

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Chapter 11
)
SPORTS AUTHORITY HOLDINGS, INC., *et*) Case No.: 16-10527 (MFW)
al.,¹)
) (Jointly Administered)
Debtors.)
) Re: Docket Nos. 20, 924, 959, 962
)

STATEMENT OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS IN SUPPORT OF THE DEBTORS’ (I) MOTION FOR ENTRY OF AN ORDER, PURSUANT TO BANKRUPTCY RULE 2002(a)(3) AND DEL. L.R. 9006-1(e), SHORTENING THE TIME FOR NOTICE OF DEBTORS’ MOTION FOR AN ORDER, PURSUANT TO SECTION 105(A) OF THE BANKRUPTCY CODE AND BANKRUPTCY RULE 9019, APPROVING THE SETTLEMENT AGREEMENT BETWEEN THE DEBTORS AND CERTAIN CONSIGNMENT VENDORS PARTY THERETO, AND (II) MOTION FOR AN ORDER, PURSUANT TO SECTION 105(a) OF THE BANKRUPTCY CODE AND BANKRUPTCY RULE 9019, APPROVING THE SETTLEMENT AGREEMENT BETWEEN THE DEBTORS AND CERTAIN CONSIGNMENT VENDORS PARTY THERETO

The Official Committee of Unsecured Creditors (the “Committee”) of Sports Authority Holdings, Inc., *et al.*, the above-captioned debtors and debtors in possession (collectively, the “Debtors”), hereby submits this statement in support of (i) *Debtors’ Motion for Entry of an Order, Pursuant to Bankruptcy Rule 2002(a)(3) and Del. L.R. 9006-1(e), Shortening the Time for Notice of Debtors’ Motion for an Order, Pursuant to Section 105(a) of the Bankruptcy Code and Bankruptcy Rule 9019, Approving the Settlement Agreement Between the Debtors and Certain Consignment Vendors Party Thereto* [Docket No. 962] (“Motion to Shorten”), and (ii) *Debtors’*

¹ The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Sports Authority Holdings, Inc. (9008); Slap Shot Holdings, Corp. (8209); The Sports Authority, Inc. (2802); TSA Stores, Inc. (1120); TSA Gift Card, Inc. (1918); TSA Ponce, Inc. (4817); and TSA Caribe, Inc. (5664). The headquarters for the above-captioned Debtors is located at 1050 West Hampden Avenue, Englewood, Colorado 80110.



Motion for an Order Pursuant to Section 105(a) of the Bankruptcy Code and Bankruptcy Rule 9019, Approving the Settlement Agreement Between the Debtors and Certain Consignment Vendors Party Thereto [Docket No. 959] (the “Settlement Motion”).

STATEMENT OF THE COMMITTEE

1. The Committee supports the proposed settlement with the Debtors’ consignment vendors because a resolution of the consignment issues is necessary to the Debtors’ continued going concern operations, which rely heavily on the supply of merchandise consigned by over 160 vendors (the “Consignment Vendors”). When the Committee² was formed less than a month ago – March 10, 2016 -- there had already erupted a contentious dispute between the Debtors and their purported secured lenders, on the one hand, and consignment vendors, on the other, as to whether the Debtors should honor their commitment to remit the agreed-upon portion of the consignment sale proceeds per the Debtors’ prepetition Pay for Scan Program. Apparently at the behest of their ABL Lenders, FILO Lenders, and Term Loan Lenders (as defined in the DIP Financing Motion³) (the “DIP Lenders”), the Debtors were seeking to keep all of sale proceeds of the prepetition inventory supplied by the Consignment Vendors, notwithstanding that the consignment agreements required the Debtors to pay approximately 50% of the proceeds of such sale to the Consignment Vendors. Understandably, once the Debtors were forced into taking that aggressive position by DIP Lenders who were seeking to grab 100% of the proceeds of

² The Committee presently consists of: (i) TCW/Crescent Mezzanine Partners et al.; (ii) New York Life Investment Management Mezzanine Partners, LP; (iii) Nike, Inc.; (iv) Asics America Corp.; (v) GGP Limited Partnership; and (vi) Realty Income Corp.

