

True Religion Gets Nod For Del. Ch. 11 Disclosure, Voting

By **Jeff Montgomery**

Law360, Wilmington (August 23, 2017, 7:10 PM EDT) -- True Religion Apparel Inc. secured Delaware bankruptcy court approval for a sharply pressed Chapter 11 disclosure on Wednesday, setting the stage for an Oct. 5 confirmation hearing on a plan that will cut away about 71 percent of the company's initial, \$483 million in debt.

U.S. Bankruptcy Judge Christopher S. Sontchi sent True Religion's blueprint forward with few questions after company counsel Robert B. Orgel of Pachulski Stang Ziehl & Jones LLP reported that the case had started with significant prepetition backing.

A supermajority of first-lien creditors, a majority of second-lien creditors and the company's largest equity holder were behind the restructuring effort, Orgel said. Additional concessions were made as recently as this week to tighten support, including a proposed increase in recoveries for general unsecured creditors, compared with initial plans.

"We don't believe the changes the parties agreed to here are just favorable treatment with respect to creditors," Max Schlan of Cooley LLP, counsel to the official committee of unsecured creditors, told Judge Sontchi. "The changes also reflect the fact that this will provide a better opportunity for the debtor."

True Religion, known for its line of high-end jeans, filed for Chapter 11 protection in early July, succumbing to many of the same pressures from consumer migration to online shopping that has forced a number of the debtor's peers to seek bankruptcy refuge.

The company's restructuring support agreement and subsequent changes will reduce its \$483 million in prepetition debt to \$143 million, including a \$114.5 million new first-lien loan and \$25 million asset-based credit agreement.

After emerging from Chapter 11, the company aims to move ahead with a global e-commerce expansion and targeted campaigns to increase brand awareness and licensing, as well as expand both the company's pop-up outlet stores and Last Stitch locations, according to court filings.

Holder of prepetition, first-lien debt will recover 37.2 to 38.2 percent of their claims, while general unsecured creditors will see recoveries of 4.1 percent to 7.7 percent.

The top secured creditor group's recoveries include \$110 million of the company's new debt and 90 percent of the company's new equity if all groups accept the plan. The equity share could rise to 94 percent if unsecured claimholders and prepetition equity holders reject and receive reduced consideration.

The proposal offers the unsecured creditor group rights to share \$2.5 million of the new company debt, along with up to 6 percent of its new equity, with access to shares of an additional \$1 million in cash and warrants to participate in an additional \$2 million of the new loan rights if all members of that category of creditors vote in favor of the plan.

Prepetition stockholders can receive up to 4 percent of the new equity as well, but will receive nothing if the plan is rejected by equity holders, unsecured creditors or prepetition first-lien claimholders.

A change added early this week allows unsecured creditors to choose an equity cash-out option, provided all members of the class vote to accept the plan. The cash-out offers a proportional share of \$2.1 million in lieu of the debt and stock consideration, with the provider of the cash-out funds receiving the equity and debt claim that otherwise would have gone to the unsecured creditors.

The cash-out, True Religion said in its disclosures, would work to increase the company's liquidity, giving it a "longer runway to stabilize and recharge their operations in the current challenging retail environment."

Similar concern for the company's early stability prompted creditors to agree to a plan that will allow True Religion to cover 50 percent of its interest payment due for each of the first two quarters with "payment in kind" equity. The PIK option would be triggered only if the company fails to meet a minimum liquidity target in the first two quarters.

Judge Sontchi approved the company's disclosure and scheduled a confirmation hearing for 9 a.m. Oct. 5, with voting to end on Sept. 27.

True Religion is represented by Laura Davis Jones, Robert B. Orgel, David M. Bertenthal, James E. O'Neill and Maxim B. Litvak of Pachulski Stang Ziehl & Jones LLP.

The landlords are represented by Leslie C. Heilman and Dustin P. Branch of Ballard Spahr LLP.

The unsecured creditors committee is represented by Michael W. Yurkewicz and Sally E. Veghte of Klehr Harrison Harvey Branzburg LLP and Jay Indyke, Cathy Hershcopf and Seth Van Aalten of Cooley LLP.

The U.S. trustee's office is represented by Linda J. Casey.

The case is In re: True Religion Apparel Inc. et al., case number 1:17-bk-11460, in the U.S. Bankruptcy Court for the District of Delaware.

--Additional reporting by Matt Chiappardi. Editing by Catherine Sum.