IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Case No. 17-________ (__)
Chieftain Sand and Proppant LLC, *et al.*,	)	Chapter 11
Debtors.[1]	)	(Joint Administration Requested)

DECLARATION OF VICTOR A. SERRI
IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS

Pursuant to 28 U.S.C. § 1746, I, Victor A. Serri, hereby declare under penalty of perjury that the following is true and correct to the best of my knowledge and belief:

1. I am the Chief Executive Officer ("***CEO***") of Chieftain Sand and Proppant, LLC, a limited liability company organized under the laws of Delaware (together with Chieftain Sand and Proppant Barron, LLC, the "***Debtors***" or "***Chieftain***"). I have been employed as CEO beginning in December 2015. Prior to assuming the position of CEO, I was Chieftain's Chief Operating Officer since October 2014 and its external consultant since February 2014.

2. I submit this Declaration in support of the Debtors' petitions for relief under chapter 11 of the Bankruptcy Code and the First Day Pleadings. Except as otherwise indicated, all statements set forth in this Declaration are based upon: (a) my personal knowledge; (b) information supplied to me by other members of the Debtors' management or the Debtors' professionals that I believe in good faith to be reliable; (c) my review of relevant documents; and/or (d) my opinions based upon my experience and knowledge of the Debtors' operations and financial condition. If called upon to testify, I could and would testify to the facts set forth in

[1] The Debtors in these chapter 11 cases, and their respective federal tax identification numbers, are Chieftain Sand and Proppant LLC (1729) and Chieftain Sand and Proppant Barron LLC (0418). The Debtors' service address is: 331 27th Street, New Auburn, WI 54757.

this Declaration. I am over 18 years of age and am authorized by the Debtors to submit this Declaration.

3. On the date hereof (the "***Petition Date***"), each of the Debtors filed a voluntary petition with the court for relief under chapter 11 of the Bankruptcy Code. To minimize the adverse effects of filing for chapter 11 protection and facilitate a restructuring process that preserves and enhances value and enhances the Debtors' ability to successfully sell their assets as a going concern, the Debtors have filed a number of pleadings requesting various kinds of "first day" relief (collectively, the "***First Day Pleadings***") concurrently with the filing of this Declaration (the "***Declaration***"). I am familiar with the contents of each First Day Pleading and, to the best of my knowledge, after reasonable inquiry, believe the relief sought in each First Day Pleading: (a) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption; (b) is critical to the Debtors' efforts to preserve value and pursue a successful going concern sale of their assets; and (c) best serves the Debtors' estates and creditors' interests. Further, it is my belief that the relief sought in the First Day Pleadings is narrowly tailored and necessary to achieve the goals of these chapter 11 cases.

I. BACKGROUND

A. Description of the Debtors' Business

4. Chieftain is a privately owned producer of hydraulic fracturing sand ("***Frac Sand***"), a monocrystalline sand used as a proppant (a solid material, typically sand, designed to keep an induced hydraulic fracture open) to enhance oil and gas product recovery in petroleum-rich unconventional shale deposits.

5. In 2009, Chieftain Sand and Proppant, LLC (a Delaware LLC) was formed by David Hanson and Russel Driver for the purpose of mining, processing, and selling Frac Sand.

The company purchased land in Southwestern Arkansas and built a small capacity plant on site (approximately 175,000 tons per year). As discussed in further detail below, Chieftain currently operates a single plant located in Barron County, Wisconsin as a result of the sale of the Arkansas' assets in 2015.

6. Frac Sand is a high-purity quartz sand with very round grains. It is very durable and provides a crush-resistant material used in the oil and gas industry for hydraulic fracturing (also called "***fracking***"). Rock units composed of quartz grains that have gone through multiple cycles of weathering and erosion are potential sources of Frac Sand material. This evolution has removed most mineral grains other than quartz resulting in grains with very round shapes.

7. Some subsurface rock contains large amounts of oil, natural gas, or natural gas liquids that cannot flow freely to a well because the rock is impermeable to the degree that the fluids cannot flow through them. The fracking process presents a solution by creating fractures in the rock. This is accomplished by drilling a well into the rock and sealing the portion of the well in the petroleum-bearing zone. Water treated with chemicals and thickeners to create a viscous gel is then pumped into that portion of the well using a high pressure process. The gel facilitates the water's ability to carry grains of Frac Sand in a suspended state. Large pumps at the surface increase water pressure in the sealed portion of the well until pressure is sufficient to fracture surrounding rocks. Water rushes rapidly through the fractures, making them larger and pushing them deeper into the rock. Because billions of sand grains are pushed deep into the fractures, it can take several thousand tons of Frac Sand to stimulate a single well.

8. After the surface pumps are turned off, the fractures contract but do not close completely because they are propped open by billions of grains of Frac Sand. This occurs when there is sufficient sand remaining in the rock to resist the force of the closing fractures. Frac

Sand is known as a “proppant” because it props the fractures open by forming a network of pore spaces that allow petroleum fluids to flow out of the rock and into the well. Although there are other types of proppants available, depending on the type of well, Frac Sand often delivers the highest performance.

