

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:)	
)	Chapter 11
INDEPENDENT PET PARTNERS)	
HOLDINGS, LLC, <i>et al.</i> , ¹)	Case No. 23-10153 (___)
)	
Debtors.)	(Joint Administration Requested)
)	

**DECLARATION OF STEPHEN COULOMBE IN SUPPORT OF
CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS**

I, Stephen Coulombe, declare under penalty of perjury:

1. I am the Co-Chief Restructuring Officer of Independent Pet Partners Holdings, LLC (“IPP”), a Delaware limited liability company, and each of the other above-captioned debtors and debtors in possession (collectively, the “Debtors,” or the “Company”), all Delaware limited liability companies. As of the Petition Date, the Debtors, headquartered in Woodbury, Minnesota, operated 159 pet stores across 12 states and the District of Columbia, under four unique banners—Chuck and Don’s, Kriser’s Natural Pet, Loyal Companion, and Natural Pawz. In addition to high-quality pet food and other pet toys and accessories, the Debtors offer a wide range of pet services including grooming, self-wash, pet parent education, and veterinary services, all in the same store for a one-stop pet experience.

2. As the Co-Chief Restructuring Officer of the Debtors, I am responsible for, and am materially engaged with, the Debtors’ operational and financial management including, among

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Independent Pet Partners Holdings, LLC (5913), Independent Pet Partners Intermediate Holdings I, LLC (4827), Independent Pet Partners Intermediate Holdings II, LLC (7550), Independent Pet Partners Employer Holdings, LLC (6785), Independent Pet Partners Employer, LLC (7531), Independent Pet Partners Intermediate Holdings, LLC (8793), IPP - Stores, LLC (6147), IPP Stores Employer, LLC (0847), Especially For Pets, LLC (6801), Pet Life, LLC (3420), Whole Pet Central, LLC (7833), Natural Pawz, LLC (5615), and Pet Source, LLC (1905). The corporate headquarters and the mailing address for the Debtors is 8450 City Centre Dr., Woodbury, MN 55125.

other things: (a) all restructuring activities and initiatives of the Company; (b) cash management and liquidity forecasting; (c) the development of, or revisions to, the Company's business plan, including assistance with the sale process described herein; (d) engagement with creditors and other stakeholders; and (e) providing contingency planning.

3. On December 22, 2022, the Debtors appointed Charlie Reeves, my colleague at Berkeley Research Group, LLC ("BRG"), as Chief Restructuring Officer. Since his appointment, I have worked closely with Mr. Reeves and others at BRG to serve the Debtors. On February 2, 2023, the Debtors appointed me Co-Chief Restructuring Officer to work alongside Mr. Reeves.

4. I am currently a Managing Director at BRG, a professional services firm with offices located at 99 High Street, 27th Floor, Boston, Massachusetts 02110. I have more than 25 years of experience serving as a financial advisor and providing restructuring and performance improvement services to corporations, various creditor classes, equity owners, and directors of underperforming companies, including a significant number of large retailers with significant leasehold footprints. I have previously served in, among other positions: Chief Restructuring Officer of Gymboree Group, Inc.; Chief Restructuring Officer of Quiksilver, Inc.; Chief Restructuring Officer of Sports Authority Holdings, Inc.; and Chief Financial Officer of rue21 Inc. Prior to joining BRG in May 2016, I was a Senior Managing Director at FTI Consulting, Inc.

5. Except as otherwise indicated, I base all facts set forth in this declaration (this "Declaration") on my personal knowledge, my review of business records, or my opinion based on my experience, knowledge, and information concerning the Debtors' operational and financial condition. If called to testify, I would testify competently to the facts set forth in this Declaration, which I am authorized to submit on behalf of the Debtors.

6. On the date hereof (the "Petition Date"), the Debtors commenced voluntary cases (the "Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy

Code”) in the United States Bankruptcy Court for the District of Delaware to, among other things, facilitate a going concern sale transaction and the orderly liquidation of their underperforming stores. Ultimately, the Debtors intend to pursue a value-maximizing chapter 11 liquidating plan through which the sale proceeds and other available proceeds will be distributed in accordance with the Bankruptcy Code.

7. As discussed in further detail below, these Chapter 11 Cases were necessitated by the culmination of challenges related to the Debtors’ early growth strategies, followed by unexpected changes in consumer behavior resulting from published studies into a sudden and unexplained rise in diagnoses of dilated cardiomyopathy (“DCM”), a potentially fatal heart disease in dogs.² Before the Debtors could recover from the effects of DCM on the Company, the COVID-19 pandemic caused mass shutdowns and abrupt changes in the retail industry. Despite a financial restructuring in 2020, these factors—together with recent inflation trends, maturing Secured Credit Facilities (as defined below), and a prepetition sale process that did not generate an executable, going-concern transaction for the Debtors—all ultimately culminated in the Debtors’ chapter 11 filing and the Debtors’ determination, in an exercise of their business judgment, to pursue a postpetition sale of their profitable business lines.

8. Notwithstanding these headwinds, the Debtors have an experienced and proven management team, led by Julie Maday, the Debtors’ Chief Executive Officer, who formerly served as the Debtors’ Chief Financial Officer, and Chad Underwood, the Debtors’ new Chief Financial Officer, who formerly served as the Debtors’ Vice President and Corporate Controller. The Debtors believe that, by consolidating their geographic footprint, the Company will succeed in the

² As discussed in Part II, publicity surrounding DCM caused a significant portion of the Debtors’ customers to change their dog food purchasing habits, causing an unexpected shift in the Company’s purchasing trends and store layout.

markets and under the banners where it has the strongest foothold.

9. I submit this Declaration to describe the Debtors' background and the circumstances that led to these Chapter 11 Cases. I also submit this Declaration in support of the relief requested by the Debtors in the "first day" applications and motions filed with the Court (collectively, the "First Day Pleadings").

10. By the First Day Pleadings, the Debtors seek to, among other things:
- a. allow for the continued payment of wage and tax obligations;
 - b. ensure the continuation of the Debtors' operations, cash management system, and insurance programs without interruption;
 - c. provide adequate assurance of payment to the Debtors' utility providers;
 - d. continue the Debtors' customer programs;
 - e. pay certain prepetition claims held by the Debtors' critical vendors; and
 - f. approve going out of business sales procedures at certain of the Debtors' stores where liquidation sales commenced prepetition under the supervision of an experienced, reputable liquidation firm.

