

Draw Another Circle Gets Quick OK For Stalking Horse

By **William Gorta**

Law360, New York (July 15, 2016, 5:46 PM ET) -- A Delaware bankruptcy court on Friday granted Draw Another Circle LLC, owner of media retail stores including Hastings Entertainment Inc. and MovieStop LLC, a shortened objection period to its motion for approval of its choice of a joint venture of Hilco Merchant Resources LLC and Gordon Brothers Retail Partners LLC to act as stalking horse in its short-fuse Chapter 11 sale.

U.S. Bankruptcy Judge Kevin Carey on Friday approved the shortened notice and objection period and ordered a hearing for Monday on the stalking horse bid. If approved, the stalking horse entity will net a \$1.4 million breakup fee if it is bested at a July 20 auction to liquidate DAC's inventory.

"The debtors are now in a favorable position to solicit competing bids that may be materially higher or otherwise more favorable than the stalking horse purchaser's bid, based off a fully negotiated contract," DAC wrote in its motion. "If the stalking horse purchaser is not granted the bid protections, the debtors believe that it is possible that any bids submitted would be lower and would bring less value to the estates. In sum, the stalking horse purchaser should be compensated for the risk it is taking, the expenses it is incurring and the benefit it is providing to the debtors' estates."

DAC sought bankruptcy protection June 13, proposing a five-week search for buyers and liquidation if the effort failed. Earlier this month, the company's unsecured creditors objected to DAC's sale schedule, citing concern that prepetition lenders would rush a settlement without seeking a better deal that would resolve other claims and costs.

DAC reported contacting 22 potential buyers and 10 investors or financial institutions that deal with distressed retailers prior to its Chapter 11 filing, without drawing a firm offer.

Complications remain, however, including landlord concerns over payments for broken leases and provisions for handling of inventory left unsold.

Hastings, acquired by DAC in 2014, operates in 123 superstores across the Northwest, Midwest and Southeast. The centers buy, sell, trade and rent home entertainment products ranging from books to video hardware and videos to consumer electronics and recreational and lifestyle consumer goods.

The company also owns sports memorabilia distributor SP Images Inc. SPI distributes merchandise licensed by Major League Baseball, the National Football League and other sports enterprises.

Already on the way out, in the meantime, is DAC's chain of MovieStop video rental sites. The company began going-out-of-business sales for all its 39 MovieStop locations, due to wrap up this month.

Much of DAC's troubles arose as online retail and social media markets grew and eroded demand for physical media, the company said. Hastings, the largest of DAC's three companies, lost \$16.6 million on \$401 million in revenues last year, and \$10.9 million on \$420 million in revenues the prior year.

DAC owed about \$70 million under a secured credit agreement with Bank of America at the time of its bankruptcy filing, as well as a \$10 million balance on a term loan with Pathlight Capital LLC. Another \$59 million is owed to unsecured creditors, including landlords and vendors.

As part of the Chapter 11 plan, Bank of America agreed to provide up to \$90 million to support the plan through a senior secured debtor-in-possession revolving credit arrangement. About \$22 million could be needed during the initial weeks of the Chapter 11 process.

"We're dealing with a case that, due to the economics, are in a very compressed timeline," Christopher M. Samis of Whiteford Taylor & Preston LLC, an attorney for DAC, said earlier this month. "The company's managers recognized that a shorter, targeted sales process is the best way to maximize value for shareholders."

Counsel for DAC did not respond Friday to a call seeking comment.

Bruce Buechler of Lowenstein Sandler LLP, counsel for the unsecured creditors, said the motion did not accurately reflect the bid protections for the stalking horse and the creditors committee would review the changes.

DCA is wholly owned by Joel Weinshanker, who is also the majority owner of Elvis Presley Enterprises and managing partner of Graceland Holdings LLC. Weinshanker also is chairman and founder of National Entertainment Collectibles Association.

Draw Another Circle LLC is represented by Christopher M. Samis, L. Katherine Good and Chantelle D. McClamb of Whiteford Taylor & Preston LLC and Cathy Hershcopf, Michael Klein and Robert Winning of Cooley LLP.

The unsecured creditors committee is represented by Bruce Buechler, Nicole M. Brown, Bruce S. Nathan and Eric Chafetz of Lowenstein Sandler LLP, and Maria Aprile Sawczuk of Goldstein & McClintock LLP.

The case is In re: Draw Another Circle LLC et al., case number 1:16-bk-11452, in the U.S. Bankruptcy Court for the District of Delaware.

--Additional reporting by Jeff Montgomery. Editing by Katherine Rautenberg.
