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Daphne's Greek Cafe files for Chapter 11

By [Lori Weisberg](#), UNION-TRIBUNE STAFF WRITER

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Founded in 1991, Daphne's Greek Cafe has 69 locations in California, Arizona, Colorado and Washington.

Daphne's Greek Cafe filed for Chapter 11 bankruptcy protection this week, but will continue operating all of its 69 restaurants, including the 16 locations in San Diego County.

The filing came after more than a year and a half of talks with the San Diego company's lender in hopes of restructuring its loan, said George Katakaidis, chief executive of Fili Enterprises, which owns Daphne's. He was not successful, however, in securing more favorable terms.

The filing, he said, was necessitated by a breach in loan rules, which required Daphne's to maintain a defined profit level.

"Our covenant was specific, so when sales dropped, profit dropped, and it triggered the covenant breach," Katakaidis said. "We have a great business, and we didn't want this to interfere with the business. Chapter 11 will speed up the negotiation.

"We tried to do this humanely over a year and a half. The macro economy for the last year has been a

nightmare, and we're just saying, enough."

According to the company's filing in U.S. Bankruptcy Court in San Diego, its creditors number between 1,000 and 5,000. Fili Enterprises estimates both assets and liabilities as between \$10 million and \$50 million. The company's largest creditor is U.S. Foodservice in La Mirada with unsecured claims of more than \$1.1 million.

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In an effort to cope with the ailing economy, Fili closed some underperforming cafes and laid off some of its workers over the last year, Katakaidis said. It also has introduced some new, more affordable menu items, one of which includes a pita sandwich, fountain drink and two sides for under \$7.

John Gordon, a San Diego-based chain restaurant consultant, said smaller chains are having a difficult time, in part, because they have a tougher challenge obtaining capital.

"Smaller chain restaurants like Daphne's that are reliant on one bank or line of credit are particularly vulnerable, especially if they negotiated financing deals in the last three or four years," said Gordon, a principal with Pacific Management Consulting Group.

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