9. Proppants used in the petroleum industry must meet very demanding specifications. The typical characteristics of high quality Frac Sand include: high-purity silica sand; a grain size that is perfectly matched to job requirements; a round shape that allows it to be carried in hydraulic fracturing fluid with little turbulence; and durability to resist the crushing forces of closing fractures.

10. Frac Sand delivery is based on economic rail access or close delivery endpoint truck transport proximity. Each Midwest Frac Sand mine facility is dependent upon the rail owner with respect to its ability to economically deliver the Frac Sand product to the shale resource. In turn, each rail owner’s United States network is limited in reaching all the shale plays. Chieftain’s current rail owner’s (Union Pacific) network allows Chieftain to reach the western United States, New Mexico and Texas shale plays.

B. Expansion into Wisconsin

11. By 2010, the fracking industry was experiencing tremendous growth. The operations in Arkansas were not well suited to capture the upside growth that was occurring in the industry. First, the Arkansas plant could only produce about 175,000 tons per year of finished goods. Second, the Frac Sand mined in Arkansas was poor quality brown sand. Finally, the Arkansas plant was not ideal from a logistics standpoint since it did not have on site rail access, resulting in a higher cost to get the finished product to market.

12. Wisconsin has one of the largest deposits of Frac Sand in the country and is currently being mined from sandstone formations in much of western and central Wisconsin. The sand found in Wisconsin is ideal for fracking because several of the geologic formations meet the ideal proppant specifications and the Frac Sand resource originates near the ground's surface. Sand from younger glacial deposits as well as most beach and riverbank sand is too impure and too angular to be used as Frac Sand. Wisconsin has brilliant sandstone deposits that are hard, nearly pure quartz, well-rounded and uniformly-sized sand particles. These types of silica sands are unique to Western Wisconsin and are considered the jewel for Frac Sands.

13. During this period of industry expansion, hydraulic fracking companies preferred to use northern white sand as proppant (i.e., the type of sand located in Wisconsin). In order to secure an adequate northern white Frac Sand supply, many hydraulic fracking companies were entering into "take or pay" supply agreements with Wisconsin based Frac Sand producers.

14. In order to capitalize on the shifting market, the founders of the company formed Chieftain Sand and Proppant Barron, LLC (a Wisconsin LLC) to mine, process and sell Frac Sand in Barron County, Wisconsin in December 2011. Concurrently with the forming of the Wisconsin LLC, Chieftain entered into a several year "take or pay" contract (the "***Take or Pay Contract***") with a major well service company to supply 400,000 tons of Frac Sand per annum.

15. In order to build the plant, Chieftain took out a short-term loan with a private equity firm. Further, pursuant to the terms of the Take or Pay Contract, Chieftain received a non-interest bearing loan of $7,000,000.

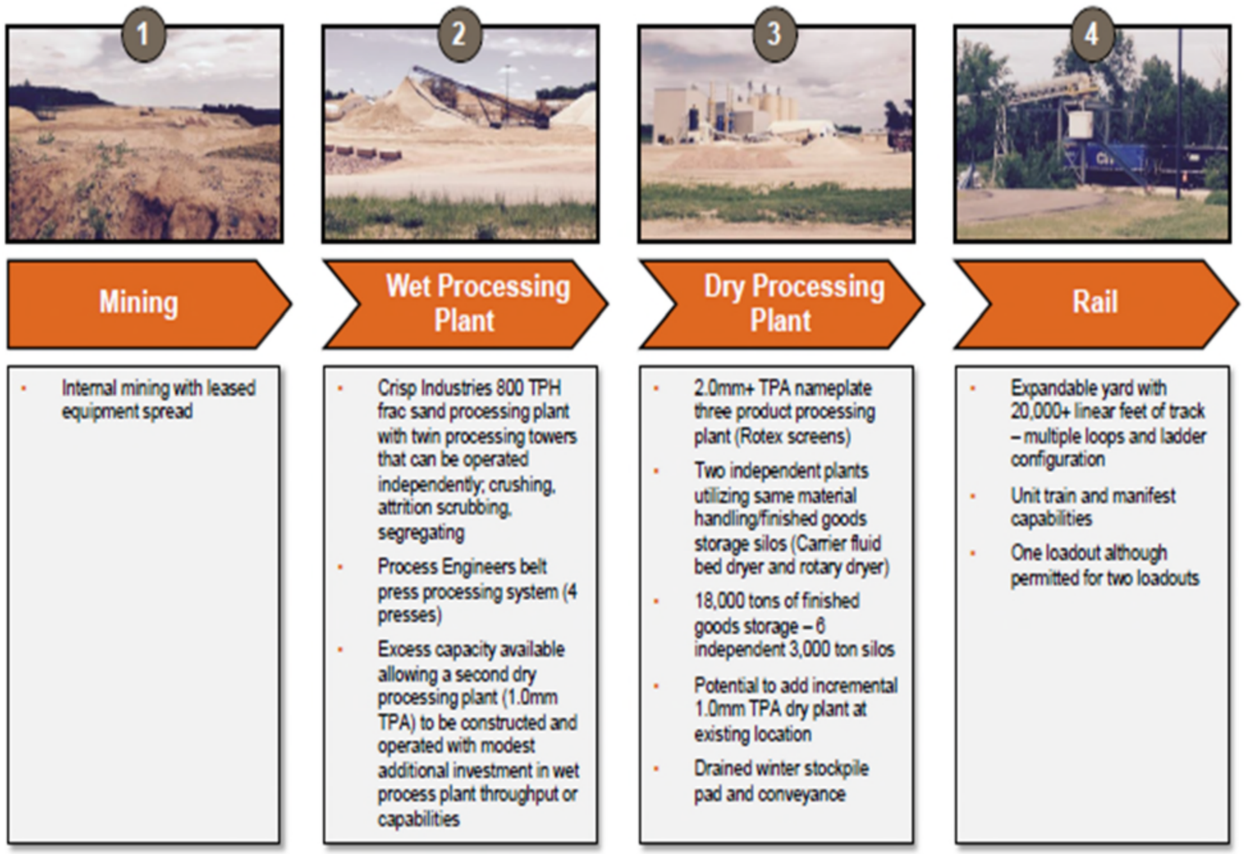
16. Mining operations in Wisconsin commenced in June 2012. The original plant size allowed Chieftain to produce approximately 800,000 tons per year. Given the tremendous

