Hooters Hotel owners get chance to find financial savior

BY TIM O'REILEY
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The owners of the bankrupt Hooters Hotel will have a chance to find a financial savior on their terms.

At a Wednesday hearing, U.S. Bankruptcy Court Judge Bruce Markell approved hiring Innovation Capital LLC, based in El Segundo, Calif., to find investors willing to put tens of millions of dollars into the off-Strip property. In addition, the judge turned aside an unusual legal maneuver by an affiliate of Los Angeles-based Canyon Capital Realty Advisors, by far the largest creditor in the case, that would have cleared the path to take over the hotel.

"It's time to get to work," Innovation Capital managing partner Matthew Sodl said after the hearing.

On the witness stand, Sodl had expressed irritation that his appointment has been caught in legal wrangling as Canyon Capital fought his fee of $35,000 a month for six months, plus another $500,000 for bringing someone to the table.

"We're in an environment where the entire gaming universe is in town," said Sodl, referring to the Global Gaming Expo.

From his standpoint, the convention, which ends today , allows him to approach numerous potential investors in person. Until the court OK'd his appointment, however, he had to abstain from potential deal making.

He did not specify what the terms might look like beyond a rough estimate that Hooters would require $40 million to $50 million in renovations to be competitive.

Canyon Capital, on the other hand, had proposed hiring the brokerage CB Richard Ellis to skip the hunt for fresh money and instead sell the 696-room hotel and casino. John Knott, executive vice president of the firm's global gaming group, estimated that he could find a buyer for about $70 million by the end of the year.

He said he had worked on the proposed sale of Fitzgeralds for about $20 million to owners of the Golden Gate even though operating results are not as good as at

Hooters. The Fitzgeralds deal will soon go to the Nevada Gaming Control Board for approval.

"A recapitalization of the company (as Innovation Capital will pursue) is highly speculative as to success," he testified.

Markell, in ruling from the bench, noted that the Chapter 11 case is only two months old. Bankrupt companies initially get significant leeway in trying to figure out how to assemble a repayment plan. Further, the written testimony submitted before the hearing agreed that Innovation Capital's fee was within normal bounds.

Canyon Capital also got nowhere with its novel idea to pay off all the other creditors, owed an estimated $1.3 million, to narrow the case to itself and the Hooters owners. Normally, creditors are not paid until the end of the case, except for those vital to keeping the business going.

After an extended argument over technical bankruptcy law, Markell ruled that such a gambit doesn't fit the definition of how a case is supposed to work. In addition, he said Canyon Capital had not availed itself of conventional alternatives, such as having a trustee take over operations.

Canyon Capital is owed about $178 million, or more than 90 percent of the total debt, including a $15 million loan it made several years ago and buying up the rest from others last year at a steep discount.

Contact reporter Tim O'Reiley at toreiley@reviewjournal.com or 702-387-5290.

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