

Hastings Parent Aims To Auction Leases After Liquidation

By **Vince Sullivan**

Law360, Wilmington (August 17, 2016, 5:54 PM ET) -- The parent company of media retailer Hastings Entertainment asked for permission in a motion filed in Delaware bankruptcy court Tuesday to auction off the unexpired leases of its 123 stores currently involved in liquidation sales as part of its Chapter 11 case.

According to the motion, the going-out-of-business sales currently underway should wrap up by the end of October, and Draw Another Circle LLC wants to sell the unexpired leases for its store locations to the highest bidder. The leases may have value for the debtor's estate once the stores are shuttered, the motion said.

"The debtors believe the leases are potentially valuable assets of their estates, and that establishing the bid procedures contemplated under this motion will allow the debtors to liquidate these potentially valuable assets for the benefit of all interested parties," the motion said.

Draw Another Circle proposed bid procedures that contemplate an auction on Sept. 19, with bids due by Sept. 15. A sale hearing is envisioned for Sept. 28, which the company argues will give it enough time ahead of the end of the liquidation to determine which leases it intends to assume, reject, or sell and assign.

The company engaged RCS Real Estate Advisors to market its leases as part of its postpetition sale efforts, and the advisers have contacted other retailers, lease brokers and the landlords to gauge interest in the market. The motion describes RCS' efforts as "extensive," including furnishing copies of the leases to potential buyers and responding to requests for more information.

Once the liquidation sales wrap up, Draw Another Circle will continue to be on the hook for rents under the 123 leases, and wants to limit its liability under the existing agreements. It has determined that the best path forward is to receive approval on the bidding procedures and conduct the auction.

"The bid procedures are designed to ensure an efficient and orderly sale process that will maximize value for the debtors' estates, while also minimizing the debtors' potential liability under the leases once the store closing sales are completed," the motion said.

In July, the company conducted an auction that was won by its stalking horse bidder, a joint venture of Gordon Brothers Retail Partners LLC and Hilco Merchant Resources LLC. The venture said it would sell the remaining inventory of about \$110 million in liquidation sales at the stores, and would provide 75

percent of the proceeds to Draw Another Circle. The company estimates it will realize about \$85 million from the endeavor.

The company has also requested that the period during which it has the exclusive right to file a Chapter 11 plan be extended beyond the initial 120 days granted automatically by the court. In its motion, it says that since the period expires on Oct. 11, it will need more time to wrap up the liquidation sales and conduct the auction of unexpired leases. It is asking for an additional 45 days of exclusivity, which will take it through Nov. 25.

Draw Another Circle, which owns 123 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 Emily Kokoll.