11. I am familiar with each of the First Day Pleadings. Absent the relief requested in the First Day Pleadings, I believe that the Debtors would suffer immediate and irreparable harm that would jeopardize their ability to continue their business operations and consummate a value-maximizing sale transaction. I further believe that the relief sought in the First Day Pleadings is critical to the Debtors' efforts to transition into chapter 11 efficiently and minimize disruptions to their business operations, thereby permitting the Debtors to preserve and maximize value while pursuing a section 363 sale and chapter 11 plan process. Finally, I believe that the First Day Pleadings reflect the thorough and targeted analyses of the Debtors' management team and their professional advisors, and capture relief that is critical to the success of these proceedings.

12. This Declaration is divided into three parts. **Part I** describes the Debtors' business, organizational structure, and prepetition indebtedness. **Part II** describes the circumstances leading to the commencement of these Chapter 11 Cases. **Part III** summarizes the First Day Pleadings, and explains why the relief requested in those pleadings is appropriate under the circumstances and necessary to avoid immediate and irreparable harm to the estates, as applicable.

I. DESCRIPTION OF THE DEBTORS

A. The Debtors' Business

13. IPP was formed in 2017 to meet the burgeoning demand for pet services and based on the belief that pet parents want an easier way to support the holistic wellness of their pets. By consolidating independent pet retailers, IPP grew into a coast-to-coast chain of more than 160 locations operating under several retail banners. The Debtors do not own any real property. The Debtors lease their stores from more than 100 different landlords nationwide. Today, IPP's locations offer a one-stop pet experience with healthy, high-quality food products and treats and a range of pet services, including grooming, self-wash, pet parent education, and veterinary services. The Debtors also sell goods through their e-commerce platform with each of the Debtors' banners having its own standalone website.

14. As of the Petition Date, the Debtors operated under four unique regional banners: Chuck and Don's, Kriser's Natural Pet, Loyal Companion, and Natural Pawz, all sharing a common mission and philosophy of pet wellness. Each chain fulfills pet owner needs through both in-store and online experts, ranging from nutritionists to groomers.

15. The 5 Pillars of Pet Wellness, under which the Debtors classify their products and services in one of five discrete pet wellness categories: nourishment, play, comfort, companionship, and purpose. Each store is designed to allow its customers to adequately fulfill each pillar of their pet's needs. Examples of these products are pet food bases and toppers, toys

and puzzles, bedding and grooming supplies, treats and leashes, and pet-owner education products. Examples of services offered include meal auto-delivery, daycare, self-wash, training, adoption assistance, and veterinary services.

16. In addition to the carefully selected third-party products stocked by the Debtors, the Debtors own three private label pet brands (Roosevelt, Attachment Theory, and Wild Saint) across a range of consumables, toys and health, and beauty aids. As noted above, the Debtors also operate an e-commerce site that provides information about, among other things, the 5 Pillars of Pet Wellness, each retail banner, and the Debtors' product offerings. The site delivers marketing and promotion advantages and enables special customer-friendly initiatives such as curbside pickup and same-day delivery.

17. For the calendar year ended December 31, 2022, the Debtors generated, on a consolidated basis, approximately \$220 million in net sales. As of the Petition Date, the Debtors on a consolidated book-value basis, had total assets of approximately \$182 million and total liabilities of approximately \$215 million.

(a) Performance Metrics by Retail Banner

18. As of the Petition Date, the Debtors, through Debtor IPP - Stores, LLC ("IPP-Stores") operate under four banners: (a) Chuck & Don's, which operates 50 stores in Colorado, Kansas, Minnesota, and Wisconsin; (b) Kriser's Natural Pet, which operates 39 stores in California, Colorado, Texas, and Illinois; (c) Loyal Companion, which operates 53 stores in Massachusetts, Maryland, Maine, New Hampshire, Virginia, and the District of Columbia; and (d) Natural Pawz, which operates 17 stores in Texas.

19. The following summarizes certain of the Debtors' key metrics by banner:

Banner	Sales/ Sq. Ft.	Gross Margin	Rent/ Sq. Ft.	Consumables % of Sales	Services % of Sales	Treats % of Sales	Other % of Sales
Chuck and Don's	\$477	42.47%	\$35.05	68.83%	2.04%	15.88%	13.25%
Kriser's	\$456	41.09%	\$54.09	47.56%	22.15%	16.24%	14.04%
Loyal Companion	\$258	41.40%	\$41.40	52.88%	9.97%	19.78%	17.37%
Natural Pawz	\$342	39.58%	\$47.14	53.85%	18.48%	14.39%	13.28%

(b) Workforce

20. As described in more detail in Part III, as of the Petition Date, the Debtors employed approximately 1,300 individuals (the "Employees"), approximately 850 full-time and 450 part-time. Also, approximately 400 Employees were salaried and approximately 900 were hourly or commission-based.

(c) Vendors and Supply Chain

21. As described in more detail in Part III, the majority of the Debtors' merchandise gets distributed to their retail stores directly from their vendors on an order-by-order basis and without contractual relationships. The Debtors also utilize the warehousing and shipping capabilities in Minnesota and Texas of their largest vendor to support portions of the supply chain, including e-commerce transactions.

(d) Chapter 11 Restructuring

22. As discussed below, despite a thorough prepetition marketing process led by Houlihan Lokey Capital, Inc. ("Houlihan Lokey"), the Debtors' financial advisor and investment banker, the Debtors did not receive offers for the business that would repay all or a material portion of the Debtors' funded debt obligations or that the Debtors' prepetition lenders otherwise would accept in satisfaction of their claims. Thereafter, the Debtors engaged in a process to analyze strategic alternatives. After careful planning, the Debtors identified immediate steps to consolidate their store footprint to create a more sustainable and profitable enterprise. More specifically, after

