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Hastings Parent Gets Green Light For Liquidation Sales

By **Vince Sullivan**

Law360, Wilmington (July 22, 2016, 7:19 PM ET) -- The parent company of Hastings Entertainment Inc. received approval Friday in Delaware bankruptcy court for an $85 million sale of its assets to a liquidating partnership that served as an auction stalking horse bidder.

During a hearing in Wilmington, attorneys for Draw Another Circle LLC said that other prospective bidders expected to make offers to buy the company as a going concern did not materialize ahead of Wednesday's Chapter 11 auction. The winning bidder was a liquidating joint venture between Hilco Merchant Resources LLC and Gordon Brothers Retail Partners LLC, which will pay 75 percent of the proceeds from going-out-of-business sales at 124 Hastings stores.

"While the debtors are disappointed that a going concern bidder was not ultimately found, we feel that we've made the best deal possible," Draw Another Circle attorney Christopher Samis of Whiteford Taylor & Preston LLC told U.S. Bankruptcy Judge Kevin J. Carey.

Samis detailed the post-petition marketing process for the court via proffered testimony from financial adviser Michael Nolan. Through solicitation of thousands of potential buyers, the company drew letters of intent from two going-concern bidders. Ultimately, the bids did not qualify under the court-approved bid procedures and were not considered at the auction, Samis said.

A separate sale transaction for an airplane owned by the company was also approved Friday, with a sale price of $570,000. The Cessna 441 will be purchased by DLB Enterprises LLC after a marketing process conducted by the plane's pilot.

Draw Another Circle resolved objections surrounding the sale order from landlords and purported consignment vendors who took issue with the conduct of the contemplated going-out-of-business sales. According to Samis, the landlords are negotiating with the Hilco-Gordon Brothers venture to resolve their issues via side letters to the store leases. The landlords' concerns mostly relate to signage and solicitation that typically occur during going out of business sales.

The company agrees with vendor Trends International to sell its property during the sales and remit 20 percent of the proceeds. A resolution with Vobile Inc. over hundreds of thousands of DVDs and Blu-Ray discs provided to the debtor is being negotiated with the liquidating partnership. If an agreement is not reached, Hilco-Gordon Brothers have agreed to pack up Vobile's property and exclude it from the sales.

Samis said the consignment resolutions were made with an eye toward avoiding the "morass" that has beleaguered the bankruptcy case of retailer Sports Authority.

Draw Another Circle, which owns 124 stores under the Hastings Entertainment banner, began liquidation sales at its 39 MovieStop video rental locations before filing for Chapter 11 protection in June. The company also owns a sports memorabilia distributor called SP Images, which sells items licensed by Major League Baseball and the National Football League.

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

Draw Another Circle owed about $70 million under a secured credit agreement with Bank of America NA 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.

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 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.

--Editing by Brian Baresch.