**JOCKS AND JILLS: THE CASE OF THE RESTAURANT TURNAROUND**

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**<u>Hospitality Business Case Study in Development</u>**

What have we gotten ourselves into?

It's a Saturday night in late March 2008 and two Michigan State University alums are hanging out at the local sports bar watching a Michigan State basketball game during the NCAA tournament. Phil Hickey and Jeff Trent have known each other since their days of working for Houlihan's restaurant in the 1980's. Phil had recently retired as the Chairman of the Board of Directors and CEO from Rare Hospitality, operators of the Longhorn Steakhouse and Capital Grill restaurants, after the company merged with Darden Restaurants. However, having worked in restaurants for all of his adult life, Phil knew he would be looking for a new challenge.

Jeff Trent had most recently been involved in a local restaurant venture in the Atlanta area and was also looking for new challenges. That night while watching MSU play basketball Craig Sager, the owner and operator of the restaurant they were sitting in came over and asked a simple question, "Would you guys be interested in buying this restaurant"? Now while the offer sounded intriguing to two guys looking for their next challenge the important thing at the moment was the basketball game. Phil told Craig maybe but to call him on Monday morning.

Monday morning and Craig Sager does indeed call Phil Hickey back and the now the offer is in play. Phil starts to hear just how much trouble Jock and Jills is in. The company is under bankruptcy protection and facing liquidation. Phil also finds out there is not much time left to make a decision. The court hearing is scheduled for one week from Monday. Phil and Jeff have one week to decide if they want to take a shot at purchasing the company or passing on the offer. They had one week to do their due diligence and make a decision.

The company was in bankruptcy because of a sexual harassment lawsuit settlement against the company and the former CEO of the company.

Besides Craig Sager there were 67 other owners (investors) of the company. Their compensation for their investment was $200 per month to spend as they wish in any of the company restaurants. These investors would receive no part of the settlement.

So our two entrepreneurs need to make a decision about whether to proceed with the purchase of the company or not. After consulting with their attorneys, real estate experts, bankers, and the bankruptcy court Phil and Jeff determine that the best deal is to negotiate an "assets only" purchase deal. An "assets only" deal means that they will be purchasing all the assets that the current Jock and Jills, Inc. own without assuming any of the liabilities or debts. They determine that a bid of $450,000 would be a fair market price and decide to place a bid of

$400,000 with the bankruptcy court. Phil tells Jeff to put on his best suit and tie because they're going to court Monday morning March 31, 2008.

The three teaching objectives for the case are as follows:

- Acquisition question
  - Purchase the company (assets) or not?
  - What circumstances would you agree to?
  - What would be a deal-breaker?
  - What other alternatives do our buyers have?
  - What should be the company's new organizational structure
- Marketing
  - Website design
  - Branding - Change the name?
  - Limited marketing budget – Biggest bang for the buck
- Financial statements
  - Income statement
  - Cash flows
  - Break even analysis
  - Financial solvency