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ABSTRACT

[...] others involved in the Chapter 11 case, especially unsecured creditors, hoped that another party would come in and top Wurth's "stalking horse" bid and drive up the price. No such competing bidder materialized, but both the court and the creditors who would have benefited from a greater sale price said they were confident the company had been well shopped by Cleveland investment banking firm League Park Advisors.

FULL TEXT

Soon, possibly by the time you read this, Cardinal Fastener & Specialty Co. of Bedford Heights is likely to be recapitalized, restocking and, with a little luck, on its way to rebounding under new ownership.

Judge Pat E. Morgenstern-Clarren of the U.S. Bankruptcy Court in Cleveland last Thursday, Oct. 27, approved the sale of the company to Germany's Wurth Group for $3.9 million. She also waived the customary 14-day waiting period to close on the sale of a bankrupt company, thus allowing Wurth to close the deal fast.

"We hope to close on it by Nov. 1," said Marc Strandquist, CEO of Wurth's Michigan-based Dokka Fasteners unit. He was in court representing Wurth and will oversee Cardinal going forward as it continues to operate locally under its current president, John Grabner.

Step one will be to resupply Cardinal, a maker of bolts and other fasteners, with working capital so it can buy more inventory. Four people are slated to be added to increase sales and to stabilize relationships with existing customers who need to know that Cardinal is secure financially, Mr. Strandquist said. Thereafter, he said, Wurth will invest further in Cardinal to expand it.

"We plan to bring in about $1 million worth of new equipment" over the next year, Mr. Strandquist said.

The goal by the end of 2012 is to get Cardinal close to where it was before its June bankruptcy. Wurth figures the company can reach sales of $10 million and a headcount of more than 50 employees by the end of next year, Mr. Grabner said. He said the company currently operates with fewer than 30 employees.

Mr. Grabner always has maintained that Cardinal's basic business was good. It just wasn't growing fast enough to pay for investments the company made to get into the wind energy supply chain, and then its creditors cut access to the working capital Cardinal needed to grow. Now, Mr. Grabner said, the company should be able to resume its growth, only faster, with backing from Wurth.

"We will no longer have any restrictions on growth," Mr. Grabner said. "The money was always the limiting factor."

As for Wurth, it sees Cardinal as a long-term investment. It intends to keep the company operating at its existing location and under its existing name, which Mr. Strandquist said is a strong brand that Wurth wants to sustain.

Lots of tire-kicking, but ...

Wurth's intention from the beginning was to prevail as the winning bidder for Cardinal, Mr. Strandquist said. But others involved in the Chapter 11 case, especially unsecured creditors, hoped that another party would come in and top Wurth's "stalking horse" bid and drive up the price.

No such competing bidder materialized, but both the court and the creditors who would have benefited from a greater sale price said they were confident the company had been well shopped by Cleveland investment banking firm League Park Advisors. The firm solicited more than 100 potential bidders and generated interest from at least 60 of those, said Cardinal attorney Rocco Debitetto of the **Hahn Loeser** law firm.

Nonetheless, "as of Oct. 21 (the deadline for bids), no competing bids were received," Mr. Debitetto told the court the day the sale was approved.

Calfee Halter & Griswold attorney Jean Robertson, who represents Cardinal's approximately 200 unsecured creditors - who collectively are owed about $3 million - said she was satisfied with the sale price of the company because she believed it has been marketed well.

She was disappointed, though, that no one else ultimately stepped up to compete with Wurth's bid.

"It's too bad. I am surprised that no one else showed up, based on the activity that we saw leading up to the bid deadline," Ms. Robertson said. "There were a lot of lookers, and when you have that kind of activity it gets your hopes up and it creates expectations that you're going to have an auction. But when the rubber hit the road, people decided not to bid."

Secured creditors Wells Fargo and the nonprofit Grow America Fund stand to be paid in full once the sale closes. They will collect $1.8 million and $851,396, respectively.

As it stands now, Ms. Robertson's clients will be taking a substantial haircut on their debt, collecting only about 18% to 19% of what they are owed, she said. However, they are challenging some of Grow America's claims of secured debt, and if they prevail, Grow America also would be considered an unsecured creditor, Ms. Robertson said. Grow America has yet to answer the group's claims in the bankruptcy proceedings.

Down to business

Wurth and Mr. Grabner just want to get back to work producing bolts for wind turbines and other special uses. Mr. Grabner said it will be refreshing to focus again on running the business, instead of trying to sell it.

Mr. Strandquist said he was glad no other bidders contested Wurth's bid on the company.

Ms. Robertson said the final result was probably the best for which all the parties could have hoped.

"From the debtor's standpoint, they didn't pay enough. From (Wurth's) standpoint they may have paid too much," she said. "That's a perfect result; everyone's a little unhappy."

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