

New Orleans native Larry Lundy fights to hang on after falling from Pizza Hut corporate ladder

Published: Sunday, March 13, 2011, 9:00 AM Updated: Sunday, March 13, 2011, 9:30 AM



By **Richard Thompson, The Times-Picayune**

By his own admission, Larry Lundy is in the fight of his business career.



Starting in the mid-1980s, the New Orleans native rose up the corporate ranks at Pizza Hut's headquarters in Kansas. In five years, Lundy became the highest-ranking African-American in any national restaurant company, he once boasted in an interview, responsible for helping start up more than a thousand corporate-owned restaurants.

Lundy, who public records suggest is in his early 60s, was considering retirement when company executives sought him out to take control of a market. Any market, they said, according to a court filing in January.

He resisted, for a while, until he was offered the chance to come back home.

So he did. In 1992, Lundy Enterprises bought 31 restaurants from the pizza giant for an estimated \$15 million. And in the nearly two decades that followed, Lundy built and expanded a pizza empire stretching from here to Baton Rouge.

"He was the golden boy story," recalled Sherman Copelin, an eastern New Orleans businessman and former state legislator who has known Lundy for years.

And Lundy, for his part, maintained at the time that the relationship between the franchisor and its major franchisee had been mutually beneficial. "I've had no troubles with Pizza Hut," he said in an

interview with Nation's Restaurant News, a trade publication, in 1993. "We've even made our own local pizza, and since I was once in headquarters in development, I know the system thoroughly. There's no need for them to lead me by the hand."

That has all changed in the past two months. Tied up in legal wrangling with their once-prized franchisee since last summer, attorneys for the Dallas-based Pizza Hut filed suit Jan. 3 in a Texas federal court, claiming that Lundy Enterprises had fallen behind on royalties and fees. And seemingly overnight, Lundy was forced to **shutter his 44 restaurants**, and hundreds of people who worked for him across the state, many for years, lost their jobs.

"Pizza Hut did make an attempt to purchase the market; however, Lundy was unable to sell the restaurants because of more than \$14 million in tax liens that he owed local, state and federal entities," company spokesman Chris Fuller said in a statement last month, adding that Lundy "closed his restaurants voluntarily in a mutual agreement, which he signed."

To cushion the blow, Pizza Hut enlisted help from the Urban League of Greater New Orleans, providing \$1 million to support job counseling, training and career placement services for displaced workers. But without any way of contacting people who were let go, officials say it's been a slow process.

"It was a challenge," said Erika McConduit, executive vice president of the Urban League of Greater New Orleans. "We wanted to make sure that this was not something that was inaccessible for people." In conjunction with the Louisiana Workforce Commission, case managers have been assigned to Career Solutions centers in five locations across the state, including Algiers, Baton Rouge and Houma, and in St. Tammany and Jefferson parishes.

Attempts to reach Lundy through his New Jersey-based attorney, Justin Klein, were not successful. Lundy did not respond Thursday to a message left by a reporter.

Legal crossfire

Meanwhile, Lundy fired back at his former employer. On Jan. 31, **he accused Pizza Hut** of engaging in unfair business practices, including tighter credit terms, refusing to allow his restaurants to introduce new products available in other markets, and scheming to reclaim his territories for the corporation, according to court records.

Not so, say attorneys for Pizza Hut, who moved Feb. 22 to **dismiss the counterclaim**, contending most of the pending legal issues were resolved as part of a settlement reached last summer, which stipulated the "full, final and irrevocable release" of such claims.

Both sides tried to resolve the dispute through arbitration. A settlement was reached that would have transferred the assets of Lundy Enterprises to Pizza Hut, court records show, but the estimated value of the assets, at \$7.8 million, was not worth enough to pay off all liens, claims and other expenses. All the legal maneuvering comes on the heels of some difficult years for Lundy. In 1999, he sank \$500,000 worth of capital improvements into his restaurants "in an attempt to remain profitable," even closing seven underperforming stores, court records show.

Making matters worse, Lundy was diagnosed with leukemia later that year and faced "the grim prognosis that he had only weeks to live," according to court records. He withdrew from day-to-day responsibility for his company to recuperate, and his four brothers joined in the effort to keep the empire afloat.

Two years later, in 2001, Lundy Enterprises filed for Chapter 11 bankruptcy protection, which provided some breathing room to work out its debts with creditors and reorganize its operations under court supervision, Lundy said at the time. The company listed \$4.7 million owed to its 20 largest creditors, with Whitney National Bank owed the most.