growth that was taking place in the industry, Chieftain wanted to immediately expand capacity at the plant by an additional 400,000 tons per year.

17. To fund this expansion, in July 2012 a recapitalization of Chieftain occurred, with a private equity investment firm, Energy Capital Partners Mezzanine Opportunities Fund A, LP and its parallel funds (collectively, "***ECP***") loaning $65,000,000 to Chieftain. ECP received a 25% equity interest in Chieftain as a loan condition.[2] The recapitalization paid off the prior short-term loan and provided the required capital to expand the capacity of the plant.

18. Chieftain's Wisconsin fixed assets consist of land containing Frac Sand reserves (over 25 million tons) and wet and dry processing plants capable of producing 1.2 million tons of finished goods per year. Chieftain produces three American Petroleum Institute approved Frac Sand grades; 20/40 (coarse), 30/50, and 40/70 (fine). The grades are specified by size that being a standard screen mesh size with the higher number representing a finer grain size. The Frac Sand is loaded in rail cars on a Chieftain-owned rail yard which holds over 300 leased rail hopper cars. The Chieftain mining and processing cycle with asset descriptions is illustrated below.

[2] As discussed below, ECP later extended additional term loan tranches of $15,000,000 and $3,000,000 pursuant to the amended Prepetition Credit Agreement (defined below). In addition, ECP subsequently contributed an additional $5,000,000 million in exchange for preferred equity and control over the Board of Members.



19. By July 2012, Chieftain was operating plants in Arkansas and Wisconsin. At the time, Chieftain employed approximately 100 employees (the number increased to approximately 160 prior to the petroleum recession).

20. During 2012 and 2013, Chieftain was incurring losses (combined in the approximate amount of $17 million) related to the startup of the Wisconsin facility. By 2014, Chieftain's Wisconsin operations were profitable, however Arkansas was operating at a loss. Net income for 2014 was approximately $5.2 million dollars, including a $3.8 million loss related to operations in Arkansas.

21. In 2014, with oil prices at a record high, Chieftain engaged the energy sector investment banker Tudor, Pickering and Holt ("***TPH***") to sell the company as a going concern. Weeks prior to the start of the petroleum recession (late 2014), Chieftain was in negotiations

with a strategic buyer potentially to sell the company for approximately $200 million dollars. The strategic buyer withdrew its offer with the collapse of oil prices towards the end of 2014.

C. The Petroleum Recession

22. The recent petroleum recession began in late 2014 with a steady decline in oil prices from over $100 per barrel in mid-2104 to the mid $30 per barrel in early 2016. This recession has caused approximately 105 North American oil and gas producer bankruptcies since the beginning of 2015.

23. Proppant demand fell from 72.5 million tons in 2014 to an estimated 30 million tons in 2016 (based on current demand, Chieftain's spot market demand is zero). This dramatic reduction in Frac Sand demand favored companies that were closer to the shale plays (i.e., brown sand producers in Texas and Midwest-based northern white sand producers). With low Frac Sand demand during 2015 and 2016, producers south of Chieftain's northern Wisconsin plant have been capturing the majority of the Frac Sand demand primarily due to lower transportation costs, which costs comprise over 75% of the delivered cost.

