,000 jobs were at stake, so we were not going to go down easy. The employees worked hard and did a good job of delivering. There were a lot of negotiations on this case: the board and some great minds worked long hours with a lot of skilled lawyers. Unfortunately, liquidation turned out to be the only viable option.

BP: What other profession(s) would you have pursued if you hadn't chosen your current career path?

PB: Baseball was my first dream. I also periodically think that I should try to qualify for the Senior PGA Tour.

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