'Hobbit' money sought as MGM files for bankruptcy

RYAN NAKASHIMA - AP Business Writer - Associated Press

Hollywood studio Metro-Goldwyn-Mayer Inc., the home of James Bond, filed for bankruptcy protection on Wednesday in a plan that had the backing of its lenders, and it sought permission to begin funding its half of "The Hobbit."

The "prepackaged" bankruptcy plan, more than a year in the making, should go quickly. MGM is to merge with Spyglass Entertainment, whose co-CEOs will lead the combined company.

MGM lenders will trade about $4 billion in debt for stock in the new company, valued at around $2 billion.

Billionaire investor Carl Icahn was involved in the run-up to the filing, first backing a rival takeover attempt by Lions Gate Entertainment Corp., then throwing his weight behind Spyglass last week.

The company said in a statement that "certain immaterial modifications" convinced Icahn, a holder of a significant amount of MGM debt, to back the plan. Debt holders such as Icahn, Anchorage Advisors and Highland Capital Management are now set to take over the studio and equity owners such as Sony Corp. and Comcast Corp. will have their stakes wiped out.

The changes included allowing Icahn to appoint one member of the nine-member board, on which Spyglass' co-CEOs Gary Barber and Roger Birnbaum would also get one seat each.

The modified deal excluded 15 films from the Spyglass movie library such as "Seabiscuit." As a result Spyglass' stake in MGM will fall from the originally proposed 4.7 percent to significantly less, said a person familiar with the matter, who was not authorized to speak publicly and requested anonymity. Instead, future projects that Spyglass is developing will be included in the merger, the person said.

"I am pleased that we were able to obtain an agreement to make changes to the MGM prepackaged plan that allows me to support it and enables the company to avoid a potentially costly and disruptive bankruptcy process," Icahn said in a statement.

In the bankruptcy court filings, MGM sought approval to spend up to $125 million from its accounts on operations over the next 15 weeks.

About $40 million will go toward "The Hobbit," the two-part prequel to "The Lord of the Rings" trilogy. "The Hobbit" is being directed by Peter Jackson and is half-owned

by Time Warner Inc.'s Warner Bros., the person said. The two movies, being shot back-to-back, have a budget of around $500 million.

The remainder of MGM's half will come from newly issued debt, the person said. MGM said in its statement that the company expects to raise $500 million after emerging from bankruptcy to fund new films and TV shows.

"MGM is emerging from one of the most challenging periods of its storied history," Birnbaum and Barber said in a statement. "We are honored and inspired at the prospect of leading one of Hollywood's most iconic studios into its next generation."

MGM, founded in 1924, is known for such classics as "The Wizard of Oz" and "Gone With the Wind." It has been bought and sold countless times.

The latest ownership change took place in 2005, when a consortium of private equity groups plus Sony and Comcast bought MGM for $5 billion from a group including billionaire Kirk Kerkorian — his third sale of the studio.

But the debt load was too heavy, DVD sales declined and it only had a handful of hits including "Valkyrie," the World War II action movie starring Tom Cruise that was made by MGM subsidiary United Artists.

Last year, MGM cut a deal to stop making interest payments as its financial troubles loomed.

Time Warner offered $1.5 billion in cash to take over the studio. Lions Gate's merger plan valued the studio at about $1.8 billion.

Last week, Lions Gate sued Icahn, its biggest shareholder, for opposing its merger bid then backing it after he had bought a large amount of MGM debt, alleging he deceived other shareholders to maximize his gains.

After exiting bankruptcy, MGM will entertain offers that could contribute to its long-term success, the person said.

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