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# Ryan Kavanaugh's Last Stand: Relativity Could Go From Chapter 11 to Chapter 7 (or Worse)

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## Lawyers gear up for a sale of the struggling studio and another battle for control.

Relativity Media is on the block, but will anyone bite? That's the question as Ryan Kavanaugh's embattled studio looks for a buyer just six months after it emerged from a bankruptcy in which it listed assets of \$560 million and liabilities of \$1.18 billion. Sources say some marketing vendors haven't been paid as Kavanaugh, 41, squabbles with

EuropaCorp over who should be funding what in their Relativity Europa Distribution joint venture. As lawyers trade letters and president Dana Brunetti focuses on producing non-Relativity films, financial advisers Entertainment Media Partners and Zolfo Cooper are moving to sell a studio that didn't receive a single offer when it was in Chapter 11. Here are two potential scenarios.

### **Deep-Pocketed Producer Steps Up**

A film finance lawyer who has put together funds for several recent tentpoles says Relativity "could be a really interesting play, depending on the price, for a producer who already has an equity partner and has a slate of four to five films over the next two years. Or else a sales agent that wants to expand." There are producers who meet that description, from Jeff Robinov (whose Studio 8 is backed by Fosun International) to Thunder Road's Basil Iwanyk (backed by PalmStar Media) to Megan Ellison (who is self-financed and is said to be moving into distribution). Relativity's most attractive assets are its foreign output deals and a Netflix pact that together guarantee distribution of Relativity films in some 110 countries, bringing in minimum fees (\$5 million per movie for the Netflix deal, according to court records). The biggest question is whether the Netflix deal would transfer to a new buyer.

**Liquidation**If Relativity can't make its debt payments to hedge fund Anchorage Capital by the end of October, it may find itself back in bankruptcy court seeking Chapter 7 protection, meaning the business ceases operations and a trustee is appointed to liquidate the assets. A top financial adviser who has evaluated Relativity says he is urging clients to take a wait-and-see approach. "Why would anyone buy a company instead of buying assets on the cheap in Chapter 7?" the adviser asks. Indeed, this could be Kavanaugh's last stand. "When you go into [Chapter] 11 and they let you out, you usually get one more shot," says Nick Iezza, a partner at Spiwak & Iezza, which specializes in creditor rights. "There's no place for them to go. They're hemorrhaging money. They'll wind up in a Chapter 7 unless they find a buyer. People will come in and buy assets at 5 cents on the dollar."

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### **No Box-Office Love for Post-Bankruptcy Films**

*The Disappointment Room*: The Sept. 9 release has grossed a dismal \$2.4 million despite a \$15 million budget.

*Masterminds*, which opened Sept. 30, has earned \$12.8 million despite a \$25 million budget. The film features a host of comedy stars and was given a big push by playing 3,042 theaters.

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