

Relativity Movie Financing Deal Ends in Breach of Contract Lawsuit

by Anthony Caruso on March 1, 2012

Aramid Entertainment has filed a \$44 million lawsuit against Relativity Media and Fortress Investment Group, claiming it had been the victim of “one of the greatest heist stories ever told.” The entertainment lawsuit asserts claims for fraud, intentional interference with contractual relations, and breach of contract.

The suit revolves around “Beverly,” a film-financing fund that Relativity started to finance a series of Sony Pictures movies. Under the deal, investors provided \$500 million while Sony matched that amount to create a \$1 billion fund.

According to the lawsuit, the slate deal called for Relativity to co-finance up to 45 Sony films over a five-year period, but was ended prematurely to Aramid’s detriment. Specifically, Aramid alleges that it received no return on its original \$22 million investment, which would have been worth at least \$44 million had the Beverly fund made additional films.

The Allegations Against Relativity

As reported by the Los Angeles Times, the lawsuit claims that Relativity and its CEO Ryan Kavanaugh reaped the benefits of lucrative producing fees while creating intricate financing structures to conceal their lack of success.

“What Relativity hid from the public until recently is that, with one exception, its previous deals had performed so poorly that equity investors in each deal lost substantially their entire investment and many lenders involved in the deals suffered impairment,” the lawsuit says.

The Allegations Against Fortress

With respect to Fortress, Aramid alleges that the private equity firm entered into talks with Aramid in March 2010 to purchase certain assets. However, when the deal fell through, Fortress allegedly used the confidential financial information to invest in Beverly itself. Thereafter, Aramid claims that Fortress induced Relativity, Sony, and Citi to end the Beverly slate early, depriving Aramid of millions of dollars.

According to Aramid, Fortress orchestrated a deal to buy out Citi’s interest in the Beverly slate, which was worth \$226.7 million, for just \$113.5 million, capitalizing on the bank’s desire to get out of the deal in the midst of the financial crisis. At the same time, Aramid contends that Fortress also induced Sony Pictures to abandon the deal. In terminating the

fund early, Sony allegedly saved up to \$222 million in payments that would eventually be owed to investors.

Finally, Aramid alleges that Fortress took advantage of Relativity's financial difficulties to pressure it go along with the plan. In order to sweeten the deal, Fortress paid it \$14.5 million, the lawsuit claims.

According to the complaint, Fortress ultimately made approximately \$96.1 million on the deal. Meanwhile, the value of Aramid's investment went from approximately \$44 million to zero, according to the lawsuit.

The Future of Slate Deals

Slate deals, the type of entertainment financing at issue here, are a popular tool for major studios like Sony to shift the risk of movie production to outside investors. For investment firms like banks and hedge funds, the entertainment industry offers the potential of high returns.

However, the banking crisis and the resulting credit crunch have made firms more reluctant to invest in large film portfolios. At the same time, the struggling economy has put additional pressure on existing deals to deliver strong returns and generated a number of business disputes, as highlighted above.

Given the risks and complex legal issues involved, if you are considering an entertainment financing agreement, we encourage you to speak with one of our experienced entertainment lawyers.