

Joan Hansen

FINGER: ...collections of Fashion Institute of Technology.

This will be an interview with Joan Hansen. To supplement the interview with Michael Daroff of Botany. The date of the interview is May 8th, 1984. The interviewer is Mildred Finger. Joan, could we start by talking about some of those retail store chains that were part of Botany? How long did those chains remain active? There apparently were problems.

HANSEN: Michael Daroff started to acquire the Botany-owned stores in the late 1960s as major manufacturer of men's clothing. It seemed to be an ideal situation to have a dual-channel of distribution. At that particular time, Botany was [00:01:00] sold to some 2,000 stores. And another company that Mike admired very much in the industry, Hart Schaffner and Marx, run by Jack Gray, had successfully acquired and established their own retail stores, and this was a very effective way of Hart, Schaffner and Marx also having a pulse beat on how their clothing was doing at the retail level.

So the concept of acquiring stores for the Botany Industries conglomerate was an excellent idea. Some of the

people in the trade might question the bargain sales of the Botany stores because when the Daroff company acquired Weber & Heilbroner, Broadstreet's, Rothschild's in Chicago, [00:02:00] they were acquired at very special prices because these retail outlets were experiencing problems. One major problem might have been the deterioration of the downtown Chicago area, in which Rothschild's was located.

Another problem in the running of the retail business was the high downtown rentals during the spiraling inflationary period, where men found it easy to defer the purchase of another garment, preferring to purchase garments for their wives and children. So that during the late -- well the early '70s, we had an inflationary period and high-priced clothing suffered. The suffering of the sales of high-priced clothing naturally wound up in the Botany-owned stores, so that the original concept of [00:03:00] having a dual-distribution setup at that particular time was very difficult, not only for Botany Industries but for Evil Clothes and for other companies that owned their own retail stores. Does that answer your question?

FINGER: Yeah. I think that answers the question. There was some kind of discussion about the involvement of the banks

and the credit, without which the company was about to have great difficulties.

HANSEN: Yes. There was one very serious situation that I can recall vividly. The First National Bank of Boston had insisted upon inserting a liquidator to be in charge of the Rothschild stores. Remember, just a [00:04:00] few moments ago, we discussed the deterioration of the downtown sections where the Rothschild chain was located. In any event, the First National Bank of Boston, the major lender to Botany Industries, thought that might have been a problem with management of the Rothschild chain, so they recommended a gentleman by the name of Irwin [Jaeger?]. This was what we call an intrusion upon the management of Botany Industries whereby a bank is not permitted -- a lender is not permitted to recommend management changes even. In any event, Mr. Jaeger, who then headed the Rothschild chain, which was the first of the Botany-owned stores to experience trouble. In the first three or four months during his tenure, he started to turn the Rothschild chain around and it was [00:05:00] due to just not paying any bills. And so when the management of Botany Industries...

FINGER: I'm sorry, what was due to not paying -- just not paying bills?

HANSEN: Well, he would order odd lots and garments for the Rothschild chain but never pay the vendors any bills. So naturally, if you're not paying for the merchandise as it comes in, much like we experience today with 60-day -- six-month terms, the bank was very happy in four or five months during the time that Mr. Jaeger was there because as he created the going-out-of-business sales and all sorts of sales, he was not paying the vendors for the merchandise that was being delivered to the Rothschild stores. And when that was discovered --

FINGER: [What happened to that?] money?

HANSEN: Well, that was, the bills were just going in the pot - - into a drawer and being locked up. Even the accountants were not aware of this. So the management of Botany Industries, when it became apparent [00:06:00] that there was a problem, they hired outside detectives, it was like a Hollywood story, and Mr. Jaeger was forced to resign with a detective in Michael Daroff's office and with the guidance of (inaudible) [and Mangees?], our general counsel, which was a very serious problem. It was never publicized but people like Irwin Jaeger are still being recommended by banks such as First National Bank of Boston, which has been responsible in the past for unconscionable dealings with

the apparel industry. So that was one of the great problems we had with retail.

