Greg Segall calls distressed investing the "soap opera of American business." Will the factory close? Will workers lose their jobs? Will new owners be resolute or turn villainous? Will they quickly strip assets and leave everyone in tears?

Dramatic interest was particularly intense when Segall's private equity firm, Versa Capital Management Inc., then named Chrysalis Capital Partners LP, bought the assets of Malden Mills Industries Inc. out of bankruptcy in March for $44 million. Malden, which manufactures Polartec fleece, had achieved a kind of iconic status when longtime owner Aaron Feuerstein refused to lay off workers after a devastating fire in 1994. But Feuerstein stitched the rebuilt company together with too much debt, and he lost Malden Mills after the company went bankrupt in 2001. New owners didn't fare any better financially and, early this year, after one potential buyer dropped out, Chrysalis stepped in and bought the company's assets out of bankruptcy.

The result? So far, at least, viewers can applaud. The factory in Lawrence, Mass., is up and humming. Roughly 800 workers are still employed, with no plans for change. Just as importantly, the company, now called Polartec LLC, "is profitable. … It will finish its first year with its first profit in years and years and years," says Segall, who had been a director of the post-2001 version of Malden. Segall adds that Versa — the name was changed for trademark reasons — and an affiliate real estate fund, Lubert-Adler Partners LP, are now investigating a major mixed-use property development on the site of an abandoned Malden plant, which could revitalize the economically depressed city of Lawrence. "By no means are all long-term issues solved," he continues, but he stresses the company is in better shape now than it has been for more than a decade. "I have great expectations of how this story will finish."

Segal and Versa seek resurrection, not a quick burial.

"Greg and his team were able to see underneath the nonrecurring events and the financial burden," says Michael Spillane, who was CEO of Malden Mills for three years, was briefly CEO of Polartec and recently moved a few miles away, where he is now president of the North American division of Converse Inc. "They understood there was a business there with upside opportunities if someone would just come in and fund it."

Segall has gained a reputation as both a savvy turnaround operator and a straight shooter.
"He's a very keen strategic thinker, a great tactician and he's incredibly good with people," says Leslie Stern, who was CEO and a minority shareholder of Central Lewmar LLC, a paper distributor and the Chrysalis-Versa fund's first major acquisition.

"He's a wonderful person to work with."

Distressed investing is hot. Hardly a day goes by without some hedge fund or private equity operation announcing it's raising billions to play in bad debt or busted companies. Segall, however, believes his Philadelphia-based shop isn't part of the pack. Versa doesn't depend on trading distressed paper and isn't locked into mega-investments. Instead, it takes controlling investments in companies with revenues from $50 million to $1 billion. That's a surprisingly open field, Segall says. "We very infrequently find ourselves squaring off against these other firms."

Segall also maintains his approach lowers risk. "The bad news is already out. Everyone knows there's a problem. There's been a reduction in expectations," he says. "Owning a burning building is only a problem if you bought it before the fire. If you bought it after the fire, you knew what you were buying into, you knew it was going to cost something to replace it, you were going to have to do some work to clean it up."

While Segall raised his $300 million debut fund three years back, he's no newcomer to the field. Now 44, Segall got into what was then termed crisis management in 1989, shortly after graduating with an M.B.A. from Pepperdine University. He joined Sigoloff and Associates Inc., the Santa Monica, Calif., domain of veteran turnaround master Sanford Sigoloff — known as "Ming the Merciless — and fell right into a huge wave of corporate failures. That included a slew of bigtime retailers such as Bonwit Teller Inc. and B. Altman & Co. "The recession in 1990 provided a lifetime of experiences, opportunities and relationship-building," Segall says.

In 1993, after Sigoloff decamped for an ill-fated run at state office, Segall went off on his own and slowly built up a turnaround practice. Four years later, his company, Chrysalis Management Group, was vying to take over an ailing chain of retail optical shops based in Pennsauken, N.J., outside Philadelphia. The financiers insisted Segall and his colleagues stay close to the ground and not commute. They agreed.

"A happy, unexpected outcome is that everyone fell in love with the Philadelphia area, and we've stayed ever since," Segall explains. "It turns out to be not only a great place to live but a really convenient location to do what we do, given its proximity to New York, where all the money is. It's also in close proximity to the key courts of New York and Delaware."

Segall's business evolved from advisory to equity for services to being a fundless sponsor, where Chrysalis would initiate a deal to acquire a company and then go look for funds. That wasn't optimal, either. "The market had become a lot more competitive," he says. "It was a distinct disadvantage to not have discretionary capital ourselves."

Segall, Versa's managing partner, raised the fund in 2004. It's about 80% deployed now, in some 10 separate investments. In addition to the Malden Mills property, the portfolio includes a wide range of old-economy assets: A book cover manufacturer called ICG/Holliston, a rubber tape manufacturer named Plymouth Rubber Co. and locker maker Republic Storage Systems LLC were all acquired out of bankruptcy.

Central Lewmar wasn't distressed but was underperforming, says Stern. Chrysalis-Versa's biggest deal was acquiring a share of publicly traded Central Parking Corp. alongside Lubert-Adler and Kohlberg & Co. LLC, for a total of $729 million.
"We look for complexity and uncertainty that limits competition and improves valuation, because all competition does is drive up price, so, frankly, the hairier the better," Segall says.

The fund had its first big exit in August, when it sold Central Lewmar to International Paper Co. for $185 million. Segall would not disclose the fund’s return on the sale.

In addition, Segall says, a few acquired companies have been recapitalized, allowing the fund to reclaim its investments and still keep equity. While Segall himself refused to address the issue of another fund, industry sources say Versa Capital will be fundraising again soon, with talk of at least a $600 million fund this time.

Even Segall’s work away from the office comes under the general rubric of distress and boosting a troubled organization. When Segall moved to Philadelphia, he looked for a nonprofit organization to work with. He came across the Children’s Crisis Treatment Center, which offers mental health services to the city’s most troubled and neediest kids.

The center performed admirably but needed some financial shoring up, as it suffered from cash flow and balance sheet woes. The center today is debt-free, has increased revenue 6 times in a decade and now assists more than 1,200 kids and their families. Segall has been president of the center for five years. His work there won an award for pro bono activity from the Management Turnaround Association.

"By no means am I taking most of the credit," Segall says. "When I arrived on the scene, I was able to assist on something the agency needed. You don’t get to do the good work unless you pay the bills."