

Molycorp Wins Approval to Exit Chapter 11 Bankruptcy

Bondholders cleared to buy rare-earths rights, with Oaktree to own most of reorganized company

Peg Brickley, Wall Street Journal, 3-30-16

Molycorp Inc. won court approval to exit chapter 11 bankruptcy Wednesday under a plan that leaves the fate of the sole U.S. source of rare earths uncertain.

Judge Christopher Sontchi confirmed a plan that puts a trimmed-down Molycorp largely in the hands of senior lender Oaktree Capital Management. Unsecured creditors will share a minority stake in the company, which is being rebuilt around the Neo line of businesses that process rare earths.

As for the Mountain Pass mine in California, which is the only U.S. mine producing elements essential to electronics including cellphones and defense systems, it could be facing liquidation, or it could be targeted for a deal involving an unnamed foreign entity. The situation is “fluid,” Judge Sontchi commented during hearings in the U.S. Bankruptcy Court in Wilmington, Del.

Wednesday, Molycorp bondholders won court approval to buy mineral rights and intellectual property associated with the facility, but are leaving the mine itself behind. To counter protests from regulators concerned Molycorp was walking away from environmental risks, the company pointed to surety bonds and the scrap value of the plant, which will help fund a cleanup.

Molycorp bondholders are still in discussions with an unnamed foreign party about a potential deal, according to testimony from John Park, who is with JHL Capital Group, a major investor in the debt.

Testifying at a court hearing Wednesday, Mr. Park said the bondholder deal for the mineral rights isn't connected to any agreement with the unnamed foreign entity. However, talks that began when Molycorp put Mountain Pass on the auction block haven't completely ended, he said.

China is the dominant player in the world market for rare earths, and changes in its trade policy spurred Molycorp's boom and bust. The company filed for chapter 11 protection last year, loaded with more than \$1.7 billion in debt, much of it taken on when rare earths prices were high, due largely to Chinese trade restrictions.

Chinese trade policy changed, prices fell and Molycorp filed for bankruptcy to revamp its business and its balance sheet. The money-losing Mountain Pass mine was put on idle status.

At Wednesday's court hearing, Mr. Park said there are still discussions about finding a way for Molycorp's bondholders to “pursue a transaction for all the assets of Mountain Pass” with the unnamed foreign entity playing some role. The sale to bondholders that was approved Wednesday has no connection to that entity, which put in an appearance early in the bankruptcy auction process, but never made a bid.

The fate of Mountain Pass was the focus of much of a two-day court hearing on Molycorp's chapter 11 exit plan, even though Mountain Pass was dropped from the plan in a recent deal with bondholders.

California and San Bernardino County officials objected to the decision last week to excise Mountain Pass from Molycorp's chapter 11 plan, leaving them with little ground to raise objections about the risk of harm to the environment, if the open-pit mine is abandoned.

Mr. Park's testimony cast a spotlight on the potential for risk of another type, possible foreign involvement in a mine that is the only place in the U.S., where rare earths are mined.

According to Mr. Park, talks are aimed at finding a path to a deal that would comply with U.S. laws that kick in when foreign persons seek to gain control of U.S. businesses or assets that may raise national security concerns, or involve critical infrastructure. Deals implicating national interests are to be presented to the Committee on Foreign Investment in the U.S., or CFIUS, for review.

"With CFIUS, the ownership thresholds are very important, so the structure would involve the foreign party owning amounts that would be CFIUS-compliant," Mr. Park said.

In the years before bankruptcy, Molycorp plunged over \$1 billion into the Mountain Pass mine, hoping the investment would pay off, even though China loosened trade restrictions and prices for rare earths fell.

Bondholders are paying \$1 million for the mineral rights to Mountain Pass, as well as some intellectual property. If there is a deal in Mountain Pass's future, it will involve the entire mining operation, Mr. Park said.