

## Draw Another Circle Sets Sale Hearing, Sees Bid Interest

By **Jeff Montgomery**

*Law360, Wilmington (July 6, 2016, 9:53 PM ET)* -- Hastings Entertainment parent Draw Another Circle LLC took a long step toward its short-fuse Chapter 11 sale Wednesday, telling a Delaware bankruptcy judge that negotiations had resolved key disputes over auction plans and reporting promising signs of buyer interest.

The chain store and online retailer, which also owns sports memorabilia distributor SP Images Inc., delayed its original sale hearing by one week, to July 22, as part of its concession to objectors wary of the rush. But the company also won approval from U.S. Bankruptcy Judge Kevin Carey for previously contested final orders needed to manage the company in Chapter 11.

Company attorney Christopher M. Samis of Whiteford Taylor & Preston LLC said during the hearing Wednesday that a public company had emerged as a potential buyer of DAC's assets as going concerns and was studying the business.

A second company has indicated readiness to enter a bid to buy the company's inventory for liquidation at a price \$3 million to \$6 million above DAC's wind-down costs, Samis said, allaying concerns about covering bankruptcy administration costs.

"It looks markedly better than before," Samis told Law360 afterward when asked about the company's marketing progress.

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.

SPI distributes merchandise licensed by Major League Baseball, the National Football League and other sports enterprises.

DAC committed Wednesday to either destroy or donate orphaned inventory, amid concerns that it could fall into the hands of parties who would seek refunds or credit, causing double damage to the vendor who provided it and potentially suffered a loss.

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," Samis said. "The company's managers recognized that a shorter, targeted sales process is the best way to maximize value for shareholders."

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 LLLP.

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 Matt Chiappardi. Editing by Aaron Pelc.

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