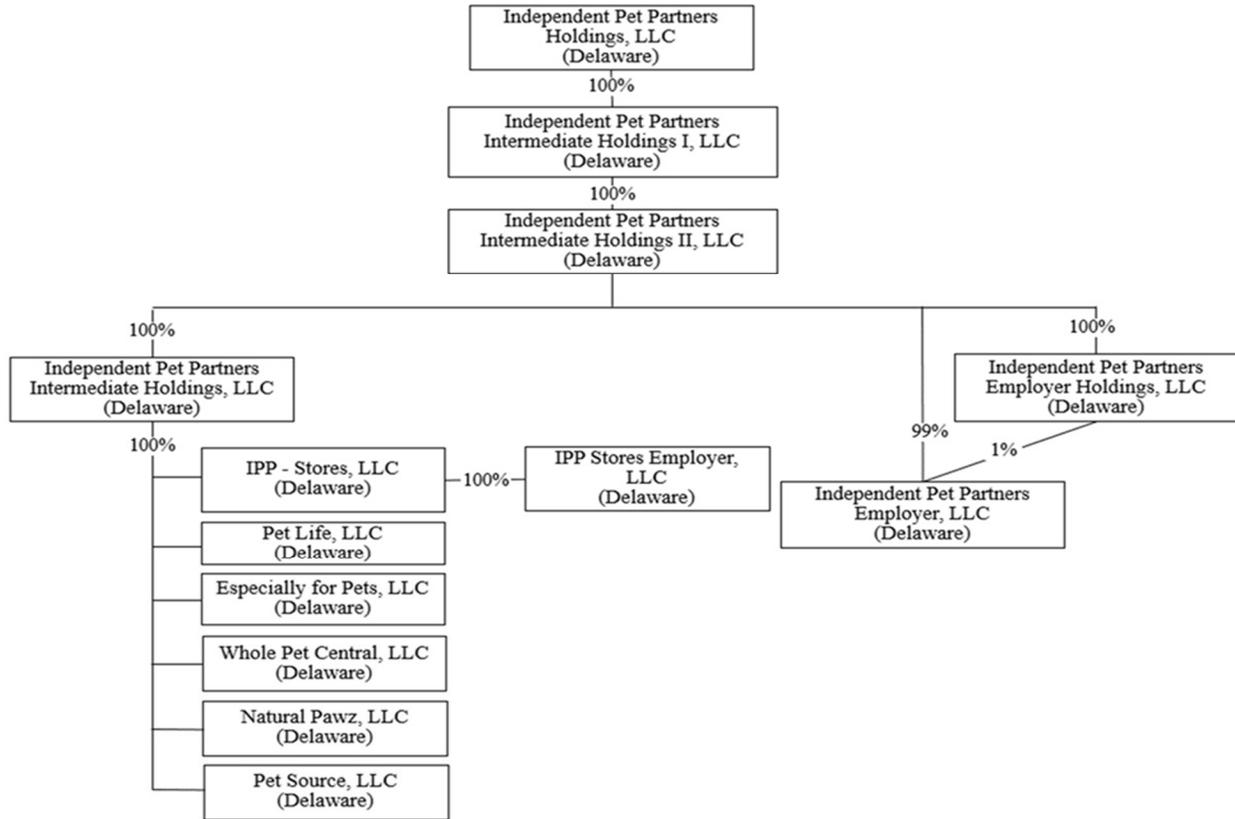
discussions with the Lenders (as defined below), the Debtors have decided to sell 66 of their stores (collectively, the “Go-Forward Stores”) and certain of the Debtors’ assets required to run the Go-Forward Stores, including, among other things, the Go-Forward Stores’ leases, inventory, accounts receivable, assumed contracts, intellectual property, all cash except certain excluded cash, and tangible personal property (collectively with the Go-Forward Stores, the “Go-Forward Business”), as part of a section 363 sales process, with the Prepetition Lender Group (as defined below) providing a stalking horse bid, including a \$60,000,000 credit bid and certain assumed liabilities, for the Go-Forward Business.

23. Through the sale process, as currently contemplated, the Go-Forward Business will include 66 stores operating in five states under the Chuck and Don’s and Kriser’s Natural Pet banners. All remaining stores outside of Colorado, Kansas, Minnesota, Wisconsin, and Illinois eventually will close (in addition to four additional stores in Colorado, two in Illinois, and one in Minnesota) (collectively, the “Closing Stores”). Through certain of the First Day Pleadings, the Debtors seek to continue the liquidation process commenced prepetition at the Closing Stores, with the intention to exit the Closing Stores, unequivocally surrender subject properties to applicable landlords, and reject the related leases no later than the end of February 2023. Notably, the Debtors paid all February rent for the Closing Stores prior to the Petition Date.

24. To facilitate the success of the Go-Forward Business, the Debtors have identified several immediate investment opportunities to drive revenue growth and margin expansion in addition to reducing their store count, including, investing in the Company’s private labels and semi-exclusive brands that have proven popular with customers and saw significant growth in 2022, and continuing to grow the e-commerce platform.

B. Formation and Organizational Structure

25. Substantially all of the Debtors’ business operations are conducted through IPP-Stores. A chart illustrating the Debtors’ organizational structure is below:



26. IPP was organized in Delaware in 2017, and is the ultimate parent of each of the Debtors. IPP is the sole member of Independent Pet Partners Intermediate Holdings I, LLC (“IPP Intermediate I”), and IPP Intermediate I is the sole member of Independent Pet Partners Intermediate Holdings II, LLC (“IPP Parent”). IPP Parent is the sole member of Independent Pet Partners Intermediate Holdings, LLC (“IPP Holdings”) and Independent Pet Partners Employer Holdings, LLC (“IPPEH”). IPP Holdings is the sole member of Debtors IPP-Stores, Pet Life, LLC, Especially For Pets, LLC, Whole Pet Central, LLC, Natural Pawz, LLC, and Pet Source, LLC. IPP Holdings holds 99% of the membership interests in Independent Pet

Partners Employer, LLC, and IPPEH holds the remaining 1%. IPP-Stores is the sole member of IPP Stores Employer, LLC.

C. Management Team

27. On or about January 30, 2023, Jeffrey David, one of IPP's founders, who also served as Executive Chairman and as a Manager, resigned. On that same date, Julie Maday, who had served as the Debtors' Chief Financial Officer, was appointed as the Company's Chief Executive Officer, and Chad Underwood, who had served as the Company's Vice President and Corporate Controller, was appointed Chief Financial Officer. Ms. Maday and Mr. Underwood are the only C-suite executives other than Mr. Reeves and me.

28. IPP is managed by a Board of Managers (the "Board"), which currently consists of five managers: Paul Farber, Scott Gilbertson, and Matthew Hobart, Managers appointed by the Debtors' equity sponsor; Julie Maday; and Jill Frizzley, an independent manager. Ms. Frizzley, who has significant experience advising large companies experiencing financial distress, was appointed to the Board on or about September 2, 2022.

