

## How Olga's Kitchen went broke and could be saved

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*Court battles and claims of profit siphoning preceded the restaurant chain's bankruptcy filing this year.*



*(Photo: Kimberly P. Mitchell)*

Olga's Kitchen, the regional chain that elicits fond childhood memories for many metro Detroiters, is about to be purchased and perhaps saved from the bankrupt company's slow, painful decline spanning two decades.

There are two competing bidders in a bankruptcy court's auction of Olga's and its remaining 27 locations that could wrap up on Friday.

Livonia-based Team Schostak Family Restaurants and a group called Cosmo Hospitality are vying to buy the chain best known for its Mediterranean-inspired pita wraps, curly fries and quirky offerings, such as an orange creme cooler. The leading bid so far is Cosmo's \$8.55 million offer.

The result of Friday's auction could bring an end to several tumultuous years of financial despair for Olga's, which didn't adequately respond to the trend toward "fast-casual" dining, typified by chains like Chipotle and Panera Bread. Today only one Olga's location — Royal Oak — is considered fast casual.

For years, the chain's longtime owner, 84-year-old Robert Solomon of Palm Springs, Calif., has battled with banks and creditors to retain control of the company.

Schostak is already intimately familiar with Olga's. Not only does it co-operate 11 of the remaining Olgas that are outside the bankruptcy, but Schostak has twice caught Olga's siphoning money from that profitable 50/50 joint venture. Court records show that the siphoned money was being used to prop up the other money-losing restaurants owned solely by Olga's.

Now, an Olga's bankruptcy process that began this June will likely end in the same outcome that some predicted two years ago — a sale of the company to a new owner with deeper pockets and perhaps a fresher approach to running the beloved business.

Started in Birmingham in 1970 by Olga Loizon, the Olga's Kitchen chain grew to more than 50 sit-down restaurants, mostly located in shopping malls.

Olga, who is nearly 90 but no longer an owner, sold her restaurants to Solomon, who saw an opportunity with the popular brand.

Olga's showed early signs of business trouble in the 1990s, when over-expansion forced the company to undertake its first of several restructuring efforts.

In 2004, Solomon gained a partner with deep pockets and an interest in restaurant investing, the Schostak family. The companies agreed to go 50/50 on 15 new Olga's locations over several years, although only 11 were built.

Meanwhile, many of Olga's corporate locations struggled amid consumers' changing tastes and declining foot traffic in shopping malls.

The strains on Olga's business were showing in 2009, when the Schostak firm alleged that officials within Olga's had improperly commingled about \$800,000 from the 11 joint-venture restaurants with Olga's Kitchen's own bank accounts.

Mark Schostak, executive chairman of Team Schostak Family Restaurants, wrote a letter to Solomon that laid bare the scheme his staff uncovered and threatened legal action. Olga's ultimately returned the money and the matter stayed out of court.

But two years later, Mark Schostak wrote another letter telling Solomon that Schostak officials had again caught Olga's using funds from the joint venture. This second letter was more sharply worded and said Olga's precarious finances were a major concern, a situation "aggravated" by Solomon's "continued withdrawal of funds for your personal benefit."

This time, the allegations made it to court.

In a 2012 lawsuit, the Schostak company claimed the siphoning scheme imperiled their joint venture by stripping the restaurants of working capital and risking eviction by landlords. The company and Solomon "basically used the (joint venture's) funds as their own piggy bank," court documents alleged.

An Oakland County Circuit judge later confirmed an \$837,801 arbitration award in Schostak's favor against Olga's and its owner Solomon.

A message for Solomon seeking comment for this story was relayed through Robert Bassel of Clinton, Olga's bankruptcy attorney, but not returned.

As Olga's battled Schostak in court, its restaurants outside of their joint partnership kept losing money.

Olga's hired Birmingham-based Amherst Partners as a financial adviser. Sheldon Stone, a partner in the restructuring firm, recalled in an interview last week how Olga's business was in major trouble.

"When we got in there, we found out that they were not finance-able," Stone said. "They only make money from about Nov. 1 to about January. That is, every other month, (they're) burning money as a corporation."

Stone said he suggested bankruptcy during the summer of 2013. He flew to Los Angeles to meet with Solomon and told him that Olga's would ultimately have to file for bankruptcy once its bills became overwhelming or it was involuntarily forced to by hostile creditors.

"I said, 'Bob, this is your best option. You will get relief, you will get a stay,' " Stone recalled. But Solomon, "was absolutely dead set against it."

After that, Stone told Solomon that he could no longer help.

