

EASTERN DISTRICT ROUNDUP

Expert Analysis

Malls Owners Seek Restructuring Under Chapter 11

BY EDWARD E. NEIGER

This issue of the Bankruptcy Update focuses on recent restructurings of mall owners CBL & Associates Properties and Washington Prime Group.

'CBL & Associates Properties'

On Nov. 1, 2020, CBL & Associates Properties and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *CBL & Associates Properties* (Bankr. S.D. Tex. Case No. 20-35226).

The debtors develop, acquire, and operate shopping centers, office space and other commercial properties. They own and manage a portfolio of about 108 properties across 26 states, including 68 retail centers.

CBL entered bankruptcy armed with a restructuring supported agreement with holders of approximately 62% of the company's

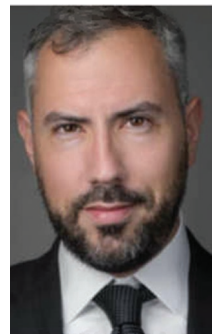
senior secured notes. The restructuring support agreement outlined the framework of a proposed restructuring that included converting about \$1.4 billion in unsecured notes into new notes, approximately \$50 million in cash and new equity. In addition, approximately \$600 million in preferred stock would be exchanged for new equity and warrants.

Contemporaneously with the bankruptcy filing, the debtors commenced an adversary proceeding against prepetition secured lender Wells Fargo seeking declaratory judgment that no events of default occurred under their first lien credit agreement and that Wells Fargo's alleged prepetition exercise of remedies was null and void. In turn, Wells Fargo counterclaimed for dismissal of the Chapter 11 cases and sought a declaratory judgment that all rents paid to certain of the debtors were Wells Fargo property. Prior to a scheduled Jan. 14, 2021 trial, the matter was referred to non-binding mediation

before Southern District of Texas Bankruptcy Judge Isgur.

Following a successful two-month mediation, on March 22, 2021, the debtors filed an amended restructuring support agreement adding 88% of Wells Fargo-led first lien bank lenders as supporting parties and outlining revised key proposed plan treatment provisions. Bank lenders owed \$983 million by the debtors would be paid \$100 million in cash and receive interests in new \$883 million term loans. Crossover bondholders would receive \$15 million cash and \$81 million in new secured notes, along with 10.5% of the equity in the reorganized debtors.

Other noteholders and unsecured creditors would receive \$80 million in cash and \$474 million in new unsecured notes plus new equity. Existing preferred and



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common equity holders would receive an 11% stake in the reorganized company.

The amended restructuring support agreement was incorporated into an amended plan and disclosure statement filed on April 15, 2021. On May 21, 2021, the court approved the disclosure statement and the plan, as subsequently amended to modify certain equity treatment provisions, was confirmed on Aug. 11, 2021.

'Washington Prime Group'

On June 13, 2021, Washington Prime Group and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Washington Prime Group* (Bankr. S.D. Tex. Case No. 21-31948).

The debtors operate 102 malls in the United States with a total of 52 million square feet of retail space. The company attributed the bankruptcy filing to a "retail apocalypse" that led a quarter of the debtors' tenants to seek bankruptcy relief themselves. This was further exacerbated by COVID-19 shutdowns of nonessential businesses which in turn caused the debtors to offer rent reductions and deferrals to their tenants and to lay off approximately 20% of their own workforce.

In commencing their Chapter 11 cases, the debtors' stated objective was to either implement an equity-based restructuring

that would eliminate approximately \$950 million in debt through full equityization of the debtors' outstanding unsecured notes in exchange for the majority of the equity in the reorganized debtors, along with a gifted distribution to current equityholders, or to toggle to an alternative restructuring transaction via a 60-day bidding process.

To that end, Washington Prime Group entered into a restructuring support agreement with creditors led by SVPGlobal holding about 73% of the debtors' secured debt and 67% of their unsecured notes. As part of the restructuring support agreement SVP and an ad hoc lender group agreed to provide the debtors with a \$100 million DIP financing facility, with \$50 million of such facility becoming available upon interim DIP approval.

The restructuring support agreement contemplated a restructuring whereby unsecured notes would be exchanged for 50% of the equity in the reorganized debtors, SVP would backstop a rights offering of up to \$325 million to pay off the DIP financing and make other cash payments, and the secured lenders would receive shares of a \$1.2 billion exit facility. General unsecured creditors would receive payment in full and current preferred and common equity holders would receive either \$40 million in cash or approximately 6% of the reorganized debtors' equity.

On July 8, 2021, the court authorized the debtors to enter into the \$325 million backstop agreement and approved bidding procedures in connection with the dual-track plan/sale process. Per the bidding procedures to be considered a qualified alternative bid such a bid had to provide for a transaction value of at least around \$2.3 billion in cash and be submitted by the bid deadline of Aug. 4, 2021.

On Aug. 5, 2021, the debtors filed a notice indicating that no alternative qualified bids were received by the bid deadline and the debtors would be proceeding with a combined hearing on approval of their disclosure statement and plan confirmation in connection with their debt for equity swap plan on Aug. 30, 2021.

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