D. The Debtors' Prepetition Capital Structure

29. As of the Petition Date, the Debtors' prepetition capital structure includes secured funded debt with an aggregate outstanding balance (including principal and interest) of approximately \$111,442,419.28, on account of three credit facilities: (a) the ABL Facility; (b) the DDTL Facility; and (c) the Priming Facility (each as defined below, and collectively, the "Secured Credit Facilities"). The Debtors entered into the ABL Facility and the DDTL Facility to adequately capitalize the Company at or near its inception. In late 2022, the Debtors entered into the Priming Facility, pursuant to which the Prepetition Lender Group (as defined below) provided "bridge" liquidity to keep the Debtors' operations afloat prior to commencing these Chapter 11 Cases.

30. Main Street Capital Corporation ("Main Street"), Newstone Capital Partners

(“Newstone”), and CION Investment Corporation (“CION,” and collectively with Main Street and Newstone, the “Prepetition Lender Group”), or funds managed or controlled by these entities, are lenders under the Secured Credit Facilities. The Secured Credit Facilities are secured by liens on substantially all of the Debtors’ assets as more fully described below.

(a) ABL Facility

31. On December 22, 2017, IPP Parent, as parent and guarantor, IPP Holdings, as a borrower and borrower representative, and each of IPP Parent’s other Debtor subsidiaries, as guarantors (together with IPP Parent and IPP Holdings, the “Debtor Loan Parties”), entered into that certain Credit Agreement (as amended, restated, supplemented, or otherwise modified from time to time, the “ABL Agreement”), with Acquiom Agency Services LLC, as agent (the “ABL Agent”), and certain members of the Prepetition Lender Group, as lenders (the “ABL Lenders,” and together with the ABL Agent, the “ABL Secured Parties”). The ABL Agreement provided for a revolving loan facility (the “ABL Facility”) in an aggregate principal amount of up to \$15,000,000.00 (the “ABL Commitment”), subject to customary borrowing base, reserves, and other limitations.³

32. The Debtor Loan Parties’ obligations under the ABL Agreement are secured by liens on substantially all of the Debtors’ assets. The DDTL Agent (as defined below), the ABL Agent, and the Debtor Loan Parties are party to that certain Intercreditor Agreement dated as of November 20, 2018 (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time, the “ABL/DDTL Intercreditor Agreement”). Under the ABL/DDTL Intercreditor Agreement, the ABL Secured Parties have liens (the “ABL Priority Liens”) senior to the DDTL Secured Parties’ (as defined below) liens on the Debtor Loan Parties’ working capital

³ The borrowing base under the ABL Facility consists of portions of the Debtors’ receivables and inventory.

assets. Specifically, the “ABL Priority Collateral” includes all inventory, receivables, and cash.⁴

33. On November 28, 2022, the ABL Agent, the DDTL Agent (as defined below), the Priming Agent (as defined below), and the Debtor Loan Parties entered into that certain Intercreditor Agreement (the “Priming Intercreditor Agreement”). Pursuant to the Priming Intercreditor Agreement, the Priming Secured Parties (as defined below) now have senior liens and claims on all of the Debtors’ assets, with the ABL Secured Parties and DDTL Secured Parties retaining junior liens and claims, in the same priorities relative to each other as before entry into the Priming Facility.

34. As of the Petition Date, the Debtors owed approximately \$17,471,709.04 in principal, plus accrued and unpaid interest in the amount of \$228,707.70, under the ABL Facility (the “ABL Loan”), which matures on February 27, 2023.

(b) DDTL Facility

35. On November 20, 2018, IPP Parent, as parent and guarantor, IPP Holdings, as borrower, and the other Debtor Loan Parties, as guarantors, entered into that certain Credit Agreement (as amended, restated, supplemented, or otherwise modified from time to time, the “DDTL Agreement”), with Wilmington Trust, National Association, as agent (the “DDTL Agent”), and the lenders party thereto, including the members of the Prepetition Lender Group (the “DDTL Lenders,” and together with the DDTL Agent, the “DDTL Secured Parties”). The DDTL Agreement provided for a delayed draw term loan facility (the “DDTL Facility”) in the

⁴ The full set of ABL Priority Collateral is set forth in detail in the ABL/DDTL Intercreditor Agreement, but generally consists of: (i) all accounts; (ii) all inventory; (iii) all deposit accounts and securities accounts into which any proceeds of the foregoing are deposited; (iv) all payment intangibles; (v) all instruments, chattel paper, and other contracts constituting proceeds of the foregoing described in (i) through (iv) above; (vi) all guaranties, contracts of suretyship, insurance, and letters of credit; (vii) all commercial tort claims; (viii) all cash and cash equivalents of any kind with any claimholder related to the foregoing; (ix) all investment property; (x) all claims under policies of casualty insurance and all proceeds thereof; (xi) all intercompany loans and advances; (xii) all receivables; and (xiii) all substitutions, replacements, accessions, and products of proceeds of any kind related to the foregoing.

initial amount of \$75,000,000.00. The obligations under the DDTL Agreement are secured by liens and claims on substantially all of the Debtors' assets which, under the ABL/DDTL Intercreditor Agreement, are junior to the ABL Priority Liens on ABL Priority Collateral, but senior to the liens of the ABL Secured Parties on all assets that are not ABL Priority Collateral. Under the Priming Intercreditor Agreement, the DDTL Secured Parties' liens are junior to the liens of the Priming Secured Parties.

36. As of the Petition Date, Debtors owed \$84,014,429.46 in principal, plus accrued and unpaid interest in the amount of \$532,091.39, under the DDTL Facility (the "DDTL Loan"), which matures on November 20, 2023.

(c) Priming Facility

37. On November 28, 2022, IPP Parent, as parent and guarantor, IPP Holdings, as borrower, and the other Debtor Loan Parties, as guarantors, entered into that certain Credit Agreement (as amended, restated, supplemented, or otherwise modified from time to time, the "Priming Credit Agreement"), with Acquiom Agency Services LLC (the "Priming Agent"), as agent, and the members of the Prepetition Lender Group, as lenders party thereto (the "Priming Lenders," and (a) together with the ABL Lenders and the DDTL Lenders, the "Lenders," and (b) together with the Priming Agent, the "Priming Secured Parties"), pursuant to which the Priming Lenders provided a term loan to the Debtors in the aggregate principal amount of \$3,157,894.74. On January 25, 2023, the parties amended the Priming Credit Agreement and the Priming Lenders made a second term loan in the aggregate principal amount of \$5,920,000.00. Accordingly, prior to the Petition Date, the Priming Lenders made loans to the Debtors in the aggregate principal amount of \$9,077,894.74, secured by senior liens and claims on all of the Debtors' assets (as discussed above).

