# Why Redbox has been powering down

Redbox’s field service technicians thought they had seen it all.

Stores had unplugged thousands of the company’s iconic red DVD rental kiosks. Payroll and expense reimbursements had been late. Several employees say their corporate gas cards have been declined. They had read article after article about companies suing Redbox and its corporate parent over unpaid bills. Some of them had dug into financial data, puzzling together an alarming picture of a company drowning in debt. Still, the email they got on a Tuesday in mid-June came as a shock.

“Please stop what you are doing and return home immediately,” the message read, adding: “You will be paid for the rest of the day.”

The sudden work stoppage initially appeared to be due to liability issues. Chicken Soup for the Soul Entertainment, which had acquired Redbox in August of 2022, had informed employees earlier that day that it had been dropped by its health insurance provider; Redbox management seemingly didn’t want to have uninsured workers in the field to service and repair the company’s kiosks.

However, a follow-up email revealed deeper concerns. “We have entered an unforeseen and unprecedented situation for our company,” a senior Redbox manager wrote. The email referenced Chicken Soup’s inability to service its massive debt, as well as its CEO’s sudden decision to push out the entire board of directors. “It is disrupting our day-to-day operation, and we

are temporarily halting all field activity until we have clarity on our path forward," the email added.

Management telling hundreds of employees to stop working out of an apparent frustration with a company's leadership is unprecedented — but it wasn't surprising to former employees we spoke to at Redbox. The company has been on a dizzying rollercoaster ride ever since getting acquired two years ago. After failing to pay numerous bills, Redbox and its owner have been sued over a dozen times by companies, including CVS, 7-Eleven, and NBCUniversal.

When asked about the numerous lawsuits, Chicken Soup for the Soul Entertainment's corporate communications SVP, Peter Binazeski, told me in March that the company could not comment on ongoing litigation; the company did not respond to a number of follow-up questions about its legal and financial situation.

Attempts to settle with NBCUniversal failed after Chicken Soup missed a required $4 million payment, and Redbox is on the verge of having its entire car fleet repossessed.

So, how did things go so wrong for Redbox? I've spent months pouring over lawsuits, regulatory filings, and internal emails, as well as talking to a number of current and former Redbox employees, to find an answer to that question. Many of those conversations took on increasing urgency in June, when, in a matter of weeks, people's worries shifted from wondering whether they'd have a job by the end of the year to whether there would be a paycheck by the end of the week. And when the paychecks finally stopped coming, employees realized that this may be the end for the last major company to still rent out DVDs.

And it could be: Chicken Soup for the Soul Entertainment filed for bankruptcy at the end of June.

Things actually appeared to be looking up when Redbox was

acquired two years ago. Sure, Chicken Soup for the Soul Entertainment seemed like an odd company to make this move, but there was a plausible backstory here: after the self-help book publisher was sold by its founders in 2008, the company's new owners began to diversify its revenue streams, adding digital media properties and lifestyle products like pet food. Chicken Soup acquired a bunch of companies over the following years, including the film distribution outlet Screen Media and the pioneering free streaming service Crackle. Chicken Soup's leadership painted the addition of Redbox as the next step in its quest to build an entertainment media empire.

Building that empire on the back of DVD rentals is not as crazy as it sounds. Netflix shipped DVD rentals to customers for 25 years and used the proceeds from that perpetually shrinking but highly profitable business to become the global streaming juggernaut that it is today. Redbox, founded in 2002, had long been a similar powerhouse in the DVD space, with consumers renting more than 6 billion discs to date. Chicken Soup planned to follow Netflix's playbook, with CEO Bill Rouhana telling *The Verge*'s David Pierce last year that Redbox's kiosks "could be the cash flow machine that allowed us to build out our digital business over the next decade."

"The first few months were decent," acknowledged a Redbox employee who spoke to *The Verge* on the condition that we do not publish their name for fear of retaliation. But soon, warning signs started to pop up. Chicken Soup's stock price tanked in early 2023 and never recovered. There were some irregularities with paychecks being late. Then, stores started to pull the plugs on kiosks.

"When 7-Eleven pulled our machines, that was huge"

"When 7-Eleven pulled our machines, that was huge," recalled a second Redbox employee, also speaking on the condition of anonymity. "That was our first big [warning] sign."

The convenience store chain had Redbox kiosks in front of its stores nationwide, and Redbox was contractually obligated to pay 7-Eleven a percentage of the fees it got from every single rental. A lawsuit filed by 7-Eleven in June alleges Redbox stopped paying those fees last spring. 7-Eleven terminated its contract with Redbox in August of 2023 and demanded that the company pick up its kiosks but says Redbox never did. As a result, 7-Eleven franchisees began to unplug the machines and tape credit card readers shut. Countless inoperable kiosks remain in front of 7-Eleven stores to this day.