D. The Debtors' Cost Reduction Initiatives

24. In the face of the petroleum economic downturn, in early 2015, Chieftain's leadership took appropriate steps to substantially reduce monthly cash losses. The cost reduction activities included gradually furloughing over 100 employees (currently eight employees remain), reducing leased equipment usage, and renegotiating existing leases. Further, Chieftain sold its assets located in Arkansas. These activities, over a six-month period, resulted in a monthly cumulative cash savings of over $1.2 million, or $14.4 million on an annual basis.

E. The Debtors' Liquidity Problems in 2015

25. The petroleum recession caused 2015 liquidity issues for Chieftain as Frac Sand demand rapidly diminished. Chieftain's major customer failed to perform its obligation to order sufficient product under the Take or Pay Contract and, as such, the Take or Pay Contract was repudiated. Chieftain then initiated arbitration proceedings against the customer.

26. Chieftain's lack of sales further caused a Wells Fargo receivables factoring line of credit to be withdrawn in the summer of 2015, further tightening Chieftain's liquidity. Chieftain responded to these events by engaging again, TPH, to sell the company as a going concern entity. This engagement was unsuccessful as potential buyers were reluctant to deepen ties to the energy sector on terms acceptable to Chieftain.

27. To improve the company's cash position, in August 2015, ECP extended to the company an additional term loan of $3.0 million. The Frac Sand market continued to deteriorate, as did the company's liquidity, from August 2015 to the end of 2015. Subsequently, ECP sponsored a November 2015 Consent Agreement, signed by the company, in which ECP contributed $5.0 million in exchange for preferred equity and control over the Board of Members. Previously, ECP had been a Board observer. David Hanson was removed as Chief Executive Officer in January 2015 and was replaced with Victor Serri, the company's Chief Operating Officer.

28. Frac Sand demand continued to decline in 2016, nearly destroying all of Chieftain's sales. Chieftain attempted to diversify its products by entering the foundry market. While there were some foundry sand sales, the small volume did little to alleviate the tightening liquidity position. Chieftain continued to reduce costs, moving the EBITDA loss from $3.4 million in Q1 2016 to a Q3-2016 EBITDA loss of $2.1 million.

29. In June 2016 the arbitration over the Take or Pay Contract was settled with a lump sum payment to Chieftain of $46 million. On June 22, 2016, ECP swept the $46 million from a lender controlled account under the notice of debt acceleration and applied the cash to reduce the outstanding indebtedness.

F. Pre-Bankruptcy Marketing Efforts and Events Leading to the Bankruptcy Filing

30. With the company facing a near term liquidity crisis, TPH was again engaged to sell the company as a going concern, with ECP agreeing to waive its long term debt for the buyer. During the period June 2016 to September 2016, TPH marketed the company to over 60 firms. These firms included companies from the proppant market space, companies from the industrial minerals market, private equity firms, and other firms in the energy sector. Twenty-two parties signed a confidentiality agreement for data room access, however no bids were received in connection with the sale process.

31. At the same time TPH commenced its marketing activities, Chieftain retained restructuring professionals in order to assess various restructuring options.

32. With no bids materializing in connection with an out-of-court sales process, Chieftain instructed TPH to go back to the market to see if a section 363 sales process (in connection with a Chapter 11 proceeding) would result in bids and maximize the value of the Debtors' assets. In order to conserve cash and provide time for the sales process to play out, Chieftain reduced its workforce to eight essential employees and warm idled its plant.

33. As a result of the re-marketing efforts, several parties expressed interested in moving forward with a sale under the auspices of the Bankruptcy Code. The bids, however, contemplated a purchase of ECP's debt and the various other interests held by ECP (i.e., its equity position, preferred position and control of the board).

34. The Debtors, in consultation with their advisors and in cooperation with ECP, concluded that, based on their financial projections and liquidity constraints, cash on hand alone would be insufficient to fund the Debtors' operations during the pendency of these chapter 11 cases. With liquidity needs becoming critical and no bidder willing to provide post-petition financing junior to ECP, it became evident that in order to execute on a value maximizing transaction, ECP would need to provide (a) provide post-petition debtor-in-possession financing and (b) enter into a stalking horse asset purchase agreement with the Debtors.

35. In order to avoid any conflicts of interest in connection with the negotiations with ECP, a special restructuring committee of the Board was formed comprised of two members, Victor A. Serri and Tim Becker (an independent director). The special committee is authorized to make all determinations with respect to restructuring related matters without further Board approvals.

36. Beginning in October of 2016, the Debtors and ECP, represented by separate advisors, began to discuss the possibility of ECP providing debtor-in-possession financing to the Debtors in connection with a chapter 11 proceeding. As a result of these discussions, ECP has agreed to provide DIP financing in order to complete a Section 363 sale process.