38. As of the Petition Date, Debtors owed \$9,157,387.44 in aggregate principal, plus

accrued and unpaid interest in the amount of \$38,094.25, under the Priming Facility (the “Priming Loan”), which matures on February 27, 2023.

II. EVENTS LEADING TO THE COMMENCEMENT OF THESE CHAPTER 11 CASES

39. As mentioned above, the Debtors’ business has encountered a series of challenges that ultimately could not be overcome without filing these Chapter 11 Cases.

A. The Debtors’ Initial Acquisition Strategy

40. IPP was founded in 2017. The Company’s initial business model involved acquiring regional, market-leading pet stores and consolidating them into a single platform. Operating under multiple banners, the regional store consolidation allowed the Debtors to utilize the latest in services technology and e-commerce capabilities, while improving customer relationship management. The Company’s stores generally tailor to the higher end of the market, and provide an inviting, personal, and neighborly environment—very different from a “big box” pet store.

41. From its inception through early 2019, IPP acquired several regional independent pet store banners, including Chuck & Don’s, Kriser’s Natural Pet, and Natural Pawz. Then in May 2019, the Debtors launched the Loyal Companion banner, and the Company brought several recently-acquired banners in the mid-Atlantic and Northeast under the Loyal Companion banner. At the same time, the Debtors introduced a private label brand, which required increased research and development spending. Notwithstanding the inherent onboarding challenges faced by the Debtors in their first few years, the Debtors maintained their goal of opening 500 stores in five years.

B. DCM

42. As of mid-2019, the Debtors’ stores stocked predominantly grain-free, high

protein dog food. In June 2019, as the Debtors continued to integrate and onboard new acquisitions, news outlets and social media platforms began publicizing an ongoing FDA investigation into DCM. Specifically, the FDA had received reports from consumers that led the agency to investigate whether certain kinds of dog food correlated with DCM. These consumer reports largely related to dogs on a grain-free diet—the very type of dog food that the Debtors primarily stocked and that their customers preferred.

43. While the FDA has yet to identify a specific dietary link between grain-free diets and DCM, the publicity surrounding the investigation had a significant and negative impact on the Debtors' business, as many of their customers immediately changed their buying habits. This left the Debtors with a significant amount of unsold inventory and required them to reserve additional retail space in their stores for new varieties of dog food, including “traditional” dog food, which has lower margins.

44. The Debtors believe that the publication of the FDA study caused approximately \$10 million in lost sales in the second half of 2019. Despite these difficulties, the Debtors remained focused on their core strategy and sales began to rebound in early 2020.

C. COVID-19

45. Just as sales began to rebound after the DCM report, the COVID-19 pandemic emerged and brought the world to a halt, as a result of quarantines, social distancing protocols, and other mandates. These sudden and unexpected changes forced the Debtors to temporarily close stores across every region. These steps severely impacted the Debtors' business because, at the time, the Debtors' revenue was highly dependent on in-store retail and services sales. From 2019 to 2020, net sales fell by an additional \$10 million.

46. DCM and COVID-19 together caused in-store sales to fall by nearly \$20 million from 2019-2020.

D. 2020 Restructuring

47. By mid-2020, the Debtors had experienced significant and ongoing liquidity and operational issues, and various events of default had occurred and were continuing under the ABL Facility and the DDTL Facility, including non-payment of principal and interest. As a result, the members of the Prepetition Lender Group, the Debtors' equity sponsor, and the Debtors entered into a series of transactions to address the Debtors' liquidity needs.

48. Specifically, on December 10, 2020, after months of negotiations, the Debtors, the members of the Prepetition Lender Group and the Debtors' equity holders, entered into that certain Restructuring Support Agreement (the "2020 RSA"). In accordance with the 2020 RSA, the parties entered into the following transactions, among others:

- a. The members of the Prepetition Lender Group exchanged approximately \$35.7 million of principal and interest under the DDTL Facility for non-voting preferred equity in IPP;
- b. The members of the Prepetition Lender Group amended the ABL Agreement to, among other things, waive certain defaults and events of default under the ABL Agreement;
- c. The members of the Prepetition Lender Group amended the DDTL Agreement to, among other things, (i) waive certain defaults and events of default; and (ii) provide for \$15 million in additional incremental term loans; and
- d. The parties entered into a mutual release agreement.

E. Inflation

49. Notwithstanding the 2020 RSA, the Debtors have been unable to realize sustained profitability. Recent inflation, hitting a 40-year high in June 2022, severely impacted the Company's operating margins. The elevated costs of raw materials, inventory, and other services increased pressure on the Company without a meaningful ability to pass those costs to customers. In addition, inflation has caused the Debtors' customers to focus their purchases on lower margin

essentials like pet food, while forgoing higher margin items.

50. The cumulative effects of all of these circumstances drained the Debtors' liquidity and inhibited their ability to achieve sustained growth. Accordingly, in 2022, the Debtors began to evaluate and consider several strategic alternatives and transactions aimed at maximizing value.

F. The Prepetition Sale Process

51. On or about August 27, 2022, the Debtors retained McDonald Hopkins LLC ("McDonald Hopkins") to provide corporate and restructuring legal advice, and, on or about September 9, 2022, the Debtors retained Houlihan Lokey to provide financial advisory and investment banking services in connection with evaluating and executing strategic and restructuring transactions.

52. The Debtors, with Houlihan Lokey's assistance, evaluated various alternatives to improve the Debtors' liquidity and financial position, including reductions of operational and capital expenditures, raising additional capital (including refinancing the Debtors' existing debt), and potential M&A transactions. The process culminated in a marketing process undertaken by Houlihan Lokey in the third and fourth quarters of 2022 to identify strategic and financial buyers. More specifically, Houlihan Lokey contacted and sent material to over 100 potential acquirers (collectively, the "Interested Parties"). Sixty-five Interested Parties executed non-disclosure agreements and gained access to the Debtors' electronic data room.

53. Based on my discussions with Houlihan Lokey and my experience, I am not aware of parties outside the Interested Parties contacted by Houlihan Lokey who could have purchased the Company as a going concern.

54. As of December 15, 2022, the Debtors had not received any executable offers to purchase their business as going concern, significantly dimming the Debtors' prospects for identifying an out-of-court solution. Thereafter, on or about December 28, 2022, after a series of

interviews of reputable turnaround consultants, the Debtors retained BRG to, among other things, provide Chief Restructuring Officer services, work with management to manage cash and liquidity, assist with a potential sale process, engage with creditors and other stakeholders, and provide contingency planning. Thereafter, on January 19, 2023, the Debtors retained Young Conaway Stargatt & Taylor, LLP, as Delaware bankruptcy counsel. As of the Petition Date, Charlie Reeves and I serve as the Debtors' Co-CROs.