Lundy, at least in part, laid the blame on Pizza Hut, claiming the value of seven of 26 restaurants in the Baton Rouge area that he purchased as part of a \$7.2 million deal "required significant capital improvements" and "could never generate positive cash flow," court records show. He rehashed the episode in recent court filings, maintaining that the value of the stores was significantly inflated, further hampering his company's financial situation.

From a high of 67 locations in the late 1990s, Lundy began reducing the footprint of his restaurant chain by closing underperforming stores.

Walloped by Katrina

Just when things were looking up, **Hurricane Katrina** roared through New Orleans in 2005 and damaged 38 locations, including the company's headquarters, Lundy said in an interview with Franchise Times magazine in 2008.

On one hand, Lundy has contended that he could have pocketed the insurance money and moved on. Instead, he believed he "owed it to his workers and the community to reopen his stores," he said in a statement issued on his behalf Feb. 1 by the local public relations and advertising firm Bright Moments Inc.

The son of a pastor, Lundy grew up with eight siblings. His father, Willie, also owned real estate and ran an Exxon station, where Lundy got his first job, according to interviews published in Nation's Restaurant News in the mid-1990s.

"Everybody I know in his family is a good person," said City Councilman Jon Johnson, whose district includes eastern New Orleans. "I know his father was a minister, and they were always well-respected in the community.

It's a theme that plays out throughout his court filings, in which Lundy repeatedly touted his charitable work in the community, saying that Pizza Hut has benefited from the good will of his endeavors.

There was the time when Lundy picked up a large lunch tab for Rosa Parks and her entourage when the civil-rights leader came to New Orleans as a guest of the city, as described in Restaurant News. Or in 2007, after Hurricane Katrina wiped out the New Orleans Police Department's 7th District office, Lundy donated 3,600 square feet of his own office space and paid for renovations so officers could have working bathrooms and full-size desks, a stark change after operating for months out of one-room FEMA trailers.

"He has been extremely generous to the police," then-NOPD Superintendent Warren Riley said about Lundy in 2007.

'That's clearly a default'

But in recent years, it became clear that his company was having a harder time. Those who follow the trends of franchising say big-time corporations like Pizza Hut often resist taking legal action against a franchisee to settle a dispute, except as a last resort.

"Those kinds of claims by franchisees are as old as franchising," said Susan Kezios, president of the American Franchise Association, a trade group for franchise holders. "It doesn't surprise me, because I've heard that before. Now, whether there's basis for him to make those claims, that would be for attorneys and a judge to decide."

Kezios said that when franchising gained momentum two decades ago, most companies would allow budding entrepreneurs to operate a large number of restaurants. That has changed, she added. "Many chains don't allow that anymore, because there's a lot of power then when the franchisees have so many stores," Kezios said.

Although she has heard similar claims about franchisors working to push out underperforming store operators with methods like withholding new products or services, Kezios maintains that her No. 1 tip for operating stores is "pay your royalties, no matter what, pay your royalties."

"That's clearly a default of the franchise contract," she said. "I don't care what chain it is, what franchise it is, nonpayment of royalties puts you in default, and the franchisor then has many options that he or she can cause to terminate you."

Then, "if you're in default on one franchise location, your stores will topple like dominoes," she said.

At times, the relationship between a franchisor and its franchise can seem at odds with one another, said Udo Schlenrich, director of the Rosenberg International Center of Franchising at the University of New Hampshire's Whittemore School of Business and Economics.

"It's a licensing agreement," Schlenrich said. "We're both parties, or partners, and there can easily be tension, but it varies."

"Just like in a marriage with children, or like a husband and wife, when the system works well, they iron out those differences," he said, "and as a result, it would be a strong system."

If a settlement isn't reached, the Lundy case is expected to go to trial in a year.

Dillard University plans to honor Lundy, an alumnus of the school, as well as Beverly McKenna, publisher of the New Orleans Tribune, at its inaugural Champions of the American Dream event on March 22.

The pair were chosen for the new initiative in recognition of "their success and persistence in business pursuits, their history of philanthropy, and their service as role models for the New Orleans community," Dillard spokeswoman Mona Duffel-Jones announced Friday in a news release.

In the meantime, as Pizza Hut works to reinvent the market, pledging to spend at least \$10 million to build new restaurants during the next 18 months to replace the locations that closed, many local officials and other observers, including Johnson, the New Orleans city councilman, are optimistic for an amicable solution.

"I just hope that they're able to resolve it," he said.

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