California Apparel News

National Stores Is Closing Remaining Locations

By Deborah Belgum | Monday, October 15, 2018

After filing for Chapter 11 bankruptcy protection in August, **National Stores** announced it is holding store-closing sales at its remaining 184 locations.

The store-closing sales announced Oct. 15 are being held at the company's **Factory 2-U** and **Fallas** locations around the country and in Puerto Rico.

In a press release, the company said that after "conducting a store rationalization process," these stores will be shut down. The store-closing sales are being conducted by **Hilco Merchant Resources**, **Gordon Brothers** and **SB360 Capital Partners**.

The closures come after the company, based in Gardena, Calif., held store-closing sales at 74 of its stores in August. It was unclear if the shuttered stores would include the company's **Anna's Linens by Fallas**. Calls to attorneys went unanswered.

National Stores, owned primarily by Michael Fallas, who took over the company from his father, Joseph, caters to the Latino market with bargain-basement prices. Its first store opened in downtown Los Angeles at Broadway and Fourth Street in the 1960s.

The retail chain, in its bankruptcy documents filed on Aug. 6 in U.S. Bankruptcy Court in Delaware, said it had $111.4 million in liabilities. Assets were listed between $100 million and $500 million.

Previously the company had said its bottom line had suffered setbacks from some underperforming stores, which were exacerbated by severe weather in various regions, including in Puerto Rico, which was badly hit by and is still recuperating from last year's Hurricane Maria.

The company also suffered financial losses from its acquisition of 44 **Conway Stores** in 2014 for an undisclosed price.

Last year, the computers at the various stores in the National Stores chain were subject to a malware attack that lasted from July 10 to Dec. 11, 2017. The affected payment-card information may have included names, payment-card numbers, expiration dates and security codes. Because of the attack, the company said its access to its operating funds diminished.

In court documents, the company said it has between 200 and 999 creditors. Some of its major creditors, all located in New York, include **Armouth International**, owed $15.6 million; **One Step**

Up, owed $10.3 million; **Louise Paris**, owed nearly $4 million; and **Seven Apparel**, owed $3.9 million.

National Stores was started in 1962 by Joseph Fallas with one downtown Los Angeles store. The retail chain is known for its value-priced clothing, which often sells below $10 to $20.

National's store-closing announcement hit the press the same day that **Sears Holdings Corp.** made its long anticipated Chapter 11 bankruptcy filing after not making a $134 million loan payment.

Sears received approval for $300 million in debtor-in-possession financing to help operate the company during the bankruptcy. The retailer is scheduled to close 142 stores by the end of the year after previously announcing it was closing 46 other stores.

Analysts following the bankruptcies of Sears and National Stores said the public and the retail market shouldn't be concerned about a wave of retail closings similar to 2017. That retail apocalypse was greatly exaggerated, said Paula Rosenblum, managing partner of **RSR Research**.

"There never was a retail apocalypse. It was always baloney," she said. "When **Radio Shack** closed, it was no surprise. When **Payless** closed, there was no real surprise there."

Store closings from long-troubled retailers should come as no shock, said Ronald Friedman, a partner in **Marcum LLP**. Profitable retailers should anticipate strong business. "Retail bricks-and mortar is not dead. But it is being reinvented. It will be different from what we have seen in the past. I expect this will be a very strong holiday season."

These two bankruptcies spell opportunity for other stores. Rosenblum forecast various retailers will take some of Sears' market share. "People will get tools and appliances from **Home Depot** and **Lowe's**. **JCPenney** will get a bump from apparel," she said.

Another big matter is what will happen to Sears' real estate. Edward Lampert, Sears' chairman and until recently its chief executive officer, formed a real-estate investment trust called **Seritage Growth Properties** some years ago, which takes in around $49 million a year in rent from 82 Sears stores it currently owns, according to Bloomberg News. If the properties are sold off, landlords will have a chance to redevelop the land into more-attractive real estate, said Mercedes Gonzalez, director of retail consultants at **Global Purchasing Companies**.

The land could house retail models currently favored by consumers instead of locations occupied by giant stores, which consumers have complained are too big and goods too hard to find, Gonzalez said.

"Consumers are looking for convenience. They are willing to pay for it. People are not money poor—they are time poor," she said. "Time is more valuable to them than getting a dollar off of a can of beans."