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## ChinaCast Settles With Creditors, Ch. 11 Plan OK'd

By **Alex Wolf**

Law360, New York (December 6, 2017, 4:05 PM EST) -- ChinaCast Education Corp. is on its way out of Chapter 11 proceedings after a New York bankruptcy judge Wednesday approved the company's orderly liquidation plan and a linchpin settlement with a class of shareholders that freed up a path to plan confirmation.

The second attempt was the charm for ChinaCast, a defunct college-level e-learning services provider, which confirmed its Chapter 11 wind-down plan Wednesday, a month after the judge presiding over the case **adjourned the debtor's bid for plan approval** due to last-minute requests that required more time for review.

Specifically, U.S. Bankruptcy Judge Mary Kay Vyskocil said last month that ChinaCast did not give the court or interested parties sufficient time to digest its settlement with a private equity fund sitting on a \$66 million class action judgment against the company or a bid to increase its debtor-in-possession funding by \$500,000 at the tail end of the case.

With no new objections filed and no concerns raised, the company breezed through confirmation Wednesday, drawing praise from Judge Vyskocil for **finding a path** to the finish line.

"You have accomplished a great deal," she said.

The Chinese online education provider says it fell into financial ruin after its former CEO, Ron Chan, and several accomplices looted the company's coffers, making off with \$120 million. While ChinaCast was suing the top brass responsible for the debacle, plaintiffs in a securities class action led by Jayhawk Private Equity Fund II LP secured a default judgment of \$65.8 million against the company, **forcing it into bankruptcy** last year.

Since then, ChinaCast has been working to figure out a workable course to exit Chapter 11 and has filed three different versions of a restructuring plan. It faced plan opposition from Jayhawk and the certified class of shareholders, who had been **fighting to lift ChinaCast's automatic litigation stay** to pursue a case to collect from its insurers under two different policy towers, each worth \$15 million.

ChinaCast and its senior lenders had **called on the judge** to reject Jayhawk's request, saying that any directors and officers insurance proceeds are property of the estate and, if made available, must be used in accordance with creditor priority rules. ChinaCast also noted that some of the proceeds may be needed to pay the \$6 million in legal fees it incurred defending against the class action.

After being **encouraged to settle** the dispute, Jayhawk and ChinaCast reached an agreement to jointly prosecute a complaint against the insurers and allow the shareholders to take home 90 percent of any net recovery. Under the settlement, Jayhawk agreed to drop its objection to the restructuring plan.

At the hearing, Judge Vyskocil applauded the pact between the parties, calling it a "creative solution" to a difficult set of issues.

"It opens the potential for a positive result for everybody," she said.

The judge also granted approval of an additional \$500,000 in DIP financing, on top of the \$324,000 already extended to ChinaCast by a group of lenders who started out as litigation funders before the debtor was forced to file for bankruptcy.

Jayhawk and the class are represented by Laurence Rosen of Rosen Law Firm PA.

ChinaCast is represented in the bankruptcy by Tracy Klestadt and Joseph Corneau of Klestadt Winters Jureller Southard & Stevens LLP.

The lenders are represented by Michael Cook of Schulte Roth & Zabel LLP.

The case is In re: ChinaCast Education Corp., case number 1:16-bk-13121, in the U.S. Bankruptcy Court for the Southern District of New York.

--Additional reporting by Ryan Boysen, Cara Salvatore and Rick Archer. Editing by Dipti Coorg.

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