7-Eleven wasn't the only retailer that had a falling-out with Redbox. CVS alleged in a February lawsuit that Redbox stopped paying commissions in Q3 of 2022. Illinois-based chain Sheetz stopped getting payments at the end of 2022, according to its own lawsuit filed in February. Publix pulled all kiosks sometime last year. Kroger began telling customers last month that its Redbox kiosks would stop working soon, and Portland-based Hannaford said it wouldn't offer access to Redbox anymore by mid-June.

Redbox has not commented publicly on the lawsuits.

Company employees were left in the dark about these rifts. "[We would] find out by working in the field, and there's a big sign on there that says: 'As of May 20th, this Redbox is gone,'" said the first employee. "And we're like: 'All right, somebody else is suing us.'"

Among the companies suing Redbox and its corporate parent is Automotive Rentals, Inc., or ARI, from which Redbox leases over 400 SUVs and other cars for its service technicians. ARI alleges in its lawsuit that Redbox stopped paying its monthly leasing fees last September; the company terminated its lease agreement with Redbox in March and finally sued in May, alleging that it was owed $7.8 million in unpaid bills.

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In a legal filing, Chicken Soup’s lawyers acknowledged the failed payments, writing that “defendants do not dispute that they owe Plaintiffs money — though there is significant question about how much.” The filing goes on to state that the company had “every intention of making Plaintiffs whole” as soon as it raised the necessary financing to do so.

Redbox employees didn’t initially know about this dispute, either, but they realized something was wrong when they suddenly weren’t able to receive routine maintenance services from ARI anymore. “We couldn’t get anything done,” said the first employee. This included oil changes. “I drive a lot, almost a thousand miles a week,” the employee said. “I’m almost 20,000 miles overdue.”

“There’s people who are 18,000 miles over getting [their] oil change done because [the company] can’t pay for it,” said the second employee. The problem apparently became so acute this spring that some employees were told they should just go out, buy some motor oil, and top off their cars themselves.

“I’m not popping that hood,” said the first employee. “I am not putting new oil in old oil. That is a no.”

It’s easy to dismiss Redbox as a relic of a bygone era. A company that’s survived long past its prime. The kiosk version of Blockbuster, destined to fail sooner rather than later.

Well before the Chicken Soup acquisition, Redbox leadership realized that times were changing, with people transitioning from physical media to streaming. “Everyone knew that this was eventually going to go away,” said a former Redbox executive, who spoke on the condition that we don’t publish their name as they are still employed in the industry. But they also saw

that DVDs had a surprising staying power, especially with less wealthy and less connected consumers. Forty million people still rented physical discs from Redbox kiosks before the pandemic, according to the company's leadership at the time.

Especially in smaller towns, Redbox kiosks represented a valuable lifeline. "A lot of rural areas don't have the luxury of high-speed internet," said the first Redbox employee. "Our kiosk is the only theater in town." Multiple employees told me that they were often greeted on the street, with people asking about new releases or cheering them on when they fixed a kiosk that had been broken. "People [in these areas] really can't afford four or five different streaming services," said the second Redbox employee.

"Our kiosk is the only theater in town."

Even so, Redbox executives were working on a digital future. Redbox tried to establish a Netflix competitor in partnership with Verizon in 2012 but shuttered the service two years later. In early 2020, Redbox tried again with a free, ad-supported streaming service that seemed a better fit for its lower-income customers and their slow transition to digital media. Redbox customers were late adopters, so executives believed that they had some time to grow the new digital service while renting out DVDs for years to come.

Then, the pandemic happened — and instantly blew up those plans.

With theaters shut down, productions put on hold, and consumers cooped up at home, Hollywood scrambled. Major studios threw out their release schedule and prioritized their own streaming ventures. Disney postponed the theatrical release of *Mulan* for months, only to eventually take it directly to Disney Plus. Warner Bros. released all of its 2021 movies on HBO Max.

The number of new releases at kiosks nosedived as a result.

“Throughout the first three quarters of 2021, Redbox released 33 theatrical titles at the kiosk, which is typically what would have been released in one quarter pre-COVID,” the company told investors in late 2021. With few new discs in kiosks and some of the biggest titles going directly to streaming, even Redbox’s late-adopter customer base began to give Netflix and Disney Plus a look.

“The pandemic screwed everything up”

“There was deep concern” about this trend internally, according to the former Redbox executive, with some fearing that the company may lose its customers for good to the digital competition. “There was almost no way of bringing them back,” the former executive said.

