Digital Domain's bankruptcy could leave Port St. Lucie in the lurch

By Eric Pfahler

PORT ST. LUCIE — Digital Domain Media Group's bankruptcy filing Tuesday will make it more difficult for the city to recoup any of the incentive money it gave the company, a University of Florida finance professor said.

The city built a $39.9 million animation studio for Digital Domain and gave it $7.8 million in cash.

"Probably Port St. Lucie is going to get the building and no cash, in particular the $7.8 million economic development grant is likely to be very low priority in bankruptcy," said Jay Ritter, a UF Cordell professor of finance. "In other words, the $7.8 million will not be received back by the taxpayers."

Though the company's California and Canada properties have a plan to re-emerge, no such plan has been announced for its Tradition studio in Port St. Lucie.

By filing a Chapter 11 bankruptcy, Digital Domain can continue to operate while working with the court on a plan to repay creditors. Part of the plan includes Searchlight Capital Partners LP paying $15 million to buy Digital Domain Productions, Digital Domain announced Tuesday. Digital Domain Productions, to be led by CEO Ed Ulbrich, includes the company's studios in Venice, Calif., and Vancouver, Canada, which make digital visual effects for movies and advertisers. It does not include the Tradition studio or the West Palm Beach for-profit college.

If Digital Domain can emerge from bankruptcy, Port St. Lucie stands a much better chance of getting repaid, Florida Atlantic University finance professor Rainford Knight said.

Digital Domain has about $212 million in debt, the company stated Tuesday. Hudson Bay Master Fund, the leader of the Senior Noteholders, also agreed to lend Digital Domain as much as $20 million. Company share prices hovered around 50 cents per share — well off its 52-week high of $9.20 per share.
As a senior lender, Hudson Bay will be repaid first, though the future is uncertain, Knight said. All of the creditors are in a better position, given that Hudson Bay is willing to pump more money into Digital Domain, he said.

"The good thing is they're obviously doing this because they see value there," Knight said. "You wouldn't lend to a company already in bankruptcy unless you feel it can be restructured and value can be realized."

Creditors such as Port St. Lucie typically get far less than what they are owed, Knight said.

"That's usually about 10 cents on the dollar on average," he said.

The shareholders, meanwhile, likely will get nothing, Knight said.

If the court approves the deal, the company would have money to pay normal operating expenses such as wages, according to a news release.

Port St. Lucie officials have said they are looking for options to secure the city's assets and have notified the company of a breach in the lease agreement.

The city built a $115,000-square-foot studio for Digital Domain. The next annual $3.8 million lease payment for the $39.9 million construction bond is due in January. Digital Domain built the studio to create "The Legend of Tembo," an animation film, but the company has shuttered the project and reverted back to creating digital special effects.

Port St. Lucie has given Digital Domain $7.8 million of a promised $10 million economic development grant, in exchange for the company's promise to create 500 jobs by 2014.

Digital Domain's shutdown was preceded by a Securities and Exchange Commission filing last week that showed the company was in default on six loans totaling $35 million. The announcements hit a crescendo Friday when Digital Domain handed pink slips to 280 of its 300 workers in Port St. Lucie. John Textor resigned as CEO late Thursday.

Ritter said it's unlikely Port St. Lucie will get its money back, based on precedents.

"The creditors are generally going to be getting less than 100 percent on the dollar and, depending upon the priority, some of the creditors might lose everything, and it's possible that the existing equity holders will lose everything," Ritter said. "But some of the creditors might come close to being paid in full, although most typically, there'd be something in between zero and 100 percent on the dollar for the creditors."

A bankruptcy hearing is slated for 10:30 a.m. Wednesday in Delaware.