37. Since its inception, the special committee has overseen the negotiations of and entry into the debtor-in-possession financing facility and stalking horse asset purchase agreement. The petroleum recession's drastically reduced Frac Sand demand has crippled Chieftain's sales and liquidity. The company has approximately $846,000 of cash on hand as of the petition date and has a monthly cash use rate of approximately $210,000. Accordingly, the special committee decided that it was in the best interests to file for Chapter 11 and pursue an open Section 363 sale process, with ECP acting as stalking horse purchaser.

G. The Debtors' Capital Structure

Secured Debt

38. Chieftain Sand and Proppant, LLC and Chieftain Sand and Proppant Barron, LLC as borrower (the "***Borrower***"), Energy Capital Partners Mezzanine Opportunities Fund A, LP ("***ECP Fund A***"), Energy Capital Partners Mezzanine Opportunities Fund LP, and Energy Capital Partners Mezzanine Opportunities Fund B, LP as lenders (collectively, the "***Prepetition Lenders***"), ECP Fund A as administrative agent (in such capacity and as collateral agent, the "***Prepetition Agent***" and, together with the Prepetition Lenders, the "***Prepetition Secured Parties***") are parties to that certain Credit Agreement, dated as of July 25, 2012 (as amended by the First Amendment to Credit and Security Agreement, dated as of August 31, 2012, the Second Amendment to Credit and Security Agreement, dated as of October 1, 2012, the Third Amendment to Credit and Security Agreement, dated as of October 24, 2012, the Fourth Amendment to Credit and Security Agreement dated as of November 16, 2012, the Fifth Amendment to Credit and Security Agreement dated as of December 31, 2012, the Sixth Amendment to Credit and Security Agreement dated as of February 15, 2013, the Seventh Amendment to Credit and Security Agreement and Waiver dated as of June 14, 2013, the Eighth Amendment to Credit and Security Agreement and Waiver dated as of February 12, 2014, the Ninth Amendment to Credit and security Agreement dated as of September 4, 2014, the Tenth Amendment to Credit and Security Agreement and Waiver dated as of March 19, 2015, the Forbearance Agreement to Credit and Security Agreement dated as of July 29, 2015, the Eleventh Amendment to Credit and Security Agreement and First amendment to Forbearance Agreement dated as of August 28, 2015, and the Consent Agreement dated as of November 5, 2015, the "***Prepetition Credit Agreement***," and together with each of the Loan Documents (each

as defined therein), the "***Prepetition Loan Documents***"). The Prepetition Credit Agreement provided for a $65,000,000 initial term loan credit facility with successive term loan tranches of $15,000,000 and $3,000,000, and paid-in-kind interest resulting in principle owed of $88,748,611 as of the Eleventh Amendment effective date (collectively, the "***Prepetition Credit Facility***"). The current principle owed, including paid-in-kind interest, is $60,235,856 *plus* accrued and hereafter accruing and unpaid interest thereon in an aggregate amount of not less than $5,489,800, *plus* any additional fees, expenses (including any reasonable attorneys', accountants', appraisers', and financial advisors' fees and expenses that are chargeable or reimbursable under the Prepetition Credit Documents), and other amounts now or hereafter due under the Prepetition Credit Agreement and the other Prepetition Credit Documents.

39. Pursuant to the Prepetition Loan Documents, the Prepetition Secured Parties were granted first priority liens on, and security interests in, substantially all of Chieftain's assets and property.

Unsecured Debt

40. Chieftain has trade debt of approximately $4.0 million and other unsecured accrued liabilities of approximately $1.9 million as of the Petition Date.

41. Further, at the holding company level, Chieftain has subordinated notes outstanding in the principal amount of $607,000 (with an additional $516,000 of accrued interest), which notes are held by fourteen individuals.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: January 9, 2017

Victor A. Serri

EVIDENTIARY SUPPORT FOR FIRST DAY PLEADINGS[1]

A. Debtors' Motion for Order Directing Joint Administration of the Debtors' Chapter 11 Cases ("*Joint Administration Motion*").

1. Pursuant to the Joint Administration Motion, the Debtors request entry of an order consolidating the administration of these chapter 11 cases for procedural purposes only, and granting related relief. Many, if not virtually all, of the motions, applications, hearings, and orders that will arise in these chapter 11 cases will affect all of the Debtors. For example, nearly all of the relief sought by the Debtors in the First Day Pleadings is sought on behalf of all of the Debtors. In order to optimally and economically administer the chapter 11 cases, such cases should be jointly administered, for procedural purposes only, under the case number assigned to Debtor Chieftain Sand and Proppant LLC. Accordingly, on behalf of the Debtors, I respectfully submit that the Joint Administration Motion should be approved.

B. Debtors' Motion for Entry of Interim and Final Orders Authorizing Continued Use of the Debtors' Cash Management System ("*Cash Management Motion*").

2. Prior to commencing these chapter 11 cases, the Debtors managed their cash, receivables, and payables through a cash management system (the "***Cash Management System***"). The Cash Management System is designed to efficiently collect, transfer, and disburse funds for the Debtors.

