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Legal/Regulatory MARCH 10, 2011, 8:14 PM | Comment

Bankruptcy Judge Approves Sale of Blockbuster

BY AZAMAHMED

A federal bankruptcy judge on Thursday approved the sale of the ailing movie rental chain **Blockbuster** after a marathon day of negotiations among its many creditors, allowing the business to avoid liquidation.

A patchwork of parties, including hedge funds, small unsecured businesses, major Hollywood movie studios and the investor **Carl C. Icahn**, found common ground on the terms of a sale after a day of debate.

“There’s been more accomplished in one day in this courtroom than in the many weeks leading up to this day,” said Judge Burton R. Lifland of Federal Bankruptcy Court in Manhattan, after approving the sale.

Blockbuster has been locked in dispute ever since filing for bankruptcy last September. The company was hoping the judge would approve the \$290 million proposed sale to a group of senior bondholders led by the hedge fund Monarch Alternative Capital and that the deal would serve as a floor for other offers.

Since then, creditors have been arguing over whether Blockbuster should be liquidated or sold. Movie studios argued that the terms of the sale were highly unfavorable and more than 40 creditors objected to the bid, including the United States Trustee charged with overseeing the process, who argued that the company should be liquidated.



Rick Wilking/Reuters

Blockbuster has closed a number of stores, but the movie rental chain will avoid liquidation.

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But after a day of negotiations, with lawyers arguing loudly in the hallways of the bankruptcy court, the studios and bondholders reached an agreement.

For more than two hours, lawyers discussed the terms of the deal before Judge Lifland, who

regularly interrupted them. At one point, after more than a dozen lawyers and others had come before him to express their concerns about the deal, Judge Lifland asked “Does anybody else need more comfort?”

What broke the impasse was an agreement that if the consortium was to buy Blockbuster in Chapter 11, it could not force the company into Chapter 7 and essentially liquidate it.

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Also, under the agreement negotiated Thursday, the studios and other creditors would get more money upfront for what they were owed and would receive a share of any offer above the \$290 million bid.

The largest studios, which include Fox, [Warner Brothers](#) and Paramount among others, are owed about \$100 million in administrative fees. If the deal from the bondholders consortium is completed, they will get about 24 percent of that money returned right away.

Unsecured lenders could get up to \$7.5 million of the roughly \$40 million Blockbuster owes them and also share in the money from any higher bid.

Stephen Karotkin, a lead lawyer for Blockbuster and a partner at Weil, Gotshal & Manges, was visibly upset at various points in the day as he argued and negotiated with other lawyers.

“You’re so close and then to the extent an issue comes up, you’re disappointed,” he said, explaining the tense scene in the hallways. “A fair compromise was needed that everyone could support.”

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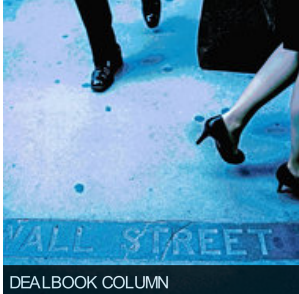
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