The average outsider would never know the problems we had with our banking, our lending institutions, and their massive intrusion in the management of our [00:07:00] Botany-owned retail stores. With the financing situation, we were factored by the same banks, so the First National Bank of Boston not only factored H. Daroff & Sons, the major manufacturer of men's clothing under four names, Fashion Park, [Worcester Tech?], [Steinblock?] and Botany 500, plus the private label, [Joe Sam?] Operation, they were a major lender to other divisions, so that they called our loan a \$6 million loan on a technical default. Actually, upon final analysis of the calling of this loan, which forced the company into a voluntary reorganization under Chapter 11, was the fact that moneys coming upstream from the factoring account were not properly [00:08:00] ascertained. And that during the court proceeding itself we were able to determine that the First National Bank of Boston not only intruded in the management of Botany Industries, but called its substantial loan during a time where we had adequate money coming up through the factoring account.

This was a very serious matter, and the management of Botany Industries immediately started to work on a multimillion-dollar lawsuit against First National Bank of Boston. We hired our own outside accountants and lawyers to work on this, even though the court-appointed trustee had his lawyers working on it. In fact, after tremendous pressure from management of Botany Industries, the court-appointed receiver [00:09:00], Max Robb, R-O-B-B, filed a \$25-million lawsuit against the First National Bank of Boston. It should have been a \$200-million lawsuit because it destroyed a \$200-million company. This particular lawsuit has just been settled, approximately two years ago, through changes of receivership from Max Robb to two other receivers, and it was settled for something like \$300,000. Had Michael Daroff and his brothers still retained the strength to continue the fight against the First National Bank of Boston, on behalf of 7,500 stockholders, this would have been a very, very major lawsuit, and could have favorably responded for the [00:10:00] stockholders themselves. It's a very serious situation, and Botany Industries is in every journal now -- bankruptcy journal because we fought so hard. We were still being traded seven years after the company was adjudicated bankrupt.

FINGER: And then the adjudication of bankruptcy was in what year?

HANSEN: October of 1973. As a matter of fact, Botany shares are still being traded over the counter. We have not been properly discharged from bankruptcy.

FINGER: Now what is the body of Botany which is left, which is still in this business -- building rather, and has its name downstairs at Botany Industries. What is that?

HANSEN: Actually, there are new officers and directors of Botany Industries. Michael Daroff, Joseph Daroff, and the other officers resigned off the board, and [00:11:00] A. Sheridan Atkinson from San Francisco became chairman of the board. This was during 1974, when the Daroff family was no longer active. But of course, 7,500 stockholders were active.

So, people who had tried to fund the plan of arrangement to work our way profitably out of the bankruptcy proceeding formed a new membership. New officers and directors were formed, with the blessing of Michael Daroff and his brother and son. A. Sheridan Atkinson remains as chairman of Botany Industries. I'm executive vice president, secretary, and treasurer, and Chuck Taylor is another officer, and Dan [Cavanaugh?]. We filed with the SEC and

we continued to be officers and directors of Botany Industries, the [00:12:00] defunct corporation. Our stock, as I mentioned before, is still being traded over the counter. We still have many thousand stockholders. The larger stockholders communicate with us on a regular basis, and Mike Daroff maintains, at the 1290 building, an office for this purpose. He has not given up his fight. The Boston lawsuit was settled by the receiver for a mere three- or two-hundred-thousand dollars after he had filed a \$25-million lawsuit against it.

We have other remedies that we're working on at this point. I think we're more like cause fighters, and we have been responsible for many of the changes in the Bankruptcy Reform Act through constant pressure, working with every [00:13:00] major branch of the government, from the criminal fraud section of the Justice Department in Washington to the FBI. There's a certain section. Each one has a criminal section. I'm just trying to think of the right name.

