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BANKRUPTCY UPDATE

Expert Analysis

Bankruptcies Stemming From Financial Struggles in Sporting Goods Sector

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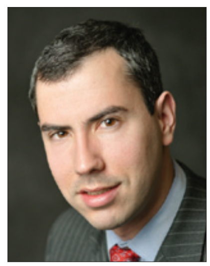

This issue of the Bankruptcy Update focuses on sporting goods retailers as financial struggles within the sector continue to drive bankruptcy filings. The column delves into the bankruptcy proceedings of Gander Mountain Company, Eastern Sports Outfitters, Luke's Locker and Michigan Sports.

'Gander Mountain'

On March 10, 2017, specialty sporting goods retailer Gander Mountain Company and one of its direct subsidiaries, Overton's, filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Minnesota.

As of the petition date, the debtors operated 160 stores across 27 states specializing in hunting, fishing, camping, shooting, and outdoor lifestyle products. The debtors suffered significant operating losses during the two years preceding their bankruptcy filing and attributed their financial difficulties to changing market trends and a shift in sales from brick and mortar stores to online resellers.

The debtors entered bankruptcy with a negotiated $425 million DIP financing package to be provided by their prepetition ABL lenders with Wells Fargo acting as agent. The debtors gained interim access to $110 million in DIP funding upon entry of an interim order on March 15, 2017 and obtained final DIP financing approval on April 14, 2017.

> In 'Gander Mountain', the debtors suffered significant operating losses during the two years preceding their bankruptcy filing and attributed their financial difficulties to changing market trends and a shift in sales from brick and mortar stores to online resellers.

Upon commencement of their Chapter 11 cases, the debtors immediately embarked on a store closing process for 32 underperforming stores. To that end, the debtors sought and obtained approval of a liquidation consulting agreement with Tiger Capital Group and Great American Group.

The debtors also sought approval of a bidding process in connection with the sale of substantially all of their remaining assets through either a going concern sale or a liquidation proposal. On March 31, 2017, the debtors gained approval of their proposed bidding procedures to culminate with an auction scheduled for April 27, 2017. Following the auction, the debtors announced a winning joint bid by Camping World together with Tiger Capital Group, Great American Group, Gordon Brothers Retail Partners and Hilco Merchant Resources. Camping World is expected to keep at least 17 stores but that number may increase if negotiations with landlords for rent concessions at additional locations are successful.

Gander Mountain Company **(Bankr. D. Minn. Case No. 17-30673).**

'Eastern Outfitters'

On Feb. 5, 2017, Eastern Outfitters and affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware returning to bankruptcy court less than a year after their emergence from Chapter 11.

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Versa Capital Management purchased Eastern Mountain Sports and Bob's Stores in June 2016 in a $38 million bankruptcy sale but was unable to overcome stringent terms imposed by the company's vendors following emergence from bankruptcy.

The outdoor sporting equipment retailer commenced a marketing process prior to returning to bankruptcy court and teetered on the verge of liquidating before securing a going concern proposal from United Kingdom-based retailer SportsDirect Retail.

SportsDirect purchased the debtors' $42 million second-lien debt position and agreed to provide $85 million in DIP financing to fund operations in bankruptcy and pay down approximately $40 million in first-lien debt held by PNC Bank during the course of the bankruptcy proceeding.

To effectuate the transaction, the debtors sought approval of bidding procedures in connection with the sale of substantially all of their assets with SportsDirect selected as a stalking horse bidder. As part of the bid procedures, the debtors sought approval of a $2.67 million breakup fee and $750,000 expense reimbursement as bid protections for SportsDirect in the event it was not selected as a winning bidder at an auction.

The official committee of unsecured creditors objected to both the DIP financing and the proposed sale procedures arguing, among other things, that bid protections together with the credit bid rights afforded SportsDirect would chill bidding. The committee also stressed that the stalking horse protections, if exercised, could leave the debtors administratively insolvent.

The parties were ultimately able to reach a resolution whereby the debtors would pivot to a private sale to SportsDirect. The settlement required SportsDirect to pay stub rent (portion of rent due from petition date until next rent payment is due) to landlords and would grant the creditors the right to pursue avoidance actions should the debtors elect not to pursue same. In exchange, the committee waived its right to challenge pre-petition liens held by SportsDirect. The private sale was approved by the bankruptcy court on April 19, 2017 and closed on May 18, 2017.

***Eastern Outfitters* (Bankr. D. Del. Case No. 17-10243).**

'Luke's Locker'

On Jan. 24, 2017, specialty running store Luke's Locker and affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Texas.

Luke's Locker was founded in the early 1970s by Dallas attorney and running enthusiast Don Lucas who first started selling running shoes out of the trunk of his car, followed by his garage and eventually the first Luke's Locker location in Dallas. Like many of their counterparts in the sports retail space, the debtors pointed to increased online competition as the driving factor leading to the bankruptcy filing. The debtors also noted that an aggressive expansion strategy contributed to their financial distress and stated their intention to streamline operations with a focus on locations in North Texas. To that end, the debtors immediately sought to reject certain leases for stores located in Houston and Austin areas.

To finance their operations in bankruptcy, the debtors obtained authority to use the cash collateral of its only secured lender, Nike, and purchase inventory from its vendors on a secured basis with such vendors effectively providing DIP financing in the form of credit to purchase inventory. Final orders authorizing DIP financing and use of Nike's cash collateral were entered on Feb. 15, 2017.

Since the bankruptcy filing, the debtors reopened two of their previously closed stores and worked to stabilize their operations. On April 28, 2017, the debtors sought a 90-day extension of their exclusive period to file a plan which was set to expire on May 24, 2017. The court granted the requested extension at a hearing on May 23, 2017.

***Luke's Locker* (Bankr. E.D. Tex. Case No. 17-40126).**

'Michigan Sporting Goods'

On Feb. 14, 2017, Michigan Sporting Goods Distributors filed a petition for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of Michigan.

The debtor operated 68 sporting goods stores across seven states but was ultimately unable to compete with online resellers and expansion of competing distribution channels. As a result, the company suffered losses of approximately $5.4 million on sales of $174.6 million during the last fiscal year.

The debtor elected to seek bankruptcy protection to effectuate an orderly liquidation of its assets through store closing sales. To fund operation through this process, the debtor obtained permission to utilize the cash collateral of its prepetition secured lenders, led by Wells Fargo as agent. As of the petition date, the secured lenders were owed approximately $49 million.

Shortly after commencement of its bankruptcy proceeding, the debtor sought approval of a consulting agreement with Tiger Capital Group and Great American Group to run store closing sales at its 68 locations. An order approving the engagement and authorizing the store closing sales was entered on March 20.

***Michigan Sporting Goods Distributors* (Bankr. W.D. Mich. 17-00612).**

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