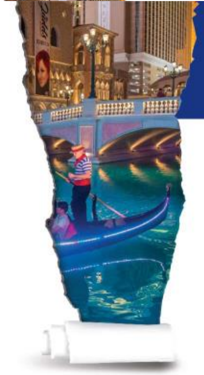


91st Annual National Conference of Bankruptcy Judges

October 8-11, 2017 Las Vegas, NV

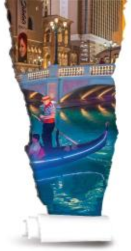
Retail Bankruptcies: Is it Possible to Save Bankrupt Retailers from Liquidation?

Honorable Kevin Gross, U.S. Bankruptcy Court, District of Delaware

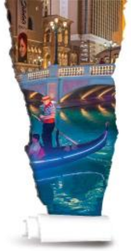
Bradford J. Sandler, Pachulski Stang Ziehl & Jones LLP

Carol Flaton, Zolfo Cooper

Ronald M. Tucker, Simon Property Group LP



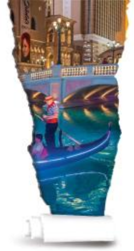
Industry Background



Current Issues in Retail

Trends

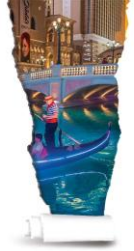
- Declining foot traffic as e-commerce as a percentage of retail sales continues to grow
- Significantly higher retail footprint per capita in the United States relative to that of other countries
- Uptick in number of store closures as e-commerce as a percentage of total sales continues to grow
- Dramatic increase in number of bankruptcy filings
- Amendments to debt agreements to extend operating runway



Current Issues in Retail *Cont’d*

Major Drivers

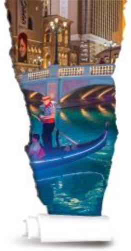
- Dominance of Amazon
- Online shopping vs. foot traffic
- Shift away from retail toward experiences
- Shift toward discount retailers
- Importance of omni-channel retailing and technology



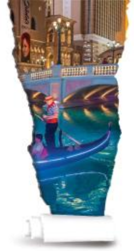
Current Issues in Retail *Cont’d*

Expectations

- As significant debt maturities approach, the number of retail store closures and bankruptcies will continue to grow
- As stores continue to close, hardship is on the horizon for real estate owners
- Discount retailers and retailers who embrace omni-channel and experiential concepts will survive



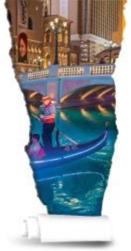
Folie Corporation Case Overview



Business and Case Overview

Business Overview

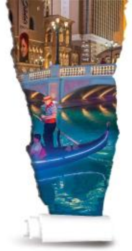
- Global retailer of high fashion clothing for teenagers with 1,200 stores and 12,000 non-unionized employees in the United States, Latin America and Canada
- $1.5 billion of sales and $65 million of EBITDA in fiscal year 2016
- Privately held and owned by Hyena Partners ("Hyena"), an affiliate of Lucifer Partners ("Lucifer")
  - Acquired in 2012 by Lucifer through an LBO that burdened Folie with $500 million of debt



Business and Case Overview

Business Overview

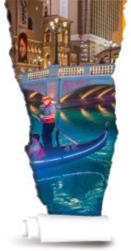
- $600 million of outstanding secured indebtedness and $120 million owed to trade vendors
  - $200 million first lien ABL
  - $400 million second lien Term Loan
- $100 million of NOLs



Business and Case Overview *Cont'd*

Situation Overview

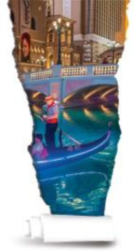
- Due to a number of factors, Folie filed for chapter 11 protection on February 5, 2017 in Delaware
  - Sales have declined by five percent per year and EBITDA has declined by $60 million since 2012
  - Inventory shortages due to glitches in the inventory processing system and a delay in placing orders for back to school season
  - Online sales account for only five percent of sales



Business and Case Overview *Cont'd*

Situation Overview *Cont'd*

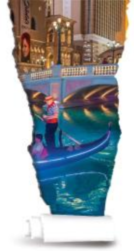
- Folie intends to use the bankruptcy to
  - Complete GOB sales on approximately 400 stores
  - Reduce lease footprint and negotiate rent concessions
  - Finalize a plan of reorganization
  - Reduce funded debt
  - Restore vendor relationships
- Current ABL will be rolled up into a new DIP loan and will be paid upon emergence from chapter 11 with an ABL exit facility



Business and Case Overview *Cont’d*

Situation Overview *Cont’d*

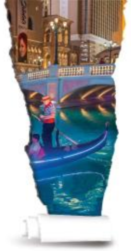
- Folie has reached an agreement with two thirds of its first and second lien debt holders on a plan of reorganization outlined in a restructuring support agreement (“RSA”)
  - Reduce outstanding secured debt from approximately $600 million to $300 million by converting the majority of the second lien term debt into new equity
  - Administrative claims, priority tax claims and the DIP claim are all unclassified and unimpaired. Holders of the term DIP facility claims would convert such claims into claims into a new first lien term loan facility



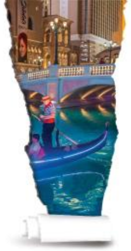
Business and Case Overview *Cont'd*

Situation Overview *Cont'd*

- Third party releases in favor of the secured lenders and current D&Os
- General unsecured creditors will receive an unknown percentage recovery
- If Folie is unable to secure a $215 million exit facility by March 31, 2018, Lucifer has the option of pulling a toggle switch that would move the case into a sale process

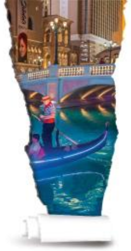


Setting the Stage

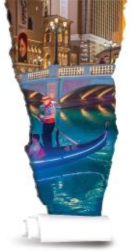


General Position of Constituents in Retail Case

Debtor	ABL	Term	Committee
Reorganize or liquidate as fast as possible	Give the Debtor some breathing room, but force a liquidation 60 – 90 days prior to the expiration of the 210 day 365(d)(4) deadline	Subjective value maximizing ▪ Support a sale ▪ Reorganize or execute a debt/equity swap	Value maximizing going concern, generally largest footprint and well-capitalized



Case Issues

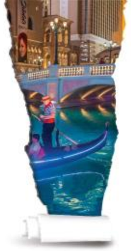


Folie Corporation - Audience Questions

1. If it appears ***likely*** the case will end in a plan, should the judge approve the 506(c) waiver notwithstanding the DIP budget does not provide for the payment of stub rent and 503(b)(9) claims?

2. If it appears ***unlikely*** the case will end in a plan, should the judge approve the 506(c) waiver notwithstanding the DIP budget does not provide for the payment of stub rent and 503(b)(9) claims?

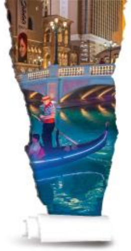
3. If it appears ***uncertain*** the case will end in a plan, should the judge approve the 506(c) waiver notwithstanding the DIP budget does not provide for the payment of stub rent and 503(b)(9) claims?



Folie Corporation - Audience Questions

4. Should Congress revisit the 210 day rule under 365(d)(4)?

5. Should the milestones be extended for Folie?
   A. No
   B. By one week
   C. By two weeks
   D. By more than two weeks



Folie Corporation - Audience Questions

6. Should the Debtors be allowed to assume the RSA?

7. If the Committee can show that a colorable claim may exist against Lucifer, should the Debtors be compelled to exercise their fiduciary out?