FINGER: You really mean the FBI, the Federal Bureau of Investigation?

HANSEN: Yes, the Federal Bureau of Investigation. Neil Welch was the head of that in Philadelphia. Now, he's been, I

think, moved to New York. We can give you all the lists of the senators, Senator DeConcini played an active role.

FINGER: How do you spell his name?

HANSEN: We will give that to you on separate -- just to reconfirm it. And then, with the Internal Revenue Service, they were probably the most helpful of all branches of government. But as we were -- as they explained to us, one of the greatest drawbacks in our bureaucracy [00:14:00] is the fact that one branch of the government doesn't work with the next branch of the government, so although we would spend hundreds of hours with the Internal Revenue Service, and that would be their criminal division, who in turn would prepare questions for a grand jury and submit that to the criminal fraud section of the Justice Department, who in turn should call upon the FBI if they need assistance, but they never did. So, we had to work with the FBI separately, then the Justice Department, and the Internal Revenue Service.

We revealed 36 clear acts of criminal fraud by former officers and directors of Botany Industries. For example, the head of Glenoit Mills, Clarence Hafford, trafficked in the stock of an insolvent corporation [00:15:00], falsified the books and records, and then purchased the asset Glenoit

Mills at a very reduced price, and we protested this sale to the former officer and director. So the court delayed the illegal sale of our subsidiary to Clarence Hafford for as long as they possibly could. But the creditors who were represented by Hahn, Hessen, Margolis & Ryan were only interested in their money. They weren't interested in bringing justice, so characters that were well-known in the industry, like Clarence Hafford, were never brought to trial. We had requested trial, jury by trial, for not only Clarence Hafford and the unholy alliance that he surrounded himself with [00:16:00], but for Samuel [Holtzman?], another president of another subsidiary of Botany Industries, who also trafficked in the stock of an insolvent corporation by falsifying the books and records, by devaluing the assets of Baltimore Luggage in order to acquire the company at a very...

FINGER: Baltimore Luggage was one of the divisions of Botany?

HANSEN: Right, another subsidiary --

FINGER: Subsidiary, yes.

HANSEN: -- wholly owned by Botany Industries. And it's interesting to note that Baltimore Luggage and Glenoit Mills and the Botany Mills store were never part of the Chapter 11 proceedings, giving way to the officers and directors of Baltimore Luggage and Glenoit Mills, an area

that was not under the direct control of the [00:17:00] court, but naturally -- and no assets of the Botany Industries parent company could be sold without going through the formal procedures. Again, so many things have changed with the reform act. For example, a company that has a viable name in licensing -- if you own the Calvin Klein name and you're Puritan Fashions, and Puritan Fashions, all of a sudden, has a voluntary financial reorganization or an involuntary filing of Chapter 11, prior to this time, going back maybe two or three years when the bankruptcy act was ratified, you would automatically lose your rights in Calvin Klein. Calvin Klein, the designer, would say, "Well, you filed chapter 11 and therefore I have the right in 60 or 30 days to cancel my contract with you." [00:18:00] Today, you can't do that. That's considered an asset, a valuable asset of the bankrupt company or the company that is trying to work its way through Chapter 11 and back into profitability, so that the court protects the corporation from losing the most important asset it has, a name like Calvin Klein, giving a hypothetical example. Now you see, I think Botany Industries played a tremendous role in passing that sort of litigation.

FINGER: But at this point, Michael Daroff is pretty well retired, pretty much retired. Right? He doesn't take an active hand in the running of...