"There was a lack of strategy and bad business decisions along the way that led him to where he is today," Stone said. "The restaurant landscape in Detroit changed a lot during his time as owner. They found themselves geographically divorced and outside of the mainstream of where people were going to eat."

Stone's predictions starting panning out last year when Citizens Bank sued Olga's after the chain defaulted on a line of credit. The judge in the case forced Olga's into financial receivership in February.

The court's appointed receiver, Kenneth Dalto, owner of a Bingham Farms-based management and consulting firm, had spent the previous seven months employed by Olga's as a corporate reorganization officer, desperately trying to stabilize the company by closing unprofitable restaurants, cutting costs and raising menu prices.

"They had built up a lot of debt and they weren't making enough money," Dalto said last week. "It was basically (due to) overbuilding stores, not having the working capital to do it, having three years of losses and not correcting it earlier."

Even so, the Schostak company saw value in the Olga's brand and this spring was close to possibly buying the company and all of its restaurants. But any such plans were thwarted by an eleventh-hour effort by Olga's owner Solomon to avoid a sale and maintain control of the restaurant business.

Solomon had Olga's file for Chapter 11 bankruptcy on June 11 — the same day that an Oakland County judge was to start an auction process at the behest of Olga's financial receiver.

Solomon initially hoped to restructure his company in bankruptcy rather than sell it. But those plans didn't pan out, and he will likely soon be out of the restaurant business that he bought from Olga Loizon more than three decades ago.

"If there is adequate financing, it's sometimes better to keep the company as it is than to sell it," Bassel said. "But that requires financing and certain things to come together. And, unfortunately, they did not come together."



Olga Loizon, founder of Olga's Kitchen, tests a new chicken shawarma in 2013. (Photo: Regina H. Boone)

There was controversy early this year when it was revealed that the company was still giving Solomon \$15,000 a week, despite Olga's being in receivership and creditors not getting paid.

After the Schostak company asked the judge to stop the payments, lawyers for Solomon's ex-wife, Judith Solomon, came forward to suggest that payments instead be redirected to her because Solomon was behind on his \$130,000-per-year alimony.

Oakland County Circuit Judge James Alexander ordered the payments to Olga's owner stopped and last month entered a \$2.65-million judgement in favor of Citizens Bank and against Olga's and Solomon. Attorneys said that money will likely be paid out of proceedings from the forthcoming sale.

Under the Schostak-Olga's joint venture, Schostak is to be paid for its 50% share of the 11 profitable restaurants even if it loses the auction to Cosmo.

Bassel, Olga's bankruptcy attorney, said an additional reason Solomon abruptly filed for Olga's bankruptcy this year — thwarting any plans for a summer auction sale — was because Chapter 11 bankruptcy makes it easier to sell assets free and clear of any liens.

"The idea there is that if everyone knows that the order is something that no one can contest, people will be willing to pay more money for (the company)," he said.

Court documents show the cancelled auction had at least four likely bidders, including Schostak, and a known high bid of \$6.8 million comprised of cash and debt assumption.

In the current auction, Schostak has already made a \$8.3-million cash offer and Cosmo Hospitality has bid \$8.55 million.

Cosmo Hospitality is a 50/50 partnership between businessman Stefan Wanczyk of Rochester Hills, an executive with auto assembly supplier Utica International in Troy and Gary Sakwa, cofounder of Farmington Hills-based Grand/Sakwa Properties.

Team Schostak Family Restaurants already has 67 Applebee's restaurants and four Del Tacos and two MOD Pizzas and, until July, owned dozens of Burger King restaurants in Michigan.

Despite Olga's recent struggles, knowledgeable observers believe the restaurant chain can have a bright future under a new owner with the right strategy and financing to execute it.

"Everybody knows Olga's Kitchen. It's like a Stroh's or Vernors or Faygo — it's a Detroit institutional brand," Dalto said. "And it will be strong again. I believe that fundamentally."

*Contact JC Reindl: 313-222-6631 or [jcreindl@freepress.com](mailto:jcreindl@freepress.com). Follow him on Twitter @JCReindl or Brent Snavely: 313-222-6512 or [bsnavely@freepress.com](mailto:bsnavely@freepress.com). Follow him on Twitter @BrentSnavely.*

## Olga's Kitchen

- Founded by Olga Loizon, who was born to Greek immigrant parents.
- Started in 1970 in a Birmingham supermarket.
- Once had more than 50 locations in 1980s, many in shopping malls.
- Sold by Loizon to Robert Solomon.
- Loizon today is nearing 90
- Closed about half of its locations by early 2000s
- Reported \$42.6 million in gross sales in 2014
- Filed for bankruptcy in June 2015