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Trustee Rejects RHI Entertainment Bankruptcy Exit Plan

The US Justice Department appointed bankruptcy trustee for RHI Entertainment has rejected the reorganization plan to exit bankruptcy. The trustee also urged the bankruptcy judge to similarly reject the plan also at a hearing next month. The reason for the rejection was the plan improperly releases lenders and other parties from any claims against them. RHI Entertainment is a developer for made-for-television movies.

When RHI filed for Chapter 11 bankruptcy in December last year, it stated that it was “unable to license new movies and mini-series at prices that would cover the production and debt costs”. But before filing for bankruptcy, RHI had discussed a reorganization plan with creditors and submitted the plan to the bankruptcy court. A hearing to approve the plan is scheduled for February 17.

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According to a lawyer for bankruptcy trustee Tracy Hope Davis, the reorganization plan included releases for creditors and other parties from claims related to RHI that may include “acts of omission that were grossly negligent or the result of willful misconduct” and even “actions resulting from criminal conduct”, although the trustee did not give instances of such misconduct by any of the creditors or other parties. Hence, the bankruptcy trustee’s opinion is that the bankruptcy judge should not give confirmation to the reorganization plan because it does not have any justification for it.

According to the reorganization plan, first lien creditors who hold about \$515 million in total loans would be given \$300 million in new term loans and 99% of the company’s new stock. Those who hold second lien debt which amounts to about \$75 million would receive about 1% of the new stocks and warrants that would come up to as much as 15% of the shares.

The reorganization plan also entailed the court to approve an agreement made with lenders led by US Bank NA in which the lenders cancel debts of \$37.8 million in exchange for rights to several RHI films that include ‘Black Swarm’, ‘Rise of the Gargoyles’ and ‘They’re Among Us’.

Recently on January 11, RHI was granted approval by the court to receive \$15 million in loans to finance their operations while in Chapter 11 bankruptcy after objections from some creditors were resolved.

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