

LodgeNet To Enter Ch. 11 With \$60M Recapitalization Deal

By **Stewart Bishop**

Law360, New York (January 2, 2013, 2:33 PM EST) -- LodgeNet Interactive Corp., which provides Internet and video services to 1.5 million hotel rooms, said Monday that it is filing for bankruptcy and has entered an agreement with a real estate investment firm providing \$60 million to support a recapitalization of the company.

Sioux Falls, S.D.-based LodgeNet said it also has the support of a steering committee of its lenders for a multiyear extension of its current \$346 million secured credit facility.

The company has retained Weil Gotshal & Manges LLP for the restructuring, while Leonard Street and Deinard is serving as corporate counsel, LodgeNet said in a statement.

The restructuring will be implemented by way of an expedited Chapter 11 process at the end of which affiliates of real estate investment firm Colony Capital LLC will become the controlling shareholder of LodgeNet, the company said. LodgeNet added that it expects its unsecured creditors will be paid in full for any prepetition claims as it winds up the bankruptcy.

"Under Colony's leadership, LodgeNet is poised to transform its business through renewed financial strength, the introduction of new and innovative products and services, and strengthened industry relationships, thus reaffirming its position as the leading provider of interactive services to the hospitality and health care industries," LodgeNet Chairman Doug Bradbury said.

Los Angeles-based Colony has also inked a memorandum of understanding with DirecTV LLC laying out terms under which LodgeNet and DirecTV will become strategic partners in the hospitality and health care markets, LodgeNet said. As part of the partnership, DirecTV will provide operational, technological and marketing assistance to help deliver LodgeNet services to the industries.

LodgeNet said that throughout the Chapter 11 process, its current hospitality and health care customers will continue to receive its connectivity and entertainment services without interruption as well as ongoing maintenance and support.

Pursuant to the restructuring agreements, the Colony affiliates will receive common stock representing 100 percent ownership of LodgeNet. LodgeNet said the investment by the Colony affiliates will give it financial flexibility, while Colony's industry experience and the DirecTV partnership will ensure LodgeNet's "continued market leadership."

"As evidenced by our investments in hospitality, media and entertainment, we believe in these markets, and with LodgeNet positioned at the crossroads of all three, this opportunity is tailor-made for Colony," Colony principal Richard Nanula said. "We look forward to leveraging our experience and key industry relationships to drive change at a critical time for the company and the industries it serves."

LodgeNet has also struck a plan support agreement with a steering committee of lenders that holds its outstanding senior debt, under which the lenders have consented to support the Colony transaction, the extension of the credit agreement and the proposed plan of reorganization, according to the company.

The company has also received a commitment for a debtor-in-possession loan from certain lenders worth up to \$15 million in financing, which will allow for additional liquidity during the bankruptcy, LodgeNet said.

In December, LodgeNet said bankruptcy was likely if it couldn't raise \$26 million to clear up outstanding debts after years of struggle. At the time, LodgeNet said it entered an agreement to postpone payments of \$26 million owed to Home Box Office Inc. and DirecTV. On Monday, DirecTV, HBO and the steering committee of lenders agreed to extensions of existing forbearance agreements, LodgeNet said.

According to a recent quarterly statement, LodgeNet's hotel revenue came in below its expectations, accounting for some of its recent troubles. Though LodgeNet boasted of its reach in providing entertainment options to hotels, the hotel industry has faced a downturn of its own.

Additionally, in January 2011, a major hotel chain responsible for a portion of LodgeNet's business decided to phase out adult content in its hotel rooms, according to LodgeNet. However, LodgeNet maintained that the loss of that business would not hurt the company.

LodgeNet is represented by Weil Gotshal & Manges LLP and Leonard Street and Deinard.

Colony is represented by Liner Grode Stein Yankelevitz Sunshine Regenstreif & Taylor LLP and Sullivan & Cromwell LLP.

Case information was not immediately available.

--Additional reporting by Joshua Alston. Editing by Andrew Park.