EXCLUSIVE BUSINESS

Fortress poised to get biggest stake in bankrupt Quiznos

By Josh Kosman March 14, 2014 | 3:09pm

Photo: Daniel Shapiro

It's hard to profit from selling toasted submarine sandwiches when they're weighed down with so much debt.

The 33-year-old Quiznos sandwich chain filed for Chapter 11 reorganization on Friday, a move that will result in Wes Edens' Fortress Investment Group owning the largest stake in the 2,100-unit chain, The Post has learned.

By filing, the Denver-based company — credited with kicking off the toasted submarine craze — is able to cut its debt by $400 million, or by two-thirds.

Big lenders, including Fortress, Howard Marks' Oaktree Capital and Michael Dell's MSD Capital, are hammering out a debt-restructuring deal for when they take control of the company, sources said.

Under the tentative plan, senior lenders will get 70 percent of Quiznos while junior debt holders will get the rest, according to a source with direct knowledge of the situation.

Edens will become the third large private equity or hedge fund titan to try to grow the troubled chain.

CCMP Capital, JPMorgan's former private equity firm, invested in 2006; Marc Lasry's Avenue Capital, in 2012. Both failed.

"This is a case of really bad due diligence," restaurant consultant John Gordon told The Post. "The buyers had overconfidence with the franchise model. They had just an implicit belief that a franchise model is flawless."

With the average Quiznos franchisee losing money, the new owners are considering reducing the price of goods they sell their franchisees to help them regain their financial footing, sources said.

Fortress, which holds senior and subordinated debt, stands to get 30 percent to 40 percent ownership in the chain. It also owns a minority equity position in Quiznos, but that will be wiped out in the restructuring.

Oaktree is angling for a roughly 30 percent stake as part of the debt-to-equity swap.

MSD and Caspian Capital Advisors are discussing smaller stakes, sources said.

Avenue, Quiznos' controlling shareholder, will see its equity wiped out in bankruptcy. The hedge fund, which also holds junior debt, would see its more than 70 percent stake shrink to less than 10 percent under the proposed deal, sources said.

Lasry's Avenue gained control of Quiznos through an earlier out-of-court debt restructuring in 2012, investing $150 million of equity.

The still-evolving plan would need to be approved by the bankruptcy judge. Creditors aim to exit bankruptcy within 100 days.

The Post first reported Feb. 24 that senior lenders were within weeks of pushing the chain into bankruptcy.

In addition to having its debt cut to $225 million, Quiznos would not have to pay interest on that money for 18 months, although interest will accumulate, a source said.

All but seven Quiznos locations are franchises, and they are not involved in, or affected by, the filing.

FILED UNDER AVENUE CAPITAL, BANKRUPTCY, FORTRESS INVESTMENT GROUP, MARC LASRY, QUIZNOS

READ NEXT: Target admits it ignored early...

Kate Upton needs bodyguard at dinner

Dita Von Teese delivers birthday cake to beauty execs

SEE ALL