

Relativity Media can exit bankruptcy, judge says

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Mini mogul Ryan Kavanaugh's Relativity Media may have emerged from bankruptcy, but the 41-year-old entrepreneur now faces the difficult prospect of reviving the company and his reputation in Hollywood.

At a Friday U.S. Bankruptcy Court hearing in New York, Judge Michael Wiles said he would confirm Relativity's plan to finally resume its business of making and releasing movies. But the new Relativity will be a shadow of its former self and a far cry from the media giant Kavanaugh hoped to build when he founded the Beverly Hills company in 2004.

Relativity declared bankruptcy in July after a series of box-office misfires, listing \$1.2 billion in liabilities and assets valued at \$560 million.

Under the reorganization plan approved Friday, Relativity substantially pared its debt load to



Ryan Kavanaugh, founder of Relativity Media. (Paul A. Hebert / Paul A. Hebert/Invision/AP)

\$315 million and will retain \$16.2 million in cash.

"It's going to be a long, bumpy road," said Lloyd Greif, chief executive of Los Angeles investment bank Greif & Co. **"The Relativity that is emerging bankruptcy is not the same Relativity that entered bankruptcy. They're going back into the fray with one arm tied behind their back."**

Relativity has lost its TV business — which had been a reliable moneymaker — to a group of

lenders. The creditors agreed to pay \$125 million for the unit behind MTV's "Catfish" and Food Network's "The Great Food Truck Race" in October, after a bankruptcy auction failed to attract any bidders for the entire company.

The company won't have Oscar-winning actor Kevin Spacey at the helm of its movies arm as promised. The hiring of Spacey, known for his role in Netflix's "House of Cards" and reviving the Old Vic theater in London, would have de-

livered some much-needed credibility to Relativity (However, Spacey's producing partner, Dana Brunetti, will run the film studio).

Additionally, the equity financing that Kavanaugh said he would raise never materialized, leaving the company with less financial wiggle room than he had hoped.

Relativity at one point had promised to raise \$100 million in equity to fund its business. Now Relativity says its new funding will come in the form of a \$40-million loan from Midcap Financial Trust and \$35 million in convertible debt financing from Relativity backer Joseph Nicholas. The Chicago hedge fund investor will serve as Relativity's co-CEO alongside Kavanaugh.

Kavanaugh declined to comment.

Friday's court ruling closes the chapter on one of the most closely watched bankruptcies in recent Hollywood history.

Kavanaugh came to the film business with a bold plan for using algorithms to avoid movies that would lose money. The company made a name for itself with deals to co-finance movies with major studios, resulting in hits including "Bridesmaids" and "The Social Network." But several of Relativity's own films flopped at the box

office, including "Out of the Furnace" and "Movie 43."

Relativity's lawyers took pains to convince the judge that the company was ready to rebuild.

Wiles conditionally approved the reorganization plan last month, saying he needed more certainty about the firm's promised financing and leadership. Financial partners including streaming video giant Netflix had voiced concerns about Relativity's ability to meet its obligations and questioned the hiring of Spacey.

Marni Wieshofer, a managing director at Houlihan Lokey and a financial consultant for Relativity, testified that she was satisfied with Relativity's ability to continue operating.

Wiles agreed that while Relativity would remain "highly leveraged" it had a viable plan for the future.

Nicholas, Kavanaugh's new partner, said at the hearing that he would continue his efforts to raise capital for Relativity. He said he had been approached by several potential investors, but he declined to identify them.

In one positive sign, the company's film unit will be run by producer Brunetti, who is Spacey's partner at their production company Trigger Street. Relativity had

previously said Spacey would join as the studio's chairman. But in a court filing this month, Spacey declined the offer, saying he was too busy to do the job.

The stakes remain high for Relativity as it gets back to the business of distributing movies. Relativity hopes to release several long-delayed films, including the Halle Berry thriller "Kidnap" and the Kristen Wiig-Zach Galifianakis comedy "Masterminds." The Anthony Hopkins-Colin Farrell crime drama "Solace" and the Mike Flanagan-directed horror picture "Before I Wake" have also been in limbo.

But analysts have questioned Relativity's ability to deliver a successful slate of films, given its track record.

"They ended with flops," Greif said. "And if they start with flops, it's not going to be pretty with a highly leveraged company. Unlike the equity financing they failed to raise, debt needs to be serviced."