G. The Stalking Horse Bid and Proposed Bidding Procedures

55. Prior to BRG's retention, the Prepetition Lender Group informed the Debtors that they would not support additional maturity date extensions of the Secured Credit Facilities coming due in February 2023. At the same time, following extensive discussions and negotiations between the Debtors and the Prepetition Lender Group, and their respective advisors, the Prepetition Lender Group offered to credit bid \$60,000,000 of their prepetition debt and serve as the stalking horse bidder (in such capacity, the "Stalking Horse Bidder") for the purchase of the Go-Forward Business as part of a sale process under section 363 of the Bankruptcy Code (the "Stalking Horse Bid").

56. The Debtors thereafter determined that the Stalking Horse Bid constituted the highest or otherwise best offer received to date by the Debtors, and the best path for maximizing value. Accordingly, the parties negotiated an asset purchase agreement (the "Stalking Horse Agreement") for the sale of the Go-Forward Business. Shortly before the Petition Date, the parties executed the Stalking Horse Agreement, which sets forth the terms on which the Debtors will sell the Go-Forward Business.

57. Additionally, the Debtors intend on requesting approval of bidding procedures that will govern the postpetition sale process, including approval of an expense reimbursement for the Stalking Horse Bidder. The proposed bidding procedures contemplate a postpetition marketing

process led by Houlihan Lokey seeking higher and better offers for the Go-Forward Business, while simultaneously testing the market to determine whether any viable offers exist for the Closing Stores' assets (either piecemeal or together with the Go-Forward Business). In my opinion, the sale process under section 363 of the Bankruptcy Code proposed by the Debtors represents the best chance for maximizing value and for the Go-Forward Business to continue as a going concern and preserving the jobs of those Employees who will maintain employment with the Stalking Horse Bidder should it be the winning bidder.

58. The Debtors will request that the Court consider entry of the Bid Procedures at a hearing to be held on or before February 21, 2023, to ensure that the Debtors are in a position to close the proposed sale by April 14, 2023, thereby complying with their obligations under the DIP Facility (as defined below) and minimizing adverse impacts on their retail customer-facing operations. As the Debtors will support with further evidence, the Debtors have determined that it is necessary to seek expedited consideration of the bidding procedures given, among other things, limited available funding for the postpetition sale process, certain milestones imposed by the Lenders, and the length and scope of the prepetition marketing process. In this context, with the consent of the Stalking Horse Bidder, the Debtors will propose the following timeline for approval of the Sale Transaction:

Event	Timing
Bidding Procedures Hearing	On or before February 21, 2023
Bid Deadline	March 15, 2023, at 5:00 p.m. (ET)
Auction	March 20, 2023, at 10:00 a.m. (ET)
Hearing to Approve the Sale Transaction	On or about March 24, 2023
Closing Deadline	April 14, 2023

59. The Debtors believe, and I agree based on my retail experience, that completing the sale of the Go-Forward Business through chapter 11 and on an expedited basis will provide the best chance of success for the business and its stakeholders. As discussed above, the Debtors

operate in a highly competitive industry where consumers have numerous brick & mortar and e-commerce alternatives. Delaying the sale process could damage goodwill with the Debtors' customers and vendors. The success of the Debtors' operations depends on customer loyalty to the Debtors' high-quality offerings that sets them apart from the pet product giants. Maintenance of such loyalty requires minimal disruption, especially at the Debtors' physical stores, which must be well stocked, clean, and well-maintained, with sufficient employees to provide exceptional service to customers. A long, drawn-out sale process creates a risk of supplier disruptions and employee attrition, threatening the Debtors' access to product and the ability to provide adequate customer service. On the other hand, an expedited Sale process for the Go-Forward Business will reassure the Debtors' customer and supplier base. Hence, I agree that an expedited sale process of the Go-Forward Business will benefit all stakeholders.

60. As detailed in Part III, while the Debtors are hopeful that the postpetition marketing process will result in actionable proposals, including for the Closing Stores, they also recognize the challenges of selling the Closing Stores to one or more going-concern buyers, particularly given the outcome of the prepetition marketing process. Thus, in order to avoid further losses and administrative costs, including up to \$1.3 million per month in rent at the Closing Stores, the Debtors commenced Store Closing Sales (as defined below) on February 3, 2023, and seek to continue them during these Chapter 11 Cases. Prior to the Petition Date, to facilitate the liquidation sales, the Debtors paid February 2023 rent at the Closing Stores (in addition to the Go-Forward Stores), and intend on unequivocally surrendering possession of the Closing Stores to subject landlord counterparties on or before February 28, 2023.

H. The DIP Loan

61. For the foregoing reasons, the Debtors concluded, in their business judgment, that

filing the Chapter 11 Cases and seeking approval of the sale process will maximize the value of their estates. However, the Debtors require immediate access to additional liquidity to provide sufficient working capital to operate the Debtors' business and to administer the Debtors' estates in the Chapter 11 Cases. It is also vitally important that the Debtors' message to their customers, employees, and vendors is clear: that it is business as usual, and that the Debtors have sufficient liquidity to seamlessly and quickly transition their business on a going-concern basis, albeit with a smaller footprint.

62. Accordingly, and as discussed in further detail in *Debtors' Motion For Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (I) Authorizing the Debtors to Obtain Postpetition Financing; (II) Granting Liens and Superpriority Administrative Expense Claims; (III) Authorizing the Use of Cash Collateral; (IV) Granting Adequate Protection to Prepetition Secured Parties; (V) Modifying the Automatic Stay; (VI) Scheduling Final Hearing; and (VII) Granting Related Relief* (the "DIP Motion"), and the declaration of Adam Dunayer of Houlihan Lokey in support of the DIP Motion, each filed contemporaneously herewith, the Prepetition Lender Group has agreed to provide a new senior secured superpriority debtor-in-possession term loan credit facility (the "DIP Facility"). I believe that the DIP Facility is appropriate and in the Debtors' best interests.

63. More specifically, the Prepetition Lender Group has agreed to fund a \$27,258,311.48 debtor-in-possession credit facility, which includes \$9,557,894.74 in "new money" loan commitments (providing net liquidity of up to \$9,080,000.00), together with a "roll-up" of the substantially all of the obligations under the ABL Loan (the "DIP Loan"). The Debtors believe that the DIP Loan will provide the Debtors with the necessary financial runway and flexibility to run a thorough sale process and complete the orderly liquidation and wind down of

the Debtors' remaining assets through a chapter 11 plan.

