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Quirky will shop assets in Chapter 11 after rough patch

Kelsey Butler

Months after its top executive announced the company had run out of cash, "idea factory" Quirky Inc. has filed for bankruptcy protection with plans to sell its mobile app subsidiary for $15 million.

The New York startup submitted a Chapter 11 petition on Tuesday, Sept. 22, in the U.S. Bankruptcy Court for the Southern District of New York in Manhattan. Subsidiaries Wink Inc. and Undercurrent Acquisition LLC also filed petitions the same day.

Judge Martin Glenn set a Friday hearing to consider first-day motions, including requests for joint administration of the cases, permission to continue using bank accounts and interim access to cash collateral.

The venture capital-backed debtor, which sourced ideas for new products from an online community and subsequently manufactured them, said it intends to sell its assets during the case. Its Wink unit already has a $15 million all-cash offer from unsecured creditor Flextronics International USA Inc., according to debtor counsel Jeffrey L. Cohen at Cooley LLP.

Wink, founded in 2013, has developed a platform that allows users to control household appliances through their mobile devices through partnerships with companies such as General Electric Co. (GE), Honeywell International Inc. (HON) and Nest Labs Inc., among others.

According to Cohen, the company hopes to close the transaction before Thanksgiving. Proposed bidding procedures show Flextronics would receive a $450,000 breakup fee and up to $200,000 in expense reimbursement should it lose an auction for Wink's assets.

Rival offers of at least $15.8 million would be due Oct. 29. If Quirky received a competing bid, it would hold an auction on Nov. 2, at which bids would have to increase at increments to be announced at the auction.

Glenn would consider approving the sale on Nov. 5.

In a Tuesday statement, Quirky said it is working with interested parties to name a stalking-horse bidder for its own assets, including its online community and name.

The company, founded in 2009, in court papers said that earlier this year it began to wind down its product development and distribution business and to focus on developing new partnerships through its "Powered by Quirky" initiative. The latter operation provides third parties with access to Quirky's engineering and design staff and "community of inventors."

The company said it faced "a number of operational challenges as the volume of more complicated products that Quirky brought to market increased and the product categories in which Quirky was involved became more diverse."

Quirky then branched out to accommodate the development of the new products by opening offices in San Francisco and Schenectady, N.Y., thus boosting overhead expenses. "These expenses could not be sustained by the revenue generated by the sale of products and the strategic partnerships entered into by Quirky and Wink," the debtor said in a Tuesday court filing. "Accordingly, beginning in late 2014, the debtors commenced efforts to reduce costs by transitioning away from the manufacture of new products and towards a model more focused on product design process and process management services. These initiatives required more time and capital than had been initially projected, resulting in a liquidity crisis in mid-2015. Efforts to obtain additional debt or equity capital to bridge the debtors' operations through this transitional phase were unsuccessful."

At Fortune's Brainstorm Tech conference on July 14, then-CEO Ben Kaufman admitted Quirky was out of cash and attempting to raise cash for Wink, according to media reports. He stepped down from his role on July 31.

Starting in July, court papers show, Quirky began shopping Wink's assets with the aid of investment banker Centerview Partners LLC, striking an asset purchase agreement with Flextronics on Monday.

In its petition, Quirky reported $10 million to $50 million in assets and $50 million to $100 million in liabilities.

Quirky owes Comerica Bank $19.93 million on a revolving line of credit due Oct. 22 and $9.33 million on a term loan due Oct. 22, 2017. The company's largest unsecured creditors include Flextronics (owed $18.69 million), Undercurrent LLC ($14.1 million), United Parcel Service of America Inc. (UPS) ($1.32 million), AdRoll Inc. ($882,713) and Eastfield Lighting (Hong Kong) Co. Ltd. US ($634,878).

According to The Deal Pipeline, Quirky on Sept. 7, 2012, secured a $68 million third round of venture capital funding from Andreessen Horowitz, Kleiner Perkins Caufield & Byers, Norwest Venture Partners and RRE Ventures LLC. Norwest and RRE provided a $16 million second round on Aug. 10, 2011. Contour Venture Partners, Lowercase Capital, RRE and Village Ventures provided a $6 million first round on April 8, 2010.

Court papers show GE Ventures LLC holds $20 million in convertible subordinated notes. Andreessen Horowitz, RRE and Norwest affiliates hold $3 million each. KPCB has $2 million in notes. Others hold $5.8 million in notes, totaling $36.8 million.

Quirky has about 90 employees.

Klestadt Winters Jureller Southard & Stevens LLP is also debtor counsel.

FTI Consulting Inc. (FCN) is financial adviser. Hilco Streambank LLC is investment banker for the Quirky assets.

Robert E. Richards of Dentons US LLP represents Flextronics.

William R. Wyatt of Sheppard, Mullin, Richter & Hampton LLP is counsel to Comerica.

http://pipeline.thedeal.com/tdd/ViewArticle.dl?id=13297077

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