

Relativity Media struggles to come back from bankruptcy



Jason Sudekis and Zach Galifianakis in the Relativity film "Masterminds." (Glen Wilson / Relativity Media)



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Ryan Kavanaugh's plan to turn around his struggling mini-studio [Relativity Media](#) is on shaky ground.

The brash mogul led the company out of Chapter 11 bankruptcy proceedings in March with his eye on a classic Hollywood comeback. But there have been growing signs of trouble as the Beverly Hills firm has released back-to-back box-office flops, sparred publicly with Netflix, and faced growing pressure from restless creditors.

This week the company appeared to find some relief in a surprise investment by a Singapore tech company. It remains to be seen, though, whether the promised money — up to \$150 million — will be

enough of a lifeline for Relativity, which was founded in 2004 and made a name for itself co-financing movies like “Bridesmaids” and “The Social Network.”

The company filed for Chapter 11 protection in July 2015 with nearly \$1.2 billion in liabilities and assets worth \$560 million after failing to pay down debts amid a string of poorly performing movies.

Kavanaugh faced a daunting task of rebuilding the organization with a highly leveraged balance sheet and without the cash flow of its television production business, which was sold to a consortium of creditors for \$125 million after a failed bankruptcy auction for the whole company. This spring Relativity Media exited bankruptcy with total debt of \$315 million.

“It was clear to me that they were already stretched at the time of confirmation, and it obviously hasn't gotten any better at this point,” said Brian Davidoff, an attorney at Greenberg Glusker who specializes in bankruptcy cases.

A representative for Relativity declined to comment.

Relativity's first post-bankruptcy film was the [Kate Beckinsale](#) horror flick “The Disappointments Room,” which was dead-on-arrival at the box office in September, collecting just \$2.4 million in ticket sales. The company's follow-up “Masterminds” — a heist comedy with Zach Galifianakis and Kristen Wiig — also bombed, with \$17 million in gross receipts. The latter film was once projected to bring in lifetime revenues of \$130 million.

The fate of Relativity's upcoming films, including its planned remake of “The Crow,” remains uncertain. Director Mike Flanagan vented his frustration on Twitter after Kavanaugh postponed the September release of his horror movie “Before I Wake.” The studio's next release — the long-delayed [Halle Berry](#) thriller “Kidnap” — is planned for a Dec. 2 opening.

Relativity's struggles since exiting bankruptcy forced Kavanaugh to put the company up for sale, according to court documents.

Amid the struggles, Kavanaugh has lashed out against Netflix, which publicly questioned Relativity's ability to continue operations after bankruptcy. Relativity in October sued Netflix for \$1.5 billion, accusing the streaming company of trying to force it out of business. Netflix called the lawsuit “baseless and ironic.”

The streaming giant has been trying to get out of its licensing agreement that contributed \$100 million to \$300 million a year in revenue to the studio, according to court documents.

Meanwhile, creditors have privately expressed frustrations with the company's slow progress in paying down its remaining debt. Relativity has delayed payments on \$30 million owed to a group of

lenders that includes the New York private equity firm Anchorage Capital Group, according to a person close to the lenders who was not authorized to comment.

In another headache for Relativity, a production company has questioned in court filings whether the company has enough money to pay the fees it owes vendors. Ollawood Productions, the company behind the 2014 Nicolas Cage movie “Left Behind,” said in a filing it still is owed more than \$1 million it should have been paid when Relativity left bankruptcy.

“The reorganized debtors have not made the long overdue payment and, to make matters far worse, have recently indicated that they do not have the funds available to make the required payments,” the Ollawood lawyers wrote in a filing.

Relativity lawyers said Ollawood’s concerns were “unfounded.” They acknowledged in court papers that it has taken longer than anticipated to raise the funds for the studio to meet its obligations, but that it expects additional financing to come through.

Indeed, this week a publicly traded Singapore Internet company called YuuZoo announced plans to buy a minority stake in Relativity.

“The agreement has not yet closed, but it is among several options that the Reorganized Debtors have been pursuing in the past several months,” Relativity’s lawyers said in a court document. “The pending agreement is expected to help Relativity fulfill its future financial obligations.”

Under the terms of the new deal, YuuZoo would acquire a 33% stake in Relativity and have the option of becoming the studio’s majority stakeholder over the next two years.

The initial investment is about \$50 million, according to a YuuZoo regulatory filing, with the possibility of an additional \$100 million. But it is unclear whether that will be enough to turn the company around, creditors and legal analysts say.

The deal has not yet closed and must be approved by Singapore government regulators. Kavanaugh in the past has boasted about major financing deals, only to have them fizzle or fall short of expectations.

The announcement raised eyebrows among Hollywood executives, most of whom had never heard of Relativity’s new partner. YuuZoo describes itself as a fast-growing social e-commerce business that generated \$58.6 million in revenue in the first half of 2016, focusing on countries in Asia and Africa.

In a colorfully worded statement, the company compared its Relativity deal to the recent \$85.4-billion proposed combination of AT&T and [Time Warner Inc.](#), and described plans to marry Relativity’s content with YuuZoo’s online distribution abilities.

In an interview, YuuZoo Executive Chairman Thomas Zilliacus acknowledged Relativity's struggles, but said his company plans to take an active role in getting the studio back to health.

"We are very well aware of the history of Relativity," Zilliacus said. "We fully understand there is a worst possible scenario, but we believe we will become the biggest shareholder and can play a significant role in how the business is run."

Some analysts were skeptical of the strategic merits of the transaction for YuuZoo and Relativity, which has a small library of about 40 titles.

Nonetheless, legal experts said such measures are necessary to keep Relativity from liquidating through a Chapter 7 process and leaving dozens of creditors paid mere fractions of what they're owed.

"Unless they get a huge infusion of cash, it seems they're going to end up back in bankruptcy court," said Nick Iezza, a partner at law firm Spiwak & Iezza in Thousand Oaks who represents creditors in bankruptcy cases. "If this thing goes into Chapter 7, everybody loses."

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