64. Immediate access to the interim funding provided under the DIP Facility and the continued use of Cash Collateral (as defined in the DIP Motion) is necessary to avoid immediate and irreparable harm to the Debtors, and is critical to the Debtors' efforts to maximize value for their stakeholders. More specifically, I believe the DIP Facility is necessary to, among other things: (a) ensure payments to employees, third-party vendors, utilities, taxing authorities, and insurance companies, among others, who provide essential services needed to operate, maintain, and insure the Debtors' assets; (b) ensure the timely payment of Chapter 11 administrative expenses; and (c) present a positive image to the market that the Chapter 11 Cases are sufficiently funded, which is critical to ensure confidence in the Debtors from their customers, employees, and vendors and to the success of the sale process.

65. Mr. Reeves, certain other of my BRG colleagues, and I, together with the Debtors and Houlihan Lokey, reviewed and analyzed the Debtors' projected cash needs and prepared a DIP Budget (as defined in the DIP Motion), a copy of which is attached as Exhibit 1 to the proposed interim order granting the DIP Motion. I believe that the DIP Budget accurately reflects the Debtors' funding requirements and will allow the Debtors to meet their obligations, including administrative expenses, in the Chapter 11 Cases. I believe that the DIP Budget is fair, reasonable, and appropriate under the circumstances.

66. Importantly, through the DIP Facility and Stalking Horse Agreement, the Prepetition Lender Group has agreed, subject to a successful sale process, to fund and support a process to confirm a chapter 11 plan of liquidation in these Chapter 11 Cases. This will occur pursuant to a wind-down budget, and with the benefit of funds left behind by the Lenders after the sale of the Go-Forward Business to administer these Chapter 11 Cases and pursue an orderly wind-

down of the estates.

III. SUMMARY OF THE FIRST DAY PLEADINGS⁵

67. Concurrently with the filing of these Chapter 11 Cases, the Debtors have filed the First Day Pleadings. Having reviewed each of the First Day Pleadings or had their contents explained to me, I believe that the Debtors would suffer immediate and irreparable harm if the relief requested in the First Day Pleadings is not granted on the terms proposed. In my opinion, approval of the relief sought in the First Day Pleadings is critical to the Debtors' efforts to prosecute a value-maximizing sale process and conduct these cases efficiently, thus permitting the Debtors to preserve and maximize value for the benefit of all stakeholders.

68. Several of the First Day Pleadings request authority to pay certain prepetition claims. I am told by the Debtors' legal advisors that Bankruptcy Rule 6003 provides, in relevant part, that the Court may not consider motions to pay prepetition claims during the first 21 days following the filing of a chapter 11 petition, "except to the extent relief is necessary to avoid immediate and irreparable harm." In light of this exception, the Debtors have limited their requests for immediate authority to pay prepetition claims to those circumstances where the failure to pay such claims would cause immediate and irreparable harm to the Debtors and their estates. Consequently, certain aspects of the relief sought in the First Day Pleadings will be deferred for consideration at a later hearing, as indicated therein. With respect to the other First Day Pleadings, set forth below is the reasons why I believe it is imperative that the Court grant the relief requested.

A. Joint Administration Motion

69. Pursuant to the Joint Administration Motion, the Debtors seek entry of an order directing joint administration of these Chapter 11 Cases for procedural purposes only. Given the

⁵ Capitalized, but otherwise undefined, terms used in this Section III shall have the meanings ascribed to such terms in the applicable First Day Motion.

organizational structure of the Debtors, I believe that joint administration of these Chapter 11 Cases would provide significant administrative convenience without harming the substantive rights of any parties in interest. Many of the motions, hearings, and orders in these cases will affect each Debtor, and joint administration would eliminate the need for duplicate pleadings, notices, and orders in each of the respective dockets. This, in turn, would save the Court, the Debtors, and other parties in interest substantial time and expense when preparing and filing such documents. Further, joint administration would protect any parties in interest by ensuring that they will be apprised of the various motions filed with the Court with respect to each of the Debtors' cases.

70. Because the Debtors seek only administrative, not substantive, consolidation of the estates, joint administration would not adversely affect the Debtors' respective estates. I believe the relief requested in the Joint Administration Motion will not only preserve individual creditors' rights, but also provide those creditors the benefit of cost reductions associated with joint administration

B. Omni Application

71. Pursuant to the Claims Agent Retention Application, the Debtors seek, among other things, authority to employ and retain Omni Agent Solutions ("Omni") as the Claims and Noticing Agent, effective *nunc pro tunc* to the Petition Date. I understand that the Debtors and their advisors obtained and reviewed engagement proposals from three court-approved claims and noticing agents to ensure selection through a competitive process. Following that review, and in consideration of the number of anticipated notice parties, the nature of the Debtors' business, and Omni's competitive and reasonable rates given their quality of services and expertise, the Debtors selected Omni to act as the Debtors' Claims and Noticing Agent. I believe that the retention of Omni as Claims and Noticing Agent is necessary and in the best interest of the estates. Indeed,

Omni will relieve the Debtors of the burdens associated with claims and noticing services, allowing them to devote their full attention and resources to maximize value for their stakeholders and facilitate the orderly administration of these Chapter 11 Cases. I have also reviewed Omni's engagement letter and the description of the services that Omni has agreed to render and the compensation and other terms of the engagement as provided in the Omni Application. Based on that review, I believe that the Debtors' estates, creditors, parties in interest, and this Court will benefit as a result of Omni's experience and cost-effective methods.

72. I further believe that no parties in interest would be prejudiced by the granting of the *nunc pro tunc* employment because Omni will provide valuable services to the Debtors' estates in the interim period.

C. Wages Motion

73. Pursuant to the Wages Motion, the Debtors seek, among other things: (a) authority to pay certain prepetition wages, salaries, and other compensation, taxes and withholdings, and certain other Employee benefit program expenses; (b) to honor and continue benefit programs for employees; and (c) related relief.

