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UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

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In the Matter of:

LYNN TILTON;

PATRIARCH PARTNERS, LLC;

PATRIARCH PARTNERS VIII, LLC;

PATRIARCH PARTNERS XIV, LLC; AND

PATRIARCH PARTNERS XV, LLC;

Respondents.  
-----X

**ANSWER**

**Administrative Proceeding**  
**File No. 3-16462**

Respondents Lynn Tilton; Patriarch Partners, LLC; Patriarch Partners VIII, LLC; Patriarch Partners XIV, LLC; and Patriarch Partners XV, LLC (collectively, "Respondents"), by their attorneys, assert the following answers to the allegations contained in the Order Instituting Proceedings and Notice of Hearing ("OIP"), upon knowledge with respect to themselves and their own acts and upon information and belief with respect to all other matters.

**Section I**

Respondents deny having sufficient information to address what the Securities and Exchange Commission ("SEC" or "Commission") deemed "appropriate" and in the "public interest," as set forth in Section I, except to state that the OIP was not appropriate or in the public interest and that, on information and belief, two SEC Commissioners disapproved and voted against the OIP.

## Section II

### A. SUMMARY

1. Respondents deny each and every allegation in Paragraph 1, except admit that Ms. Lynn Tilton acts within her authority on behalf of Patriarch Partners, LLC; Patriarch Partners VIII, LLC; Patriarch Partners XIV, LLC; and Patriarch Partners XV, LLC.

2. Respondents deny each and every allegation in Paragraph 2, except admit (i) that the collateralized loan obligations known as Zohar CDO 2003-1, Zohar II 2005-1, and Zohar III (collectively, the "Zohar Funds") have raised more than \$2.5 billion from investors, and used these investments to make loans to distressed companies; (ii) that these loans are among the primary assets of the Zohar Funds; and (iii) that some of the distressed companies have not made full interest payments as initially stated in the loan agreements during the course of their respective loans. Respondents further state that "many" in this context is vague and overbroad.

3. Respondents admit the allegations in Paragraph 3, except deny that categorizations of Zohar Fund assets were "valuations" and the characterization "purportedly."

4. Respondents deny each and every allegation in Paragraph 4 and further state that "many" in this context is vague and overbroad.

5. Respondents deny each and every allegation in Paragraph 5.

6. Respondents deny each and every allegation in Paragraph 6.

7. Respondents admit that they prepare quarterly balance sheet and income statements ("financial statements") for the Zohar Funds, which are certified by Ms. Tilton and provided to investors. The documents speak for themselves, and Respondents deny the allegations in Paragraph 7 to the extent inconsistent therewith.

8. Respondents deny each and every allegation in Paragraph 8. The financial statements speak for themselves, and Respondents deny the allegations in Paragraph 8 to the extent inconsistent therewith.

9. Respondents deny each and every allegation in Paragraph 9.

**B. RESPONDENTS**

10. Respondents admit the allegations in Paragraph 10, except state that Ms. Tilton is not a resident of New Jersey and acts within her authority for the Patriarch entities with the input of other employees.

11. Respondents admit the allegations in Paragraph 11.

12. Respondents admit the allegations in Paragraph 12.

13. Respondents admit the allegations in Paragraph 13.

14. Respondents admit the allegations in Paragraph 14.

**C. FACTS**

15. Respondents admit that the Zohar Funds are structured as CLOs, except state that their structuring involved the participation of numerous parties. Respondents admit the general description of CLOs and collateral manager, but deny that the Zohar Funds were typical CLOs in their investment strategy and all remaining allegations in Paragraph 15.

16. Respondents admit the allegations in Paragraph 16.

17. Respondents admit the allegations in Paragraph 17, except state that Ms. Tilton did not sign each indenture as Manager of the collateral manager.

18. Respondents admit the allegations in Paragraph 18, except state that the indentures are contracts, which speak for themselves, and Respondents deny the allegations in Paragraph 18 to the extent inconsistent therewith.

19. Respondents admit the allegations in Paragraph 19. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 19 to the extent inconsistent therewith.

20. Respondents admit the allegations in Paragraph 20, except state that the term "typically" in this context is vague and overbroad. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 20 to the extent inconsistent therewith.

21. Respondents admit the allegations in Paragraph 21, except state that the term "many" in this context is vague and overbroad.

22. Respondents deny each and every allegation in Paragraph 22, except admit that Ms. Tilton's management strategy for the Zohar Funds included improving the operations of the distressed portfolio companies, paying off their debt and increasing their value, and selling businesses when in the best interest of investors.

23. Respondents deny each and every allegation in Paragraph 23, except state that since 2012 Ms. Tilton has expressed concerns to investors in Zohar CDO 2003-1 about the ability to pay off the notes in full at current maturity and that there is overlap in investments across the three Zohar Funds, which could have ramifications for Zohar II 2005-1 and Zohar III as well.

