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## Colt Poised For Bankruptcy Showdown With Bondholders

By **Matt Chiappardi**

Law360, Wilmington (June 16, 2015, 9:16 PM ET) -- A Delaware bankruptcy judge gave Colt Defense LLC the OK on Tuesday to tap \$6 million in stopgap financing from senior lenders, but a major battle is brewing with bondholders that are challenging the trajectory of the debtor's case and will be allowed to present an alternative loan next week.

At a hearing in Wilmington, U.S. Bankruptcy Laurie Selber Silverstein said she would hear evidence June 22 on a proposal that an ad hoc group of bondholders extended to offer a \$55 million debtor-in-possession financing package that would replace the \$20 million one Colt wants the court to approve.

The bondholders — holding \$153 million in 8.75 percent senior notes due in 2017 — were part of a group that proposed a prearranged Chapter 11 restructuring plan that Colt says it rejected because it couldn't get enough support for the strategy from the entire capital structure.

Instead, Colt decided to try to swing a quick bankruptcy auction with a unit of its majority stakeholder Sciens Capital Management LLC acting as stalking horse bidder, and the floor offer simply being the assumption of certain senior debt, according to court records.

But the bondholders, who say they are the “fulcrum debt” in the case, are not happy with that path, arguing there is “an awful lot of bad stuff going on” with Colt's relationship to Sciens, the group's attorney Robert J. Stark of Brown Rudnick LLP said in court.

“This company is run by Sciens and they have starved this company,” Stark told Judge Silverstein. “There are serious, serious corporate governance problems.”

Stark claimed that Sciens has veto power over any “meaningful” decision Colt brass can make, has also waived its fiduciary duty to stakeholders and is essentially controlling the bankruptcy case for a “very strategic purpose.”

The attorney did not explain what he thinks that purpose is, saying that evidence he'd present to the court would answer that question, and that information is now set to be put before Judge Silverstein on Monday.

Attorneys for Sciens, who said they did not plan to speak during the first-day hearing, gave a blanket denial of the bondholders' accusations, and indicated they'd present a more detailed answer as the case progresses.

“We disagree with everything Mr. Stark had to say,” Mark A. McDermott of Skadden Arps Slate Meagher & Flom LLP said in court.

The 175-year-old Connecticut-based weapons manufacturer, which has been supplying firearms to U.S. armed forces since the Mexican-American War, **filed for Chapter 11 protection** Sunday, about a week after it **warned that bankruptcy was a possibility** if it wasn't successfully able to renegotiate \$250 million in bond debt.

The gun maker was hoping the holders of 8.75 percent notes would exchange them for notes that would potentially pay a 10-percent rate and mature in 2021.

Colt said in statement Monday that it needed to turn around a quick bankruptcy auction within two or three months or the only alternative was a Chapter 7 liquidation.

In a first-day declaration, Chief Restructuring Officer Keith A. Maib said the company's financial woes are in part due to a sales slowdown across all of its major business channels in the second half of 2014, that followed a major sales bubble a year earlier attributed to fear of firearm regulations.

The company's sales to the U.S. government were also slow because of "production issues" with the M240 medium machine gun and the lack of a new contract for M4 carbine rifles, Maib said.

Those conditions eventually led to a liquidity crisis when lower sales volumes did not cover fixed overhead costs, according to the declaration.

Colt listed secured debts that included the \$250 million bond liability, a \$72.9 million term loan from a group of lenders led by Wilmington Savings Fund FSB, and a \$35 million senior loan, which stemmed from the refinancing of an earlier asset-based facility, from lenders led by Cortland Capital Market Services LLC.

Colt is represented by Mark D. Collins and Jason M. Madron of Richards Layton & Finger PA, and John J. Rapisardi, Peter Friedman and Joseph Zujkowski of O'Melveny and Myers LLP.

The bondholders are represented by William P. Bowden and Karen B. Skomorucha Owens of Ashby & Geddes PA, Robert J. Stark, Andrew M. Carty and James W. Stoll of Brown Rudnick LLP.

WSFS and the prepetition term lenders are represented by Eric Hellige, Seth Lieberman and Patrick Sibley of Pryor Cashman LLP.

Sciens is represented by Jay Goffman, Mark McDermott, Jason Liberi and Evan Hill of Skadden Arps Slate Meagher & Flom LLP.

The case is In re: Colt Holding Company LLC et al., case number 1:15-bk-11296, in the U.S. Bankruptcy Court for the District of Delaware.

— Additional reporting by Pete Brush and Ben Conark. Editing by Ben Guilfooy.