

Hastings Entertainment Owner In Del Ch. 11, Plans Sale

By **Jeff Montgomery**

Law360, Wilmington (June 13, 2016, 4:31 PM ET) -- Battered by the growth of internet-based competition and changing consumer preferences, Hastings Entertainment retail chain owner Draw Another Circle LLC sought Chapter 11 in Delaware on Monday, proposing a five-week search for buyers and liquidation if the effort fails.

The company, which also owns the MovieStop LLC chains and SP Images Inc., arrived in bankruptcy with about \$139 million in secured and unsecured debts. Its plan anticipates borrowing up to \$90 million from current creditor Bank of America for initial bankruptcy proceedings, depending on the outcome of sale efforts.

Under the plan, an already-commenced closing sale for all remaining MovieStop sites will continue while the company seeks buyers for both entertainment product retailer Hastings and SPI, a distributor of merchandise licensed by Major League Baseball, the National Football League and other sports enterprises.

“While the debtors' hope is that their assets will be purchased by a party that will continue its business as a going concern, management recognizes that such an outcome is far from certain,” Duane A. Huesers, chief financial officer of Hastings Entertainment, said in a declaration supporting Chapter 11 filing.

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.

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.

Huesers said in a court filings that DAC owes about \$70 million under a secured credit agreement with Bank of America 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, BofA 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.

“An expedited sale process is required here because the Debtors simply lack the access to capital to sustain operations beyond the middle of July 2016,” Huesers said.

Hastings already has overhauled 20 of its Hastings retail sites. The company said in a statement Monday that it believed that the business would be most valuable to a buyer who continued the modernization across the chain.

“We are hopeful that we are on the right path but need an additional cash infusion to complete our remerchandising strategy,” said Jim Litwak, president and chief operating officer of Hastings.

The group listed Universal Studios Home Video, Fox Home Entertainment, Sony Pictures and HarperCollins Publications as its top four unsecured creditors, owed a combined \$9 million.

DCA, parent to all three companies, 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.

The case was assigned to Judge Kevin J. Carey, with an initial court hearing scheduled for Tuesday in Wilmington.

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 Office of the U.S. Trustee is represented by Hannah Mufson McCollum.

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

--Editing by Patricia K. Cole.