2/10/16 The Deal (Pg. Unavail. Online)
2016 WLNR 4897876

Deal, The

February 10, 2016

Former Targus parents to wind down in Chapter 11

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The former holding companies for Targus Group International Inc. have sought bankruptcy protection after handing the operating assets of the mobile device case maker to lenders.

In a Tuesday, Feb. 9, statement, Targus International LLC announced it had purchased the operating assets of private equity-backed Targus Group through a foreclosure process under the Uniform Commercial Code, under which the company's senior lenders were the winning bidder.

Targus Group's former parents, TGHI Inc. and Parent THI Inc., on Tuesday submitted Chapter 11 petitions in the U.S. Bankruptcy Court for the Southern District of New York in Manhattan with a prepackaged liquidation plan that would wipe out equity holders including affiliates of Carlyle Group LP (CG), Farallon Capital Management LLC and York Street Capital Partners LLC.

Judge Michael E. Wiles is set on Thursday to consider first-day motions, including a request for joint administration of the cases with TGHI as lead debtor and another to schedule a joint disclosure statement and confirmation hearing.

The Anaheim, Calif., debtors previously owned operating subsidiaries that produced carrying cases and accessories for mobile phones and computers. The deal with Targus International was part of negotiations with the debtors' lenders capped by a forbearance and transaction support agreement, according to a Tuesday declaration from Parent THI and TGHI president Christopher Layden.

Under the May 21, 2015, deal, lenders under a $185 million secured term loan and a $75 million secured asset-based revolving credit facility agreed to forbear on their debt if Targus Group's stock was placed into escrow, with the plan to sell the stock to a third party.

Ultimately, lenders on the term loan became the owners of Targus Group when a sale process run by PJT Partners Inc. failed to produce any offers meeting a $200 million threshold that would have allowed the Targus Group stock to be retained by the debtors. Certain of the purchaser entities also assumed the ABL facility, which had $8.4 million outstanding as of Jan. 31.

The debtors received $750,000 in cash on consummation of the foreclosure proceeding.

"The aggregate amount of the transaction consideration is insufficient to satisfy the allowed claims against [TGHI's] estate in full," the declaration said. "Thus, these Chapter 11 cases contemplate the distribution of the transaction consideration pursuant to a waterfall of right to payment at [TGHI] with no distribution to Parent [THI] and thereafter the dissolution of [the companies]."

In the liquidation plan, TGHI said it would pay administrative and priority claims in full.

Certain lenders on the $185 million term loan that provided a $20 million bridge term loan allocated their right to repayment to unsecured creditors of TGHI and therefore will receive no recovery. The bridge loan, priced at 15% and led by Wilmington Trust NA, funded the foreclosure sale process and debt payments under the larger term loan and revolver.

TGHI unsecured creditors would receive a pro rata share of distributable assets for an 11% to 13% recovery.

TGHI owes $8.3 million on 16% senior unsecured pay-in-kind notes due Oct. 26, 2018. Vehicles of Carlyle Group (owed $1.37 million), Farallon Capital ($1.37 million), York Street Capital ($1.34 million) and Saratoga Investment Corp. ($319,711) lead the noteholders.

Unsecured creditors of Parent THI likely would not receive a recovery.

Parent THI owes $52.7 million on 10% senior unsecured PIK notes due June 14, 2019. The noteholders include Carlyle Group ($6.46 million), York Street Capital ($5.72 million), Farallon Capital ($5.36 million), Remzi Oten ($2.67 million) and Fevzi Oten ($2.67 million).

Law Debenture Trust Co. of New York is indenture trustee on all the PIK notes.

Equity holders would be wiped out.

In the declaration, Layden said the performance of Targus Group was tied to the underlying dynamics of the laptop and computer and tablet markets, which has shown year-over-year declines since 2012.

"This negative trend has been largely driven by (i) consumers' migration from laptops to tablets and smartphones and (ii) slower re-fresh cycles within the laptop market," the declaration said. "Further, the advent of the tablet and the smartphone has created excess and obsolete inventory. In addition, retail customer shopping patterns have also changed with the shift towards online shopping, a channel in which the formerly owned operating businesses are less established. These market factors resulted in a decline in revenues, and this financial performance directly impacted the ability of the debtors ... to satisfy their secured and unsecured debt obligations. By the first half of 2014, declines in the formerly owned operating businesses' financial results jeopardized continued compliance with leverage and revenue covenants under the ABL facility and the prepetition $185 million facility."

TGHI listed $1 million to $10 million in assets and $10 million to $50 million in liabilities in its petition, while Parent THI listed less than $50,000 in assets and $50 million to $100 million in liabilities.

The debtors have no offices or employees, court papers show.

Debtor counsel Tracy L. Klestadt of Klestadt Winters Jureller Southard & Stevens LLP declined to comment on the case on Wednesday. Joseph Corneau of Klestadt Winters also is debtor counsel, and Adam Rogoff, Anupama Yerramalli and Rachael Ringer of Kramer Levin Naftalis & Frankel LLP are special counsel to the debtors.

Alvarez & Marsal LLC advised Targus Group on the asset sale, with O'Melveny & Myers LLP providing legal advice.

http://pipeline.thedeal.com/tdd/ViewArticle.dl?id=13454937

---- Index References ----

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Language: EN

Other Indexing: (Alvarez & Marsal LLC; Parent THI Inc.; Southard & Stevens LLP; TGHI Inc.; Winters Jureller Southard & Stevens LLP) (Adam Rogoff; Anupama Yerramalli; Joseph Corneau; Rachael Ringer; Tracy Klestadt; Christopher Layden; Michael Wiles) (Far West; New York metro; New York state; North America; Northeast; Southern California; United States; United States - East; United States - West)

Word Count: 878

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