

Gibson, Iconic Guitar Company, Files for Chapter 11 Bankruptcy Protection



Henry Juskiewicz

As expected, Gibson Brands Inc. filed for Chapter 11 bankruptcy protection early Tuesday, the company announced today, with a turnaround plan that will give some of the company's lenders equity ownership of the long-running guitar and musical equipment company that has become synonymous with classic rock and roll.

After several years of decline, the company has reached a restructuring support agreement with holders of more than 69.0% in principal amount of its 8.875% Senior Secured Notes due 2018, and its principal shareholders, that clears the pathway for the continued financing and operations of the musical instruments business as well as a change of control in favor of those noteholders. The petition estimated up to \$500 million in debt, according to Bloomberg, and the lenders have agreed to an operating, or "debtor in possession," loan of up to \$135 million to fund operations.

"Gibson will emerge from Chapter 11 with working capital financing, materially less debt, and a leaner and stronger musical instruments-focused platform that will allow the Company and all of its employees, vendors, customers and other critical stakeholders to succeed," the announcement reads.

The change in control will give noteholders equity in a new company, replacing stockholders including Chief Executive Officer [Henry Juskiewicz](#), who owns 36 percent of the company, according to the filing. Those noteholders include Silver Point Capital, Melody Capital Partners LP, and funds affiliated with KKR Credit Advisors. Juskiewicz and company president David Berryman will continue with the company upon emergence from Chapter 11 "to facilitate a smooth transition during this change of control transaction and to support the Company in realizing future value from its core business," according to the announcement.

The Company's Gibson Innovations business, an electronics division that Juskiewicz has cited as a source of the company's financial woes, will be wound down.

"Over the past 12 months, we have made substantial strides through an operational restructuring," said Juskiewicz. "We have sold non-core brands, increased earnings, and reduced working capital

demands. The decision to re-focus on our core business, Musical Instruments, combined with the significant support from our noteholders, we believe will assure the company's long-term stability and financial health.

"Importantly, this process will be virtually invisible to customers, all of whom can continue to rely on Gibson to provide unparalleled products and customer service."

The company filed a series of motions that, pending court approval, will allow the Company to operate its business throughout the process in the ordinary course, and to provide support to critical business-partners including vendors, shippers, and suppliers, the announcement says.

Insiders say the company, which was founded by Orville Gibson in 1902, has been struggling for several years under the leadership of Juskiewicz, who has been pursuing other revenue streams, including the electronic companies it purchased in recent years, as guitar sales have fallen over the past decade.

The company's struggles may initially come as a surprise to observers who see vintage Gibsons selling for six figures on instrument sites — indeed, a *1960 Gibson Les Paul Standard could be yours today for a cool \$595,000* — yet the company sees little material benefit from the sale of second-hand items and its newer models have not been widely successful. Conversely, its main competitor, Fender, has kept itself above water by introducing budget lines in recent years, a move Gibson only recently embraced.

The company has been synonymous with rock and roll since the 1950s with its models — the most popular include the Les Paul, the SG, the Firebird and several semi-acoustic lines — being used by virtually every iconic guitar hero, from Chuck Berry and B.B. King to Jimmy Page and Eric Clapton and Duane Allman to Slash and Johnny Marr to Gary Clarke Jr. Yet as rock music has fallen from mainstream popularity so have the guitar sales that form the bulk of Gibson's business.