

ALERT

Restaurant Franchisors Sbarro and Quiznos Seek Quick Bankruptcy Exit

April 7, 2014

Two quick-service restaurant franchisors filed for chapter 11 reorganization days apart this March—Sbarro on March 10 followed by Quiznos on March 14. Both restaurant groups have proposed “prepackaged” reorganization plans, hoping to quickly restructure their debts and emerge from bankruptcy in under two months.

The Sbarro companies operate 217 company owned restaurants in the U.S. and have 582 franchised restaurants, 176 in the U.S. and 406 abroad. There are 2,034 Quiznos franchised restaurants, with 1,343 locations in the U.S., 20 in Puerto Rico, 382 in Canada and 289 abroad.

Sbarro and Quiznos Restaurant Count to Decline

Sbarro and Quiznos restaurants intend to remain in operation during and after the bankruptcy process, but each expect units to close.

The Sbarro companies have identified approximately 50 locations to shutter in addition to the over 180 unprofitable stores closed in the months prior to the bankruptcy filing. On the upside, the Sbarro restaurant group has “identified approximately 52 profitable stores in less concentrated markets which could be sold to franchisees to generate significant cash proceeds,” according to papers filed in its bankruptcy case.

Quiznos may also see further declines in Quiznos-branded stores. Its overall restaurant count, including those in domestic and international markets, has declined by 955, or 32% since the end of 2011. In papers filed in its bankruptcy case, the company has warned the court and creditors “[t]here can be no assurance that the Debtors’ restaurant count will not continue to decline.”

Both restaurant groups have requested authorization from the bankruptcy courts to reject numerous leases and abandon restaurant equipment in their closed stores. Quiznos has identified 24 leases to reject and Sbarro has identified 183, thus far.

Unsecured Creditor Recovery Unlikely in Sbarro, Unpredictable in Quiznos

Under Sbarro's plan of reorganization, the debtors propose to surrender equity in the companies to their secured lenders and provide no recovery to general unsecured creditors. While the Sbarro plan provides an overbid process, which will allow interested purchasers to bid for the companies' assets, the threshold amount to satisfy secured and priority debt is so high that any recovery to unsecured creditors—even with a successful overbid—appears unlikely. Potential purchasers must submit a non-binding indication of interest by April 14, 2014. The proposed bid deadline is May 9, 2014.

The Quiznos' plan estimates that unsecured creditors could recover nothing, but may recover more, up to 100% of their claims if specified litigation is successful.