3. By the Cash Management Motion, the Debtors seek entry of interim and final orders authorizing the Debtors to: (a) continue to operate their Cash Management System; and (b) honor certain prepetition obligations related thereto. In addition, the Debtors request that the Court schedule a final hearing within approximately 25 days of the commencement of these chapter 11 cases to consider approval of this Motion on a final basis.

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[1] Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the applicable First Day Pleading.

4. I believe that the continuation of the Debtors' Cash Management System is essential to the Debtors' business and any disruption in the Debtors' use of the Cash Management System would significantly disrupt the Debtors' operations. Accordingly, on behalf of the Debtors, I respectfully submit that the Cash Management Motion should be approved.

C. Debtors' Motion for Entry of Interim and Final Orders Authorizing the Debtors to Pay Certain Taxes ("*Taxes Motion*").

5. The Taxes Motion seeks the authority to remit and pay Taxes that accrued before the Petition Date and will become payable during the pendency of these cases in an aggregate amount not to exceed $985,700. The Debtors also request that the Court authorize applicable financial institutions, when the Debtors so request, to receive, process, honor, and pay any and all electronic payment requests in respect of the Taxes.

6. In the ordinary course of business, the Debtors incur property, sales and use taxes and franchise taxes, as more fully described in the Taxes Motion. The Debtors' failure to pay prepetition Taxes may cause the Authorities to take precipitous action, including, but not limited to, conducting audits, filing liens, preventing the Debtors from doing business in certain jurisdictions, or seeking to lift the automatic stay, all of which would greatly disrupt the Debtors' operations. Accordingly, on behalf of the Debtors, I respectfully submit that the Taxes Motion should be approved.

D. Debtors' Motion for Entry of Interim and Final Orders Authorizing the Debtors to Pay Prepetition Wages, Compensation, Employee Benefits and Other Associated Obligations ("*Employee Wage Motion*").

7. The Employee Wage Motion seeks an order authorizing the Debtors to: (i) pay and/or perform, as applicable, prepetition obligations to current employees including accrued prepetition wages, salaries, and other cash and non-cash compensation claims (collectively, the

"**Employee Wage Obligations**"); (ii) maintain and continue to honor their practices, programs, and policies for their employees that were in effect as of the Petition Date, as such may be modified, amended or supplemented from time to time in the ordinary course, including without limitation, the continuation and maintenance of the Debtors' various employee benefit plans and programs (and to pay all fees and costs in connection therewith, including those that arose prepetition) (collectively, the "**Employee Benefit Obligations**"); (iii) reimburse employees for prepetition expenses incurred on behalf of the Debtors in the ordinary course of business (the "**Employee Expense Obligations**"); (iv) continue to pay and/or contest in good faith all amounts related to workers' compensation claims that arose prepetition (the "**Workers' Compensation Obligations**"); (v) pay all related prepetition withholdings and payroll-related taxes and deductions (the "**Employer Taxes and Deductions**" and collectively with the Employee Wage Obligations, Employee Benefit Obligations, Employee Expense Obligations and Workers' Compensation Obligations, the "**Employee Obligations**") associated with the Employee Wage Obligations and Employee Benefit Obligations (each, as described herein) and (b) authorizing and directing financial institutions to receive, process, honor, and pay all related checks and electronic payment request for payment of any prepetition Employee Obligations.

8. As of the Petition Date, the Debtors employs seven (7) individuals (the "**Employees**") on a full-time salaried basis and one (1) individual on a part time basis.

9. The Debtors' Employees perform a variety of critical functions relating to the administration of the Debtors' business, maintenance of the Debtors' facilities and compliance with environmental obligations. With only seven full time Employees left on the payroll, the remaining Employees' skills, knowledge, and understanding of the Debtors' infrastructure,

operations and business relations are essential in connection with the restructuring of the Debtors' businesses.

10. In the ordinary course of business, the Debtors incur payroll obligations for salaries, commissions and hourly wages owed to their Employees. Salaries and hourly wages for the Employees are paid weekly. The average total monthly payroll obligations are approximately $92,000 for the Employees.

11. The Debtors offer their Employees other benefits, including vacation time, paid holidays, other personal time off, and reimbursement of certain business expenses. These benefits are usual and customary, and they are necessary to enable the Debtors to retain qualified employees to operate their businesses.

12. The Employees are essential to the restructuring of the Debtors' businesses, and the Employees' morale directly affects their effectiveness and productivity. Consequently, it is critical that the Debtors continue, in the ordinary course, those personnel policies, programs, and procedures that were in effect prior to the Petition Date. If the checks issued and electronic fund transfers requested in payment of any of the compensation or other Employee obligations are dishonored, or if such obligations are not timely paid postpetition, the Employees may suffer extreme personal hardship and may be unable to pay their daily living expenses. A loss of employee morale and goodwill at this critical juncture would undermine the Debtors' stability, and undoubtedly would have an adverse effect on the Debtors, their customers, the value of their assets and businesses, and their ability to achieve their objectives in chapter 11.