The results on Redbox’s bottom line were disastrous: the company’s revenue declined from $829 million in 2019 to $546 million in 2020, and then to $289 million in 2021. “It happened really fast,” said the former Redbox executive.

“The pandemic screwed everything up,” said the first Redbox employee.

In the midst of that pandemic-fueled freefall, Redbox was facing corporate upheaval. Redbox’s owner at the time, private equity giant Apollo, began to look at ways to unload the asset. Discussions with Chicken Soup for the Soul Entertainment began in early 2020, and the two companies signed a term sheet in November of that year. However, the deal ultimately fell apart, with Apollo opting for another route: it decided to take Redbox public via a SPAC merger.

SPACs were still all the rage back then, and Redbox seemed like the perfect candidate for meme stock traders looking to hype another company steeped in nostalgia. Chicken Soup’s management, however, thought the public offering was doomed to fail. “Chicken Soup for the Soul Entertainment’s plan was merely waiting for Redbox to implode,” alleged Keith Knee, a

former consultant for Chicken Soup, in a lawsuit filed earlier this year.

“They are going to be back, and we are going to be able to get this company for two-thirds of what they are asking for right now,” Chicken Soup CEO Bill Rouhana allegedly told his chief strategy officer, according to the lawsuit.

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Rouhana was right: the public offering quickly devolved into a disaster. Redbox’s stock price tumbled below $2 per share just four months after it went public, and the company went on to lay off 10 percent of its staff. That’s when Chicken Soup for the Soul Entertainment swooped back in, offering “a substantially lower price for essentially the same assets,” according to the Knee lawsuit. Redbox couldn’t afford to say no anymore, and the two companies announced that Chicken Soup would acquire the DVD kiosk company in May of 2022.

Chicken Soup took on $325 million in debt as part of the acquisition, but CEO Bill Rouhana promised everyone a quick turnaround. Revenues of the new combined company were supposed to total $500 million in 2022, and Rouhana painted himself as a buccaneer of sorts, capable of righting the ship amid rough seas.

“The industry is completely chaotic right now,” Rouhana told me when I interviewed him days after the acquisition closed in August of 2022. “It’s a total nightmare. It’s completely in a state of flux. I’m pretty comfortable with that because I believe in the value of the stuff we bought.” Rouhana told me that Redbox kiosks would be around another 10 to 20 years and that Chicken Soup would recoup its money “many times over” before they ultimately disappeared. He kept insisting that he

was unmoved by any short-term challenges.

“I love chaos,” Rouhana said.

Soon, the chaos engulfed Redbox. Instead of the promised $500 million, Chicken Soup only generated $253 million in revenue in 2022. The number of DVD kiosks operated by the company declined from 36,000 at the time of the acquisition to 27,000 at the end of March. The pandemic-induced movie shortage, combined with a declining number of kiosks, led to continued revenue decline. Already loaded with debt, Chicken Soup quickly ran out of money. Attempts to raise more working capital failed, which only made things worse.

“Our inability to secure […]  financing […] hampered our ability to pay for and secure new content, which began to strain relationships with the Company’s creditors, including content providers,” Chicken Soup for the Soul Entertainment wrote in its most recent quarterly report. “As a result, the Company was unable to pay for all the movies that were offered to it by its providers.”

“I love chaos”

In reality, Redbox hasn’t been able to buy any major new release for quite some time. The last high-profile movie that made it to kiosks is *Barbie*, which came out on DVD in October. And with no new titles at kiosks, rental revenue has declined even further. In the first three months of this year, Chicken Soup’s revenue from its Redbox retail operations was just $15.5 million – less than half what it was a year ago and just a quarter of what it had been even in early 2021 when the pandemic slowed DVD releases to a trickle.

At the same time, Chicken Soup’s financial situation spiraled. The company ended Q1 with an accumulated deficit of $937 million and less than $5 million in cash on hand. It has been falling further behind on its bills, resulting in former business partners cutting ties and filing lawsuits.

“The Company has received an increasing number of termination and/or nonrenewal notices from content suppliers and other service providers,” Chicken Soup warned in its Q1 filing.

Internally, the situation quickly devolved. Corporate credit cards that employees have been using to get gas for their cars have only been working intermittently, leaving field service employees unable to do their work for a whole week in May. “They paid us to sit at home and look at emails,” the first employee said. “We weren’t servicing anything,” the second employee added.

That in itself is a problem for the company: A little-known fact about Redbox’s business is that the company’s technicians also service kiosks for Amazon, KeyMe, Pokémon, and other kiosk vendors. Employees told me that the company would bill these companies for each individual service call. “It was a highly profitable part of the business,” said the former Redbox executive. “It’s what kept us afloat,” said the second employee.

