

The Daily Deal

Holliston Mills enters Chapter 11

by Ben Fidler
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Holliston Mills Inc. is hoping to close the book on years of liquidity struggles through a bankruptcy sale to an affiliate of Chrysalis Capital Partners LP.

The 114-year-old company, which makes materials for book covers and passports, is looking to the Chrysalis affiliate, Agarista ICG Lending LLC, to start the bidding for its assets with an offer worth \$11.5 million plus assumed liabilities.

Agarista holds some \$21 million worth of Holliston secured debt.

An auction will be conducted in the U.S. Bankruptcy Court for the District of Delaware in Wilmington, where the Church Hill, Tenn.-based Holliston filed for Chapter 11 protection on Monday, May 21.

In addition to making a stalking-horse bid, Agarista has offered a \$2 million debtor-in-possession loan to help Holliston finance its operations while in bankruptcy.

The DIP is priced at prime plus 325 basis points and matures on July 12 unless certain other events trigger an earlier expiration date. Pricing on the DIP would jump by 250 basis points if Hollister defaults.

The DIP contains a commitment fee equal to 1% of the revolving portion, an exit fee equal to 1% of all amounts outstanding on the DIP upon termination and a monthly unused facility fee equal to 0.50% of the average unused daily balance on the revolver.

Holliston was seeking to tap \$850,000 of the DIP at first-day hearings, which were set for Wednesday.

Bidding will start at \$12 million at a proposed June 28 auction and rise in \$200,000 increments. The debtor is requesting a sale hearing for the next day.

Agarista would get \$300,000 in expense reimbursements according to the bidding procedures if it is bested at an auction.

Chrysalis actually made its move on Holliston well before the bankruptcy, first getting involved in a managerial role in 2006 and then buying up Holliston's senior secured debt from Jackson Natural Life Insurance Co. on May 9.

Holliston was left vulnerable to outside intervention because of its years of struggling with debt service associated with its merger with Industrial Coatings Group Inc., or ICG.

Though Holliston claimed that it is an industry leader, controlling 80% to 85% of its market, it has been struggling with its debt ever since the ICG deal. The company has been unable to regularly service its debt since 2004 despite what it described as several restructuring attempts. It also claimed to be burdened by labor costs, filings show.

The company hired Palomino Partners LP as investment banker in 2005 and attempted to market itself for a sale, albeit unsuccessfully. Jackson Natural Life withdrew its support for the process in January 2006, but was brought back into such dealings when Chrysalis made a proposal to Holliston and the lender two months later.

Under that proposal, Holliston would get new financing and replace an underperforming management team, documents said.

The deal was struck, and the Chrysalis affiliate assumed responsibility for the day-to-day operations of Holliston, while Jackson Natural Life agreed to pump an additional \$2.35 million into the company.

The years of debt problems, however, took their toll, as Holliston was never able to catch up on several years' worth of deferred capital expenditures, even with the extra cash, filings show.

Not only has its debt struggle stopped the company from investing in new markets, but several of its raw material suppliers have also tightened their trade terms.

"Having exhausted all other reasonable options, [Holliston] ran the threat of running out of available cash and was in jeopardy of failing to meet its day-to-day operations," court papers said.

The company won't meet its debt service obligations when a forbearance period expires on May 31, and claimed that a standalone reorganization isn't possible.

Holliston is the nation's oldest and largest manufacturer of coated cloth material products used for book covers, passport covers, specialty packaging materials and coated fabrics that are used to manufacture items such as tape, sandpaper and abrasive materials, and rubber products. Its customers are primarily major North American publishing companies, printers, bookbinders and the federal government.

The book cover materials segment of its business accounted for 52.5% of its sales in 2006, while the passport segment accounted for 27.8% of its sales.

ICG had \$8.7 million in sales for the first quarter of 2007. It held about \$28 million in assets and about \$27.5 million in debts as of that date. Details on Holliston's overall sales were unavailable.

The debtor has hired Newbridge Management LLC as chief bankruptcy officer in order to oversee the sale process.

Robert Brady, Joseph Malfitano, Sean Greecher and Margaret Whiteman of Young Conaway Stargatt & Taylor LLP are debtor counsel.

Leon Barson of Pepper Hamilton LLP represents Chrysalis.

Irving Boody (\$715,479) holds the largest unsecured claim. Next are W. Gamby & Co. (\$543,372), Sun Chemical Corp. (\$404,245), Lafernery Inc. (\$247,065) and Air Products & Chemicals Inc. (\$214,578).