13. I believe that the relief requested in the Employee Wage Motion is necessary to preserve critical business and to maximize the value of their chapter 11 estates for the benefit of

all parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Employee Wage Motion should be approved.

E. Debtors' Motion for Entry of Interim and Final Orders Establishing Adequate Assurance Procedures with respect to the Debtors' Utility Providers ("*Utility Motion*").

14. The Debtors rely on utility services, including, but not limited to, telephone, internet, gas and electric, waste removal, and water (collectively, the "Utility Services") provided by the Utility Companies to operate their business. The Debtors estimate that their average monthly obligations to the Utility Companies on account of services rendered total approximately $12,000.

15. Uninterrupted service from the Utility Companies is essential to maintaining the Debtors' ongoing operations and to preserving value for all interested stakeholders. For the Debtors to preserve the value of their estates, their operations must continue to operate without interruption. Any temporary or permanent discontinuation of utility services could irreparably disrupt the Debtors' business operations and, as a result, diminish recoveries to the Debtors' stakeholders.

16. In order to provide adequate assurance, the Debtors intend to pay any postpetition obligations to the Utility Companies in a timely fashion in the ordinary course of their business. To that end, the Debtors have budgeted for the payments and will make them in the ordinary course from available cash and/or through anticipated access to the DIP facility.

17. The Debtors also propose to deposit, as adequate assurance of payment, approximately $6,000 into a newly created, segregated, interest-bearing account (the "***Adequate Assurance Deposit***") within 20 days of the Petition Date. The Adequate Assurance Deposit equals approximately two weeks of the Debtors' estimated utility expenses. The Adequate Assurance Deposit, together with the Debtors' ability to pay for future utility services in the

ordinary course of business, constitutes sufficient adequate assurance of future payment to the Utility Companies.

18. I believe that the entry of interim and final orders approving the Utility Motion is essential to preserve the value of the Debtors' assets and that the proposed adequate assurance should alleviate, if not eliminate, any concern of non-payment on the part of Utility Companies. Accordingly, on behalf of the Debtors, I respectfully submit that the Utility Motion should be approved.

F. Debtors' Motion for Entry of an Order Authorizing the Debtors to Continue Insurance Policies and Pay Related Obligations ("*Insurance Motion*").

19. In the ordinary course of business, the Debtors maintain certain insurance policies (collectively, the "***Insurance Policies***") that are administered by various third-party insurance carriers (collectively, the "***Insurance Carriers***"). These policies provide coverage for the Debtors' property, general liability, automobile liability, and umbrella coverage.

20. By the Insurance Motion, the Debtors seek entry of an order authorizing the Debtors to: (a) continue existing insurance coverage entered into prepetition and satisfy payment obligations related thereto; and (b) renew, amend, supplement, extend, or purchase insurance coverage in the ordinary course of business.

21. Continuation of the Insurance Policies and entry into new insurance is essential to the preservation of the value of the Debtors' businesses and operations. Moreover, in many instances, insurance coverage is required by the regulations, laws, and contracts that govern the Debtors' commercial activities, including the Office of the United States Trustee's requirement that a debtor maintain adequate coverage given the circumstances of its chapter 11 case. Accordingly, on behalf of the Debtors, I respectfully submit that the Insurance Motion should be approved.

G. Debtors' Application for Entry of an Order Authorizing and Approving the Appointment of Donlin, Recano & Company, Inc. as Claims and Noticing Agent and Granting Related Relief ("*Claims Agent Application*").

22. Pursuant to the Claims Agent Application, the Debtors seek entry of an order appointing Donlin, Recano & Company, Inc. as the Claims and Noticing Agent for the Debtors in their chapter 11 cases, including assuming full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in the Debtors' chapter 11 cases.

23. Donlin Recano is one of the country's leading chapter 11 administrators and its professionals have experience in noticing, claims administration, solicitation, balloting, and facilitating other administrative aspects of chapter 11 cases and experience in matters of this size and complexity. Their professionals have acted as the official claims and noticing agent in many large bankruptcy cases in this District and in other districts nationwide. Donlin Recano is well-qualified to provide experienced claims and noticing services in connection with these Chapter 11 Cases.

24. I believe that by appointing Donlin Recano as the Claims and Noticing Agent in these chapter 11 cases, the distribution of notices and the processing of claims will be expedited, and the Office of the Clerk of the Bankruptcy Court will be relieved of the administrative burden of processing what may be an overwhelming number of claims. Accordingly, on behalf of the Debtors, I respectfully submit that the Claims Agent Application should be approved.

H. Debtors' Motion for Entry of an Order Extending the Time to File Schedules of Assets and Liabilities, Current Income and Expenditures, Executory Contracts and Unexpired Leases, and Statements of Financial Affairs ("*SOFAs and Schedules Extension Motion*").

