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The Story Behind the Rare Retailer Standalone Restructuring

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Retailers are collapsing all around us, but the lawyers who helped a small Florida-based shoe chain survive said they relied on a key ingredient: a little civility.

Traffic Shoe filed for bankruptcy on Jan. 4, 2016, with 83 stores in nine states and about 610 workers. It left bankruptcy with 62 stores and about 475 employees under a plan that Judge Robert Mark approved on Dec. 28.

The chain faced the universal problems—online shoppers, a fickle teen customer base, empty malls—and its business model remained pretty much the same during the chapter 11 process. Lawyers who handled the case explained to WSJ Pro Bankruptcy what kept the case from being another liquidation.

The hero in the case, they said, was majority owner David Goodman, who negotiated with landlords to come up with more affordable leasing agreements. The process lasted nine months and took about 1,000 hours of his time, but the savings will save about $7 million in rent a year, according to documents filed in U.S. Bankruptcy Court in Miami.

It helped that Mr. Goodman, who will keep his stake despite the restructuring, went into the negotiations with landlords who knew that brick-and-mortar retail is struggling. Those landlords also knew that creditors would recover more if the chain stayed open.

“I think reasonableness on both sides is what got it done,” said Joshua Dobin, a Meland Russin & Budwick lawyer who represented the retailer in court.

The fear from that market awareness helped lawyer Christopher Jarvinen of Berger Singerman LLP shake the litigation mentality out of creditors who sat on his committee.

Members on the committee were a sophisticated bunch, too, including Simon Property Group and General Growth Properties Inc. But they kept communications with Mr. Dobin's team civil.

Mr. Jarvinen said that creditor committee lawyers often go into a case thinking there's "a pot of gold" to be found such an unscrupulous business deal that would constitute as wrongdoing. After all, a business did end up in bankruptcy.

Mr. Jarvinen encouraged his colleagues to take a less adversarial approach to save creditors money and give a company a greater chance of survival. The mentality, he said, would be vastly different than what he experienced when he worked in the New York market: "In those shops, it was take no prisoners."

Creditor committees that do their homework, of course, can find lawsuits that recover money and boost the amount that is distributed. Was the cordial mentality in Traffic Shoes overlooking due diligence? "I can smell bad things a mile away, and in this case, I didn't smell bad things," Mr. Jarvinen said.

Both sides exchanged information on the outset of the case.

"They asked and the debtor provided," Mr. Dobin said.

Traffic Shoe's first shoe store opened in 1989 in Miami to sell "the hottest in teenage footwear to a fashion forward, budget conscious consumer," court papers said.