

CASE STUDY

Protecting Bondholders on \$850 Million Debt

“Jean Coutu’s senior vice-president ... was peppered with questions from irate fixed-income investors, who expressed doubt Jean Coutu could avoid triggering a change-of-control measure forcing it to buy back the debt at a 1% premium.”

—*Financial Post*, August 26, 2006



Client	Wells Fargo
Area of Law:	Commercial Litigation
Venue:	U.S. District Court for the Southern District of New York
Result:	Protected creditor’s rights in a favorable settlement after a victory in federal court



When the Jean Coutu Group arranged to sell its 1,858 U.S. drugstores to Rite Aid, Canada’s leading business journal predicted a “revolt” by the holders of Jean Coutu’s high-yield debt. But rather than pitchforks and torches, the bondholders’ trustee, Wells Fargo, retained Pillsbury litigators to investigate and obtain redress.

Our client served as indenture trustee on Jean Coutu’s debt offering of \$850 million in senior subordinated notes, with the proceeds going to the purchase of the Eckerd drugstore chain. When Jean Coutu sought to sell those stores in 2006, it sued the indenture trustee, seeking an expedited transfer of those debt obligations to Rite Aid, arguing that the \$3.4 billion deal represented the sale of “all or substantially all” of its assets.

A majority of bondholders objected to that characterization and argued that responsibility for the debt could not simply be transferred to Rite Aid without bondholder consent. Analysts predicted that if the payment obligations were transferred to Rite Aid the bonds would lose substantial value.

Pillsbury conducted an independent investigation to evaluate Jean Coutu’s contention. Based on that analysis, the trustee challenged Jean Coutu’s position.

With the \$3.4 billion sale pending, the case was put on a fast track by the U.S. District Court. Following expedited document and deposition discovery, Pillsbury defeated Jean Coutu’s summary judgment motion, leading to a favorable settlement for the bondholders, including the repurchase of the bonds by Jean Coutu at 7.9% over par.