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E.R. *Good, left, handled finances; Von Lehman, operations*

SMALL BUSINESS

Making the Slipper Fit. How a pair of turnaround specialists got footwear maker R.G. Barry back on its feet

BY FRANCINE RUSSO

THINGS WERE NOT LOOKING GOOD FOR R.G BARRY Corp., and that was before the plant manager was taken hostage. The $125 million company in Pickerington, Ohio, has been making Dearfoams slippers—sold mostly in department stores like J.C. Penney, Sears and Wal-Mart—since 1947. With the son of a founder presiding as chairman for 40 years, the company peaked in the mid-'90s with sales of $150 million and its stock price at $25. By mid-2003, Barry had lost $20 million, sales were plummeting, its stock was at $2.08, and it was in default on a $10 million loan from its longtime lender, Huntington National Bank of Columbus, Ohio. The Dearfoams maker was out of both money and time. The bank ordered, Get a turnaround artist—fast.

"I'm the E.R. doctor," says Meridian Group president Maggie Good, the expert who staged a more daring than anticipated rescue. "When they can't make payroll, I get parachuted in." Good, with a background in restructuring small to midsize companies, founded Meridian in 1988 to do turnaround consulting, investment banking and mergers and acquisitions. Her partner (and husband of 32 years) Tom Von Lehman, a chemist by training, had managed a division at PPG Industries, the big Pittsburgh, Pa., glass and chemical company. He joined her at Meridian in the post-9/11 press of business to provide management expertise. She works with lenders to buy a company time and cash. Then Von Lehman steps in as interim manager. "I move in while the company's still on life support," he says. As an industry, these experts number at least 7,700, according to the membership rolls of the Turnaround Management Association. Top performers can earn $950 an hour, plus stock and other bonuses.

The slipper company hired the team as consultants in January 2004. At that time, the bank wanted two things: another lender and a plan to make Barry profitable within the year. Good and the bankers traveled to Mexico to tour the company's factories and warehouses. They were aghast to see three plants running full throttle in January while the warehouses were bursting with 12 million pairs of slippers. Whoops. Asked to explain, the operations manager declared that inventory was not his responsibility. The bank called in the loan, giving the company five weeks to pay.

Good and Von Lehman now had that much time to come up with a plan to save the company and persuade a lender to advance $1 million a week to keep it afloat. The plan they presented to the board was radical. "We were changing where the product was made, where it was stored and who it was sold to," Von Lehman notes. Among the changes: transfer manufacturing and storage from Mexico to lower-cost China, update marketing, reduce the number of styles and customers, and dump millions of outdated inventory. In addition, the team recommended consolidating company functions in Columbus by replacing the

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—TOM VON LEHMAN, MANAGING DIRECTOR, MERIDIAN GROUP

New York City sales office with a showroom and shuttering the San Antonio operations center. The plan also called for eliminating swaths of management, including 13 of 23 vice presidents. The CEO balked, but the board bucked its leader and asked Von Lehman to become interim CEO.

With Von Lehman installed, the bank agreed to extend the loan to the end of March. That still didn't leave Good much time. "We needed to find a lender with a lot to gain," she explains. "That meant either a

Back on solid footing *The R.G. Barry Corp. has introduced a hipper, new line: Dearfoams NV*

high-risk lender at 16% to 17% or a lender who would get more than interest." By the end of March she had finalized a short-term factoring deal with CIT, agreeing to pay 200 basis points above prime and 0.75% of Barry's receivables.

Von Lehman's next problem was to keep the Mexican plants running through May to produce the goods for Christmas but at the same time plan to shut them down. But workers got suspicious when the company stopped ordering raw materials. They had seen other U.S. companies close overnight without paying the legally mandated severance pay. Two days before the planned but unannounced shutdown, workers at one plant took the American manager hostage, locking her in the lunchroom until they were assured of severance. The next day Von Lehman sent a pile of cash in an armored truck. Amazingly, he notes, the employees showed up for work their last two days.

Barry also had a warehouse it needed to keep operational for two months in order to supply major clients at Christmas. These workers staged a walkout, refusing to ship until the company posted a bond for their severance. "If we didn't supply our core customers that year," Von Lehman says, "we were toast." The company posted the bond with a Mexican lawyer, who scammed half the money. Another truckload of cash had to be sent.

As Von Lehman managed the company through mid-2006, its condition was gradually upgraded. In June 2004 it was kicked off the New York Stock Exchange, but it broke even on an operating basis and began 2005 with zero debt, having paid off the loan from CIT. By December, the company's stock was listed on the American Stock Exchange. Using exclusively Chinese manufacturing, Barry raised profit margins and completed the turnaround without losing core customers—most important, Wal-Mart. In 2005, the company made $8 million. By the time Von Lehman left in May 2006, the stock was trading in the $6.50-$7 range, up from its low of $1.40 in early 2004. In its latest quarter, sales increased 12%, as a revamped line of products has gained momentum. The company has even made an acquisition, buying the NCAA College Clogs business from another shoemaker, Wolverine World Wide Inc. Says Greg Tunney, former chief operating officer and now CEO, whom Von Lehman brought in when he left: "Our performance level has outpaced our fiscal 2007 expectations."

A funny thing happened to Good and Von Lehman: almost nothing. Good has been hired by a midwestern bank to find $40 million "missing" from a $110 million telecommunications company in receivership. But the oceans of capital at private-equity funds mean that companies once left for near dead, like Barry, have more options. In this flush economy, Von Lehman says, "hedge funds just lend these troubled companies money, but they don't fix them. We don't know when that bubble's gonna burst, but they're gonna need us someday." They always do. ■