24. Respondents admit the allegations in Paragraph 24.

25. Respondents admit the allegations in Paragraph 25, except state that the terms "all significant decisions" and "all transaction documents" in this context are vague and overbroad.

26. Respondents admit the allegations in Paragraph 26, except deny that the Zohar Funds' tests are valuation tests. The documents governing the Zohar Funds speak for

themselves, and Respondents deny the allegations in Paragraph 26 to the extent inconsistent therewith.

27. Respondents admit the allegations in Paragraph 27, except deny that the Zohar Funds' performance tests are valuation tests. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 27 to the extent inconsistent therewith.

28. Respondents admit the allegations in Paragraph 28.

29. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 29 to the extent inconsistent therewith.

30. Respondents admit the first sentence of Paragraph 30, but deny the second sentence alleging that in the case of the Zohar Funds the numerator reflects a valuation of the loan assets.

31. Respondents deny each and every allegation in Paragraph 31.

32. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 32 to the extent inconsistent therewith. Respondents deny each and every remaining allegation in Paragraph 32, except admit that the Zohar Funds have not failed an OC Ratio test.

33. Respondents admit the allegations in Paragraph 33.

34. Respondents deny the allegations in Paragraph 34, except state that the collateral manager categorizes each loan the fund makes or acquires; that the category of each asset may, depending on the asset and the specific Fund, affect the carrying value of the asset for calculating the numerator of the OC Ratio; and similarly, that a change in categorization may result in a change to the OC Ratio, but not for every asset or Fund.

35. Respondents admit the first sentence in Paragraph 35. Respondents deny the remaining allegations in Paragraph 35, except admit that Category 4 assets are carried at the principal amount outstanding on the loan to the Portfolio Company and that Category 1 assets may, depending on the asset and Fund, be carried at a lower amount.

36. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 36 to the extent inconsistent therewith.

37. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 37 as fundamentally incomplete.

38. The documents governing the Zohar Funds speak for themselves, and Respondents deny the allegations in Paragraph 38 as fundamentally incomplete.

39. Respondents deny each and every allegation in Paragraph 39 as fundamentally incomplete.

40. Respondents deny each and every allegation in Paragraph 40, except admit that Ms. Tilton's categorizations generally are based on her business judgment as to whether to provide financial and managerial support to the distressed Portfolio Company, but deny that this was inconsistent with the indentures.

41. Respondents deny each and every allegation in Paragraph 41.

42. Respondents deny each and every allegation in Paragraph 42 that imply that Ms. Tilton's exercise of discretion is inconsistent with the documents governing the Zohar Funds and the investment strategy, except admit that in January 2014, 16 loans in the Zohar II portfolio were classified as Category 1 and 106 loans were classified as Category 4.

43. Respondents deny each and every allegation in Paragraph 43, except admit that some of the portfolio companies did not make full interest payments as originally stated in the

loan agreements at one point or another during the course of their respective loans, and further state that "many" in this context is vague and overbroad.

44. Respondents deny each and every allegation in Paragraph 44, except admit that even under the erroneous theories presented by the Division of Enforcement, the OC Ratio test for Zohar I never failed, and further state that Respondents do not know which Zohar Funds' assets the Division refers to.

45. Respondents deny each and every allegation in Paragraph 45, and further state Respondents do not know which investors are being referenced.

46. Respondents admit the allegations in Paragraph 46.

47. Respondents deny each and every allegation in Paragraph 47, except admit that Ms. Tilton exercises her authorized discretion to accept less than the full contractual rate of interest on behalf of the Zohar lenders, which may or may not equal the amount the company wishes to pay and state that the "numerous emails" referenced speak for themselves.

48. Respondents admit the allegations in Paragraph 48.

49. Respondents deny each and every allegation in Paragraph 49, and further state Respondents do not know which investors are being referenced.

50. Respondents deny each and every allegation in Paragraph 50, except to state that the emails referenced speak for themselves.

51. Respondents deny each and every allegation in Paragraph 51, and further state that Respondents do not know which investors are being referenced.

52. Respondents state that Paragraph 52 consists of legal conclusions to which no answer is required.

53. Respondents admit the allegations in Paragraph 53, except deny that the quoted language reflects the entirety of the contractual standard.

54. Respondents deny each and every allegation in Paragraph 54.

55. Respondents deny each and every allegation in Paragraph 55, except admit that Ms. Tilton decides when to accept less than the full interest due from Portfolio Companies and that Respondents determine the categories for portfolio assets.

56. Respondents deny each and every allegation in Paragraph 56.

57. Respondents deny the allegations in the first sentence of Paragraph 57, except admit that each of the Zohar Funds is required under the terms of the indenture to provide certain quarterly statements prepared in accordance with GAAP. Respondents admit the allegations in the second sentence, except state that the financial statements are approved by Ms. Tilton ultimately on behalf of the Issuer, and only after a review by outside accountants. Respondents deny the allegations in the last sentence and further state that Respondents do not know which investors are being referenced.