³ *Debtors’ Motion for Interim and Final Orders (I) Authorizing Debtors to Obtain Post-Petition Secured Financing Pursuant to 11 U.S.C. §§ 105, 362, and 364; (II) Granting Liens and Superpriority Claims to Post-Petition Lenders Pursuant to 11 U.S.C. §§ 364 and 507; (III) Authorizing the Use of Cash Collateral and Providing Adequate Protection to Prepetition Secured Parties and Modifying the Automatic Stay Pursuant to 11 U.S.C. §§ 361, 362, 363, and 364; and (IV) Scheduling a Final Hearing Pursuant to Bankruptcy Rules 4001(B) and (C) and Local Rule 4001-2* [Docket No. 20] (the “DIP Financing Motion”)

consigned merchandise without any payment to the Consignment Vendors on account of their agreed portion of the sale proceeds, the Debtors' trade support from Consignment Vendors disappeared, leaving bare shelves in the Debtors' stores.

2. Resolution of the consignment issues consensually on the terms set forth by the Debtors is plainly in the best interests of the Debtors, their estates and creditors. As the Committee has previously advised the Court, ensuring that the Debtors have a continued, uninterrupted supply of new merchandise is essential to their continued business operations, the prospects for a plan of reorganization or going concern sale. The Committee is concerned, as it is with the Debtors' DIP Financing Motion,⁴ that this case is being driven by aggressive tactics of the Debtors' secured creditors, including the prepetition Term Loan Lenders who have vigorously fought with the Debtors' suppliers since the inception of the case over the consignment issues. Like the Debtors, as fiduciaries, the Committee is working for the benefit of all unsecured constituencies to avoid a full chain liquidation and the attendant loss of value, jobs, customers and tenants for the various other constituencies affected by this case. The same cannot be said for the one parochial group of substantially undersecured distressed investors whose actions continue to jeopardize the Debtors' survival.⁵ The secured creditors' fight with the consignors is as destructive as other measures being forced on the Debtors in this case, including a DIP loan that costs \$25 million that provides no new financing, encumbers all previously unencumbered assets, and forces the Debtors to conduct a rushed sale process through arbitrary

⁴ See *Objection of the Official Committee of Unsecured Creditors to: (I) Debtors' DIP Financing Motion; and (II) Debtors' Bid Procedures Motion* [Docket No. 924] (the "Committee's DIP Objection").

⁵ Indeed, it is particularly galling that the Debtors are being forced under the DIP Financing Motion to pay the professional fees of the Term Lenders, who are undersecured, and therefore not entitled to recover same under section 506(c) of the Code, and yet they are attacking the Debtors' efforts to maintain their essential supply relationships in order to conduct their business operations while in chapter 11.

milestones that take any glimmer of hope for maximizing going concern value away from the unsecured creditors.

3. Against this backdrop, the Committee believes the Debtors have worked in good faith with the Consignment Vendor community and their secured creditors to the greatest extent possible, and the settlement they have proposed is fair and reasonable, avoids a multitude of litigation, and most importantly, will allow for an influx of desperately needed new inventory.

4. As set forth more fully in the Settlement Motion, approval of the comprehensive Settlement Agreement⁶ between the Debtors and the Initial Consenting Vendors⁷ (together, the “Parties”) will, among other things, (i) pave a path for resolving all disputes pertaining to the sale of Applicable Prepetition Consigned Goods and Postpetition Consigned Goods, as well as related issues implicating ownership and title thereof; (ii) clear the litigious cloud that has burdened these cases since the Petition Date, and, as a consequence thereof, render moot a significant number of adversary Complaints filed against Consignment Vendors; (iii) facilitate and re-establish a cooperative business relationship between the Debtors and Consignment Vendors on a go-forward basis; and (iv) critically, provide for the supply of new inventory that is much needed for the Debtors’ go-forward stores. Accordingly, the Committee believes that the Settlement Motion, if approved, will not only augment the Debtors’ ordinary course operational capacity, but also likely stave off a potential shut-down of the Debtors’ operations. Thus, the Committee strongly believes that the Settlement Motion should be heard on shortened notice, and also supports the entry of an Order approving the Settlement Motion itself.

5. That said, the Committee remains extremely concerned that the DIP Lenders, and the Term Lenders even more so, are using their leverage to force this case onto a course that

⁶ As defined in the Settlement Motion.

⁷ As defined in the Settlement Motion.

damages the Debtors' prospects for survival and thus adversely impacts all other creditor constituencies, including suppliers, landlords and employees. For these reasons, the Committee urges the Court to grant the Motion to Shorten, approve the settlement and to grant such other and further relief, including with respect to the DIP Financing Motion, which will facilitate the orderly operation of the Debtors' business, and provide a meaningful opportunity to maximize value for all creditor constituencies during these reorganization cases.

Dated: April 4, 2016

Respectfully Submitted,

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