

Chetek Gordy's will be bought, expert says

Notices have been sent out to creditors of Gordy's Market, notifying them to stake their claim to money owed by a deadline of Nov. 30.

As the bankruptcy case filed by Nash Finch progresses against Gordy's, no other cases can be made against the Gordy's entities; all claims must go through the Chippewa County case. Gordy's is currently being held in third-party receivership by Milwaukee attorney Michael S. Polsky, of the cooperative law firm Beck, Chaet, Bamberger & Polsky.

In order to pay off bankruptcy fees and pay creditors, a court sale and auction of the stores has been ordered. All 26 Gordy's locations are listed, including the Osseo store previously left out of the Nash Finch case.

Potential buyers who have filed verified purchase agreements of a store (or stores) with down payments by Thursday, Sept. 14, will be considered at a court hearing on Friday, Sept. 15.

Any remaining stores will be sold at court auction on Monday, Sept. 28. All bids and sales are subject to the approval of the secured creditors, Nash Finch and Settlers Bank.

Robert Rough, managing director with Telos Capital Advisors LLC—an investment banking firm in Dallas, Texas, that specializes in restructuring, mergers and acquisitions, explained what is happening with the case and offered analysis on what might happen to the stores.

Rough was chief finan-

cial officer for Arkansas-based Harvest Foods from 1989-1994. That 60-store chain declared bankruptcy in 1997, owing \$85 million in secured debt and around \$35 million to \$40 million in other debts, news reports said at the time.

"Grocery stores have very low margins," Rough noted. "Less than 1 percent."

High, fixed overhead—relative to gross profits—means competition can really hurt as customers drive elsewhere.

"You die the death of a thousand cuts," as competition eats away at business, Rough said. "The thing that gets them back in the black is more sales." Costs, such as labor, have likely been cut as much as they can, he speculated.

"It's quite possible, if they have enough stores that are still in the periphery (without competition), then you can survive," Rough said.

The fact that Nash Finch forwarded millions to Gordy's in the first place was of benefit to the company, Rough said.

"The wholesaler [Nash Finch] advanced them those credits to help finance those acquisitions because it's in their interest," Rough said, and it would keep the distributor competitive. "They were either preserving the revenue stream or getting market share."

The court expected to approve further financing from Nash Finch on Tuesday, Sept. 12, if no other creditors objected. This extra financing is needed to put more stock back on the shelves as the sale moved

forward, Rough explained.

While Nash Finch may claim there are assets of \$3.4 million in the Chetek Gordy's—and hundreds of thousands to several million invested in other locations—Nash Finch will likely prefer to sell the business, rather than liquidate by scrapping it out.

Many store buildings, including Chetek, are not owned by Gordy's but instead leased. According to online records and county property listings, Chetek is owned by Tom and Jane Kurschner, former owners and operators of Kirkwood's IGA. The Barron Gordy's property and building is owned by a company which was acquired by Nash Finch in 1998 and the Rice Lake property is owned by a company connected to Sears and Roebuck.

Without actual real estate, scrapping and liquidating these stores won't be as profitable. Inventory can be sold, but fixtures, like shelves, display cases, registers and deli equipment, sell for pennies on the dollar, Rough explained.

Court records stated each location will be bid or sold whole and not parted out.

"Chetek is probably fine for awhile," Rough said. "I would say it's pretty likely [to have a buyer]. I'm guessing there will be a supermarket there."

Rough said that after his departure from Harvest Foods, the company's stores were sold off in that bankruptcy case. Stores that had little or no competition nearby were successfully sold. Those in larger

cities—with Walmart, Kroger or Aldi as direct competition—did not.

Would one of those companies buy it? Not likely, Rough said. Aldi might, but the Chetek building is too small for Walmart.

"[Chetek] might be sold off to the current store manager, another individual or small chain that sees some value to being out there in the more rural areas," Rough explained. "It is big enough to support a market. There is no reason it couldn't be a nice little profitable business for somebody."

Proceeds from sales or auctions will pay off the debts owed on each property. According to the sale notice, the priority of payment will be personal property taxes, administrative costs (attorney and consultant fees, etc.) and then secured creditors Nash Finch or Settlers Bank, depending on who has the higher priority at each property.

It doesn't mean everyone else will get paid what they are owed. After taxes and the secured creditors are paid, there is usually nothing left for unsecured creditors, like vendors or those who provided services.

"I'm not a bankruptcy attorney, but yeah, that's normally the way it works out," Rough said.

For the rest of the creditors on a 42-page list, even those that stake their claim in the case by the court-appointed Nov. 30 deadline, they will likely not get anything.