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December 8, 2015

Richard S. Kanowitz, Esq.
Cooley
1114 Avenue of the Americas
New York, New York 10036

RE: *In re Relativity Fashion, LLC, et al.*
Case No. 15-11989 (MEW)

Dear Rich:

As you requested, in order to facilitate further settlement discussions, this letter is intended to outline issues encountered in the investigation into the engagement (the “*Engagement*”) of FTI Consulting, Inc. (“*FTI*”) by Relativity Media, LLC (the “*Debtor*”). This letter is confidential and transmitted as a settlement communication pursuant to Federal Rule of Evidence 408. This letter is also not intended to contain an exhaustive list of issues discovered in connection with the Engagement; all rights are reserved.

Television Business. Following the sale of the television business, the Debtor discovered a number of disturbing trends. Some statistics are telling: FTI designed 230 vendors as “critical,” and among those, 222 (or 96.5%) served the television business. Similarly, of critical vendor payments, 84% was paid to television vendors. At the same time, the feedback from executives from within the Debtor is that FTI disregarded repeated pleas to honor obligations to key film vendors, including payroll companies. Chris Post of FTI has confirmed to the Debtor’s head of physical production that FTI caused payroll companies servicing the television business to be paid 100% of their claims.

Corporate Governance. It is clear from FTI’s retention pleadings and engagement letter that the CRO and Deputy CRO were required to report to the board of directors. In fact, Judge Wiles delayed FTI’s retention due to his own concerns that FTI was exercising too much control over financial decisions and

expressly required that the board retain that control. Judge Wiles also expressly requested additional disclosure regarding FTI's connections to parties in interest. Nonetheless, FTI executed many business decisions without board approval or consultation. Among them, consider the following:

1. FTI ultimately made hiring and firing decisions without consulting the board. Case in point: after the company made a decision to dispatch Andrew Mathews, which the CRO later reversed. When the board discovered this reversal through probing on a board call (at which I was present), the CRO explained that the decision "resolved several issues with the Cortland lenders on the DIP financing." Assuming that is true, the board deserved to hear about it, and make their own judgment, in real time. Although approximately 33% of the Debtor's personnel were terminated, not one of those worked in the television business.

2. FTI likewise made salary and bonus decisions without board approval or consultation. Specifically, salary cuts of 20% were implemented across the Debtor's business lines, although not one cut was implemented in the television business. In addition, without explanation, one executive suffered a salary reduction of in excess of 99%--Ryan Kavanaugh. During this same time frame, the CRO encouraged the CEO to absent himself from the company to avoid "confusion" among employees, and also suggested on multiple occasions that the CEO should resign.

Sale Process. Shortly before the commencement of the chapter 11 case, on June 29, 2015, Catalyst purchased the Term Loan A position for \$140M, and had signed commitments to invest an additional \$170M—more than the Debtor needed to follow through on its business plan. As of October 1, after three months of control by FTI, the Debtor did not obtain any bids for its business other than the stalking horse bid. Setting aside questions of blame, let's focus on responsibility. During the prepetition period, no estate professional was paid more than FTI (over \$4M). During the same period, FTI approved its own fee requests. In a contested litigation, these facts will be evaluated by an impartial decision-maker.

Relativity Fashion. An insider offered the CRO \$2M for the purchase of the Fashion division during the chapter 11 case. Without consulting the board, the CRO determined not to pursue the offer *and* terminated key personnel within the Fashion division. The consequence was the insider acquired the business for no consideration by collecting the key personnel.

Digital Studios. The business plan of this division was to produce 5 movies at a cost of \$1 million per movie with such costs borne by the brands to populate the site. One movie was finished, generated a profit of \$250,000, and was sold to Maker Studios. Rather than continue to execute the business plan, without

consulting the board, the CRO terminated everyone involved with this division except for the division head, which he moved to a consulting arrangement and advised that her sole responsibility was to collect receivables.

Film Business. There were multiple missteps in connection with the film business.

1. The Debtor has multiple films ready for release, and foreign output distributors were prepared to make payments to reduce outstanding obligations against such films following the petition date. The CRO instructed outside counsel to send "cease and desist" letters to such distributors which prevented paydown of debt, and continuing difficulties with RKA and CIT. The board was never consulted in connection with this decision-making.

2. On the eve of chapter 11, the Debtor had a proposal for the sale of the film *Collide*. The CRO refused to approve the transaction, and later approved a sale of the same film for 75% less, with payment deferred a year.

Both of our firms have enjoyed longstanding and broad relationships with FTI. Nonetheless, the accumulation of issues described above, which, as noted, is not exhaustive, cannot be ignored. The Debtor has requested that FTI confirm that they have engaged a litigation hold on documents, including email and text. In addition, the Debtor notes that although FTI was provided with Company email addresses, it elected to utilize its FTI email. As a consequence, the Debtor is requesting the immediate production of all email and text message communications, referring or relating to the Debtor and its affiliates, both internally within FTI and between FTI and third parties, including with the Cortland lenders and/or their affiliates or syndicate members. We are hopeful that this letter provides the information you requested, and, with the provision of the correspondence requested, will set a foundation for a consensual resolution of the parties' disputes. Specifically, the Debtor suggests that mediation could be constructive. Please confirm whether FTI would consider that approach, and we can develop a timeline and an impartial mediator.

Very truly yours,



Van C. Durrer, II

cc: Carol Genis, Managing Director