However, when employees weren’t able to go out and service these kiosks, Redbox wasn’t making any money. What’s more, not servicing third-party kiosks in time put those business relationships at risk. This month, longtime partner ecoATM stopped working with the company, according to multiple Redbox employees.

Things got worse for Redbox and its employees in June. At the beginning of the month, a court granted ARI’s request to repossess all of the cars Redbox has been leasing from the company. In an email sent days later, Redbox told employees to remove all their personal belongings from the company cars and prepare for the worst. “In the unlikely event that your vehicle is targeted for repossession, comply with all demands and turn over keys immediately,” the email read. In late June, the court followed up with an order that directed the US Marshals Service to seize Redbox’s entire leased fleet of 437

cars.

In mid-June, the company also informed employees via email that it had been dropped by its healthcare provider, and they hadn’t been covered since May. It’s the second time Redbox employees suddenly found themselves without healthcare coverage: at the beginning of this year, Redbox employees discovered that the company-provided health insurance had lapsed in December when Redbox out of the blue switched their health plans to a new provider. The change left employees without coverage for weeks and many with massive bills. Multiple employees told me that their claims eventually got paid, but another employee said that some claims went to collection.

This time around, the company advised employees to proactively watch their healthcare expenses: “We recommend all elective, non-urgent and routine medical appointments be rescheduled,” a company representative wrote in an email to employees. For some, that warning came too late. Multiple employees told me about ongoing medical treatments that could, if not covered by their insurance, bankrupt them personally.

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While asking its employees to watch their expenses, the company itself ran out of cash to meet its most basic obligations. It failed to make payroll in mid-June, with Rouhana promising employees in an email that they would get paid five days late, as the company was “finalizing a financing.” That day came and went, but instead of a check, employees got another email from the CEO. The financing hadn’t closed yet, Rouhana wrote, but he “hoped to fund payroll” the following week — 10 days after paychecks were due.

Attempts to raise $175 million this spring failed, resulting in Chicken Soup for the Soul Entertainment defaulting on debt held by its biggest creditor. Raising more money from public market investors is also a long shot: Chicken Soup's shares have been trading in penny-stock territory, with Nasdaq threatening to delist the company.

"We appreciate your patience and understanding as we work towards resolution," Rouhana wrote in his first email following the missed pay date. It was his first companywide email in many months, according to multiple Redbox employees.

That lack of communication has been especially frustrating to employees. "I wish I could just know what's going on," said the first Redbox employee.

Absent any communication about the company's future, Redbox employees have banded together in group chats to share the little they know with each other. One employee even paid to get access to legal filings to better understand the financial issue.

"I wish I could just know what's going on"

At first, these group chats were small, including just a handful of people here and there. When things boiled over in mid-June, employees created a group dedicated to Redbox's "final days" that has since grown to around 350 members.

"People are posting any articles they can find that might help bring some light to what's going on," said a third Redbox employee with access to the group, who spoke to *The Verge* under the conditions that we do not name them in this story for fear of retaliation. "Some are starting to reminisce about the good times," that employee said, but many simply use the group to express their frustration with the situation. "A lot of bitching all day," the employee quipped.

Then, late Friday, the company sent out an email to employees

to inform them that it had filed for bankruptcy. On Monday, they once again heard from Rouhana, who revealed that he was no longer the company's CEO. His replacement, corporate compliance specialist Bart M. Schwartz, had "an extensive background in helping companies in complex situations," Rouhana proclaimed. Schwartz emailed employees an hour later to promise that his top priority was their health insurance and compensation.

Redbox's rank and file don't seem convinced that help is on the way. On Monday, they started their own GoFundMe for unpaid employees. Any money raised with the campaign will be "disbursed throughout the company minus the owner / CEO," according to the GoFundMe page.

The company's field service fleet, meanwhile, remains grounded. A week after first calling the company's entire field service workforce home, Redbox management told them via email that work would remain paused until Redbox's parent company met its payroll, reimbursement, and healthcare coverage obligations. All of that hinges on the company securing a special loan that allows bankrupt companies to keep operating.

Some employees I talked to doubt that there will be a job to return to — a sentiment that's increasingly bubbling up in public. Redbox's social media accounts have been happily posting through the entire crisis, publishing memes and movie trivia as if nothing had happened — until the company's dire reality became too hard to ignore.

"Describe your life right now using one movie gif," tweeted the official Redbox account in late June, days after the company failed to make payroll.

"Here's mine," the tweet continued, followed by a GIF of the sinking Titanic.

https://www.theverge.com/2024/7/5/24191963/redbox-chicken-soup

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