strategies of the fittest

Truth Saying in Bankruptcy

With a record 257 public companies worth a combined $256 billion in assets filing for Chapter 11 protection this year, according to research company Bankruptcy Data.com, some advice on how to manage corporate communications during a bankruptcy is in order.

Michael Sitrick, founder and chairman of Sitrick & Co., a Los Angeles crisis management firm, has counseled CEOs in more than 150 bankruptcies since 1989, including Purina Mills' and Burlington Industries'. He's currently helping Dynegy cope with fallout from its failed bid for Enron.

The key, he says, is to convince the world that your business is still viable.

That means you must, among other things, *counter negative press*. For example, news coverage of the 1996 bankrupcty of the tony retailer Barneys was dominated by the Pressman brothers' largest creditor, Isetan Co. of Japan, which sought a takeover. "We approach the media the way a trial lawyer approaches a trial," says Sitrick. "We were able to prove through the financials that the Pressmans had been telling the truth. We presented the evidence to a reporter who [hadn't already covered] the story and who was respected by his peers and [invited him to] write his opinion. His story proved what we had been saying."

You must also quickly *identify and contact customers*, Sitrick advises. During the early days of the record-setting 1982 bankruptcy of Wickes Cos., a national retail chain where Sitrick was senior vice president, the CEO, Sanford Sigoloff, visited all of his vendors. Wickes also gave vendors weekly cash reports so they could see how the company was strengthening. "It was extreme but it got people shipping on terms relatively quickly," says Sitrick. Wickes emerged from Chapter 11 in 1984 capable of repaying all but 35 million of its $1.6 billion in original debt.

Perhaps most important of all, *stick to the truth*, says Sitrick. A few years ago Sitrick was asked to monitor the communications of a troubled jewelry retailer. The company's traditional public relations house had prepared a release that falsely denied imminent store closures. "In a bankruptcy situation, if vendors ship based on [false] communications, they can sue for fraudulent conveyance," says Sitrick, who stopped the release. "You should say: We're trying to restructure; our preference is to do it out of court. We're hopeful we won't have to seek a supervised restructuring, but there are no guarantees."

—*Sonja Sherwood*

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