25. Pursuant to the SOFAs and Schedules Extension Motion, the Debtors are seeking entry of an order extending the 14-day period for the Debtors to file schedules of assets and

liabilities under Bankruptcy Rule 1007(c) for an additional 16 days, to the date that is 30 days after the Petition Date.

26. Due to the Debtors limited resources and their prepetition focus on preparing for a smooth transition into chapter 11, the Debtors have not yet had a sufficient opportunity to complete the preparation of the Schedules and Statements and do not anticipate having the Schedules and Statements ready for filing within the 14-day period prescribed by Bankruptcy Rule 1007(c). The Debtors expect that it will take a total of 30 days to complete, review, and file the Schedules and Statements with the Court. Accordingly, on behalf of the Debtors, I respectfully submit that the SOFAs and Schedules Extension Motion should be approved.

I. Debtors' Motion for Entry of Interim and Final Orders Pursuant to Sections 361, 362, 363 and 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure (A) Authorizing the Debtors to (I) Use Cash Collateral of the Prepetition Secured Parties, (II) Obtain Secured Superpriority Postpetition Financing and (III) Provide Adequate Protection to the Prepetition Secured Parties and (B) Scheduling Final Hearing(the "*DIP Motion*").

27. The Debtors are in need of an immediate infusion of liquidity. As of the date hereof (the "***Petition Date***"), the Debtors have limited cash on hand with which to maintain their businesses, perform any necessary maintenance to get through a sale, and otherwise fund in full the administrative costs of these chapter 11 cases.

28. Among other things, the proceeds from the DIP Facility will be used to make contractual payments integral to the Debtors' business operations and facility maintenance, fund certain other expenses, continue the sales and marketing process, and should allow the Debtors to satisfy working capital needs in the ordinary course.

29. Based upon my understanding of the Debtors' liquidity needs, the current state of debt markets and recent inquiries to potential debtor-in-possession financing sources, I do not believe that alternative sources of financing are readily available to the Debtors (whether

unsecured or secured) on better or comparable terms than the DIP Financing. Additionally, I do not believe it would be prudent, or even possible, to administer the Debtors' chapter 11 estates on a "cash collateral" basis. Without access to the DIP Facility, the Debtors have extremely limited cash on hand, and given the current market demand, I do not expect the Debtors to be able to generate sufficient levels of operating cash flow in the ordinary course of business to cover their working capital needs and the projected administrative costs of these chapter 11 cases. In addition, I am advised that substantially all the Debtors' assets are encumbered by liens arising under the Prepetition Credit Documents. As a result, I do not believe that third-party debtor-in-possession financing would be reasonably available given the realities imposed by the Debtors' existing capital structure.

30. Indeed, based on my experience and discussions with potential lenders, sources of debtor-in-possession financing (other than the Debtors' Prepetition Lenders) would likely insist on priming the Prepetition Secured Parties, and, as a result, such outside financing is not a feasible option in my opinion. Furthermore, without the consent of the Prepetition Secured Parties, any attempts at non-consensual priming of the Prepetition Secured Parties' liens would likely involve a costly, extended, and contested hearing. I do not believe the Debtors would be able to demonstrate adequate protection for the non-consensual priming of the Prepetition Secured Parties' liens. Moreover, I believe that any such outside financing would expose the Debtors to the execution risk associated with a new lender transaction, including material timing and due diligence constraints, necessarily involving the payment of additional and substantial professional fees and costs.

31. Instead, the proposed DIP Facility offered by the DIP Secured Parties will allow the Debtors to avoid the need to engage in a costly and time-consuming priming fight at the

outset of these chapter 11 cases. Accordingly, I believe that the DIP Facility provides, on balance, a more attractive postpetition financing proposal than alternative postpetition financing obtained from a third-party.

32. Based on the foregoing, it is my belief that the DIP Facility represents the best option available to address the Debtors' immediate liquidity needs, and that the terms and conditions of the DIP Loan Documents are reasonable and appropriate under the circumstances. The DIP Facility is the product of extensive good faith, arms'-length negotiations with the DIP Lenders and is an essential component of the sale process contemplated by these chapter 11 cases. Moreover, I believe that the DIP Facility represents the only viable financing available that would not require the Debtors to seek to prime the Prepetition Secured Parties' liens on a nonconsensual basis.

33. The proposed DIP Facility will provide the Debtors with immediate access to liquidity that is necessary to ensure that the Debtors' businesses are preserved, chapter 11 administrative costs are paid in full and value is maximized during the course of the sale process. Accordingly, I believe that the DIP Facility should be approved on the terms and conditions described in the DIP Motion and related order.

34. I believe that given the circumstances, the terms of the DIP Facility are reasonable and appropriate. I also believe that, based on the Debtors' projections, the proposed DIP Facility will provide the Debtors with the necessary liquidity to effectively run their chapter 11 sale process.