58. The financial statements speak for themselves, and Respondents deny the allegations in Paragraph 58 to the extent inconsistent therewith.

59. The certifications speak for themselves, and Respondents deny the allegations in Paragraph 59 to the extent inconsistent therewith.

60. Respondents deny each and every allegation in Paragraph 60.

61. The financial statements speak for themselves, and Respondents deny the allegations in Paragraph 61 to the extent inconsistent therewith.

62. Respondents deny that the allegations in Paragraph 62 are a complete recitation of GAAP principles, including in regards to impairment.



63. Respondents deny each and every allegation in Paragraph 63.
64. Respondents deny each and every allegation in Paragraph 64 except admit that, in accordance with the notes to the Financial Statements, losses are recognized on settlement.
65. Respondents deny each and every allegation in Paragraph 65, except admit that settlement of loans can occur at the time the Zohar Funds call a default on the loans.
66. Respondents admit that the document referenced in Paragraph 66 contains the quoted language, but otherwise deny the allegations.
67. Respondents deny each and every allegation in Paragraph 67.
68. Respondents deny each and every allegation in Paragraph 68, and further state that Respondents do not know which assets should have been identified and measured as impaired.
69. Respondents deny each and every allegation in Paragraph 69.
70. Respondents deny each and every allegation in Paragraph 70. The financial statement footnotes speak for themselves, and Respondents deny the allegations in Paragraph 70 to the extent they are inconsistent therewith.
71. Respondents deny each and every allegation in Paragraph 71, except admit that the documents referenced by Paragraph 71 contain the quoted language.
72. Respondents deny each and every allegation in Paragraph 72.
73. Respondents deny each and every allegation in Paragraph 73.

**E. VIOLATIONS<sup>1</sup>**

74. Respondents state that Paragraph 74 constitutes a legal conclusion to which no answer is required. To the extent that a responsive pleading is required, Respondents deny each and every allegation in Paragraph 74.

75. Respondents state that Paragraph 75 constitutes a legal conclusion to which no answer is required. To the extent that a responsive pleading is required, Respondents deny each and every allegation in Paragraph 75.

76. Respondents state that Paragraph 76 constitutes a legal conclusion to which no answer is required. To the extent that a responsive pleading is required, Respondents deny each and every allegation in Paragraph 76.

Respondents deny each and every allegation of the Division of Enforcement not herein admitted, qualified, or denied. Respondents expressly reserve the right to seek to amend and/or supplement their Answer as may be appropriate or necessary.

**AFFIRMATIVE DEFENSES**

Further answering the OIP, Respondents assert the following affirmative defenses without assuming the burden of proof where the burden would otherwise rest on the Commission:

**First Affirmative Defense**

The Commission and the Commission's Administrative Law Judges lack authority to conduct the proceedings herein.

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<sup>1</sup> Respondents note that the OIP contains no heading bearing the letter "D," but rather skips from "C" to "E."

### **Second Affirmative Defense**

The allegations of the Division of Enforcement fail to state a claim upon which relief may be granted by the Commission.

### **Third Affirmative Defense**

The OIP, and each alleged cause of action contained therein, is barred in whole or in part by the statute of limitations.

### **Fourth Affirmative Defense**

The OIP, and each alleged cause of action contained therein, is barred by the doctrine of laches because the Division of Enforcement delayed unreasonably and inexcusably in commencing this action and the Respondents suffered prejudice as a result.

### **Fifth Affirmative Defense**

The OIP, and each alleged cause of action contained therein, concern matters for which Respondents disclosed all pertinent facts to various experts and relied in good faith on the experts' advice.

### **Sixth Affirmative Defense**

The Commission has no right to obtain disgorgement under the OIP because any award of disgorgement would unjustly enrich third parties because the amounts alleged are uncertain and are the property of Respondents.

### **Seventh Affirmative Defense**

The civil penalties sought by the Commission should be denied or substantially reduced because any such award would be unjust, arbitrary and oppressive, or confiscatory.

**Eighth Affirmative Defense**

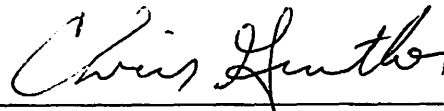
Without conceding that any third party is entitled to damages based on any acts of the Respondents, any amount of disgorgement awarded, if any, should be reduced or offset by any credits that the relevant third parties have received.

**Ninth Affirmative Defense**

Respondents are entitled to a credit or set off for any amounts invested into or alongside the Zohar Funds as third parties would be unjustly enriched if Respondents' profits were disgorged.

Dated: April 22, 2015  
New York, NY

By:



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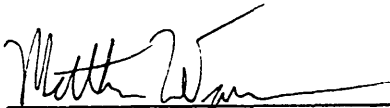
**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing was served on the following on this 22nd day of April, 2015, in the manner indicated below:

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