HANSEN: Of Botany Industries, the bankrupt -- well, at this point, after July of 1974, when the new officers and directors, including myself, took over with a lot of vigor -- [00:19:00] because we had lived through -- we had tried to fund the plan of arrangement and met with various companies and banks to make Botany Industries a healthy company again. The overwhelming reaction on the part of the Daroff family not only Michael Daroff, but his brother, Joe, and his son, Mitchell Daroff, was tremendous, where they did not lose control for a moment, but they could not rationally deal with the banks, rationally deal with the unholy alliance of lawyers in Philadelphia, they could not rationally deal with the judge, Emil Goldhaber in Philadelphia. All of these people pretended to be friends of the Daroff family but actually when it came to money and their own reputations within their community, the friendship with the Daroff family dwindled, so that not only did Michael [00:20:00] Daroff and his family lose their great asset, the business Botany 500, through manipulation of the court itself, through their arch competitors, Izzy Cohen, who, in turn, was acquired by

Meshulam Riklis of Rapid-American, people that they had grown up with, that they had truly loved, saw an opportunity to latch on to an asset and did everything in their power to acquire those assets through illegal means.

FINGER: But just to bring this to a close, there is an organization functioning in this building called Botany Industries.

HANSEN: That's correct.

FINGER: Does it deal primarily with licenses?

HANSEN: No. It has --

FINGER: Manufacture suits and --

HANSEN: No, it is still -- you know, like a human being, a [00:21:00] corporation lives on. It lives on, the Botany Industries Corporation. We also have a company called the Botany Shareholders Rights Association. This is set up for the benefit of the Botany stockholders. As long as litigation takes place with respect to the 36 clear acts of criminal fraud that we ourselves discovered, mind you, and documented with every branch of the government, as long as that case remains open, and an investigation by either the Internal Revenue Service or the Justice Department or the FBI, we will remain as Botany Industries and Botany Shareholders Rights Association.

FINGER: And what does Botany Industries produce today?

HANSEN: Oh, nothing.

FINGER: Nothing? Because I went down to the showroom by accident when I was looking for you.

HANSEN: Well, that's just by a freak coincidence that the Meshulam Rapid-American Company acquired illegally [00:22:00] the Botany labels and set up shop down the...

FINGER: So that's what that is.

HANSEN: Right. That's correct. It has nothing to do with Botany Industries. Botany 500 was sold at an auction in the court after the company was adjudicated bankrupt. The Botany 500 label was acquired for \$2 million, and the inventory was acquired in piece-goods and work in process for another million-three, and I guess the settlement with the union was also involved. That's another very major situation whereby a company can do away with its union obligations, if it, in fact, can prove that it can get out of the financial situation.

Now, in 1972, if we were able to eliminate the union, we could have entered [00:23:00] into a major license agreement with a Japanese conglomerate like Mitsui or [Marubani?]. We could bring the Botany 500 well-known suits in at one-third the cost of producing it in our factories in Philadelphia, and we would, at that point,

become a corporation that was probably 10 times the size of Botany as we knew it doing close to 100-- I guess the top figure when we had it was about \$100 million. We could have easily quadrupled that by doing away with the union obligations, which you can, in fact, do today.

Now, we fought with the union, although we had a wonderful relationship with the union throughout the years. As a matter of fact, Michael Daroff is a spokesman for the union and many of the things that he did in his factory to improve the conditions for the people, [00:24:00] other factories had to follow. But I can only point out, again, that had we had the benefit of the Bankruptcy Reform Act years later, we would never have gone through a Chapter 11. We were a profitable company. We had four subsidiaries that were generating an excess -- three subsidiaries rather, that were generating an excess of \$4 million a year that were not part of the bankruptcy proceeding. But...

FINGER: With the situation as it was then, that's what happened.

HANSEN: We fought so hard afterwards because we could see that there was no reason for the company to go under. I would like to summarize in writing for you.

FINGER: The writing won't help. We don't do it that way.

HANSEN: Oh, I see.

FINGER: It's strictly what you have said. [00:25:00] (break
in audio) Joan, thank you very much. That really has
helped to clarify the issues and complete, with some
assurance of accuracy, the history of Michael Daroff.
Thank you.

HANSEN: Thank you.

END OF AUDIO FILE