

# Callidus accused of driving casino game developer Bluberi into insolvency

JEFFREY JONES  
THE GLOBE AND MAIL  
December 23 at 6:33 PM ET

A sign shows the entrance to the offices of Callidus Capital in Toronto, on July 6, 2017.

CHRIS HELGREN/REUTERS

The former head of a Quebec-based casino game developer is suing Callidus Capital Inc. and its executives for \$228-million, alleging the lender employed predatory practices that led to its insolvency and allowed Callidus to scoop up the assets.

Gerald Duhamel, who was chief executive of Bluberi Gaming Technologies Inc. until 2015, says in the suit that once he became a borrower, Callidus orchestrated a plan to block payments to suppliers, interfere with operations and force Bluberi to miss loan payments so that debt levels grew and became unmanageable.

Mr. Duhamel filed the action in Quebec court after a judge approved his agreement for litigation funding. Callidus has appealed that approval and a decision is pending. It is the latest in a flurry of legal action surrounding Callidus, a lender to distressed companies, and its CEO Newton Glassman, who is also the head of Toronto-based private equity firm Catalyst Capital Group Inc.

Callidus's actions as lender left "Bluberi unable to make debt repayments when due, which Callidus used as a pretext to impose increasingly onerous financial terms and conditions; this vicious circle caused a \$40-million loan to balloon to over \$130 million, thereby in effect rendering Bluberi beholden to Callidus," Mr. Duhamel said in his pleading. His allegations have not been proven in court.

Besides Callidus, the action names Catalyst, Mr. Glassman and Callidus executives David Reese and James Riley as defendants.

Callidus called the allegations "entirely spurious and without merit." The company also raised questions about Mr. Duhamel's ability to advance the claim without approval from the Bluberi's creditors at the time.

The case has similarities to another action against Callidus filed in Alberta by Kevin Baumann, in the name of his former company, Alken Basin Drilling Ltd., which took out a \$28.5-million credit facility from the lender in 2014.

Callidus asserts Mr. Baumann has no rights to the Alken name, which it acquired along with the company out of receivership in 2016, and moved to withdraw the action. The two sides have battled each other in previous actions regarding the loan and acquisition of Alken's assets.

In 2012, Mr. Duhamel made the decision to transform Bluberi, based in Drummondville, Que., from a provider of gaming software to other manufacturers into one that made and sold complete machines for casinos. The move required financing, and through a broker, Bluberi began talks with Callidus.

According to the claim, the two sides discussed a loan of \$24-million, although terms and planned dispersal amounts changed three times before the agreement was signed at the end of August, 2012, for an initial advance of \$18.5-million.

It took several months for Bluberi's machines to perform in U.S. casinos with acceptable returns, and the company decided to focus on three native-run facilities to work on improving their money-making abilities, Mr. Duhamel said.

As it did so, Callidus subjected Bluberi to a series of delays when it asked for more credit, he alleges. In addition, borrowing terms became more onerous, with increased interest rates and other fees paid to Callidus, including an additional facility fee known as a "kicker," according to the claim.

"In hindsight, it became evident that Callidus was not interested in permitting Bluberi to repay its loan; Callidus preferred to keep Bluberi on life support, racking up interest at exorbitant rates until all hope of repayment was impossible, at which point Callidus could acquire the company, and exploit an otherwise valuable business for itself," Mr. Duhamel said in the claim.

By late 2015, Mr. Duhamel had been forced out of the company, which was then pushed into receivership. Callidus took ownership of Bluberi's operating assets during a Companies' Creditors Arrangement Act process the following year.

In his claim, Mr. Duhamel is seeking \$198.6-million, plus another \$30-million in various punitive damages.

Callidus said: "If the claim receives authorization to proceed on the part of former Bluberi's creditors and/or the court, Callidus intends to defend the claim vigorously and to seek its early dismissal."

Publicly traded Callidus is 72-per-cent owned by Catalyst, and Mr. Glassman is chairman of both. Callidus's second-largest shareholder, Braslyn Ltd., has offered to buy out the minority shareholders for \$2 a share. That is a fraction of the \$18 to \$22 target that Callidus set more than two years ago, after a valuation from National Bank Financial.

Bahamas-based Braslyn has a 14.5-per-cent interest in the firm.

Clouding the picture, Callidus has been embroiled in a lengthy legal dispute with a group of investors as well as Wall

Street Journal reporters. Mr. Glassman alleges the group conspired to drive down the share price to benefit short-sellers by publicizing whistleblower complaints to the Ontario Securities Commission. The defendants, including Greg Boland, founder of West Face Capital and a rival in numerous court disputes with Mr. Glassman, have denied the charges. Mr. Boland has countersued.