74. As of the Petition Date, the Debtors employ approximately 1,300 Employees, of which approximately 850 are full-time and 450 are part-time. Approximately 400 Employees are salaried and approximately 900 are hourly or commission-based. IPP-Stores employs all of the Employees. The Employees are integral to the Debtors' operations. They perform a wide variety of functions critical to the Debtors' ordinary course operations both at the Debtors' corporate headquarters and at the Debtors' stores. As a whole, the Employees have an essential working knowledge of the Debtors' business that cannot easily be replaced. Many of the Employees will continue to interface with customers and counterparties and respond to inquiries and concerns regarding these Chapter 11 Cases, as well as assist the Debtors with their sale efforts. The Debtors

have designed their compensation programs to attract, retain, and motivate their employees. The efforts of these Employees will ensure a smooth transition into chapter 11 and preservation of the value of the Debtors' business.

75. Upon information and belief, the vast majority of Employees rely exclusively or primarily on the Employee Compensation and Benefit Programs to pay their daily living expenses and support themselves or their families. Thus, Employees will face significant financial consequences if the Debtors cannot continue such programs in the ordinary course of business. The Debtors seek to minimize the personal hardship that the Employees would suffer if employee obligations are not paid when due and, consequently, submit that the relief requested is necessary and appropriate. The Debtors do not believe that any prepetition amounts owed to any Employees on account of the Employee programs exceeds \$15,150, and do not seek authority to pay any Employee in an amount exceeding \$15,150 on account of prepetition claims.

76. I believe that any delay in payments to the Employees could cause the Debtors to lose the benefit of the Employees' services, which would jeopardize the Debtors' sale process and lead to a rapid deterioration in the value of the business. Therefore, I believe that the relief requested in the Wages Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable to the Debtors to continue to operating their business during chapter 11 without disruption to maximize the value of their assets. Accordingly, the Debtors respectfully request that the relief set forth in the Wages Motion be approved.

D. Taxes Motion

77. Pursuant to the Taxes Motion, the Debtors seek, among other things, authority to pay certain prepetition Taxes and related relief. More specifically, the Debtors seek authority to pay prepetition taxes and related obligations up to a maximum of \$1.5 million on an interim basis, and \$1.9 million on a final basis.

78. The Debtors are taxed as a partnership and are pass-through entities for federal and state income tax purposes. In the ordinary course of business, the Debtors are subject to various taxes, regulatory fees and assessments, and related obligations (collectively, the “Taxes”) that are payable monthly, quarterly, or annually directly to numerous taxing authorities (collectively, the Taxing Authorities). The Debtors estimate that, as of the Petition Date, approximately \$1.9 million of Taxes are accrued and unpaid, \$1.5 million of which will come due within the first month of these Chapter 11 Cases. The Debtors’ tax obligations are comprised entirely of current tax obligations, and are not in respect of “catch-up” payments (except with respect to certain trust fund tax obligations that are not property of the Debtors’ estates).

79. Any regulatory dispute or tax delinquency that impacts the Debtors’ ability to conduct business in a particular jurisdiction could have a wide-ranging and adverse effect on the Debtors’ ability to maximize proceeds generated by the Store Closing Sales (as defined below) and the postpetition going concern sale process, respectively. Moreover, some Taxing Authorities could initiate an audit of the Debtors if the Taxes are not paid on time. Such audits would unnecessarily divert the Debtors’ attention away from these Chapter 11 Cases and result in unnecessary expenses. If the Taxing Authorities were to take any disruptive actions, such as lien filings or seeking relief from the automatic stay, it would consume valuable time and resources and divert the Debtors’ attention from their business operations and sale efforts and materially and immediately harm the estates.

80. Accordingly, the Debtors’ failure to pay the Taxes could have a material adverse impact on the Debtors’ ability to maximize the value of their assets for the benefit of all stakeholders. Even if the Debtors could avoid payment of certain Taxes, I believe that the collateral consequences on the Go-Forward Business would vastly exceed whatever modest short-

run cost savings the Debtors might achieve. Additionally, any attempt to collect the Taxes from the Debtors' managers and officers has the potential to divert the attention of those individuals away from the Debtors' efforts to maximize the value of their assets through the Store Closing Sales (as defined below) and the postpetition sale process. Accordingly, the Debtors respectfully request that the relief set forth in the Taxes Motion be approved.

E. Cash Management Motion

81. Pursuant to the Cash Management Motion, the Debtors seek, among other things: (a) authority to continue using their current cash management system (the "Cash Management System"), existing bank accounts (the "Bank Accounts"), and business forms (the "Business Forms"); (b) authority to open and close Bank Accounts as necessary; (c) authority for the Banks participating in the Cash Management System to honor certain transfers; and (d) related relief.

82. As described in greater detail in the Cash Management Motion, the Debtors maintain the Cash Management System in the ordinary course of their operations, which includes 121 Bank Accounts, 107 of which are held at Wells Fargo. A chart depicting the flow of funds in the current Bank Accounts and a list of the Bank Accounts are attached to the Cash Management Motion as Exhibits C and D, respectively.

83. The Debtors utilize the Bank Accounts to manage payments from customers, make disbursements, including employee, vendor, and other operating payments, and to hold cash. It also allows the Debtors to control and monitor corporate funds, ensure cash availability, and reduce administrative expenses by facilitating the movement of funds and the development of timely and accurate account balances and presentment information. The Debtors have the capacity to draw the necessary distinctions between prepetition and postpetition obligations and payments without closing the Bank Accounts and opening new ones.

84. In addition, the Business Forms are essential tools that assist the Debtors in

transacting business with vendors and suppliers, who have come to associate these forms with the Debtors' business. Any disruption to the use of their existing Business Forms during this critical transition period could cause confusion or concern with the Debtors' vendors and contract counterparties. To the extent that the Debtors print any new checks themselves, they will include the designation "Debtor in Possession" and the lead case number.

85. I believe that the Cash Management System constitutes a customary and essential business practice, and it is similar to those commonly employed by entities of comparable size and complexity. The Debtors' continued use of the Cash Management System is critical to a successful chapter 11 process and a seamless transition to operation as debtors in possession. Without the continued use of the Cash Management System, the Debtors could experience significant disruption in their cash receipts from customers, which would cause interruption of payments to vendors and other cash transactions that happen on a daily basis. This would cause irreparable harm to the Debtors' business and could interfere with the Debtors' ability to consummate a going concern sale of the Go-Forward Business and the ability to effectively and efficiently liquidate the Closing Stores. Accordingly, the Debtors respectfully request that the relief set forth in the Cash Management Motion be approved.

F. Insurance Motion

86. Pursuant to the Insurance Motion, the Debtors seek, among other things, authority to honor their prepetition and postpetition obligations (the "Insurance Obligations") under their insurance program (the "Insurance Program"), including under their two insurance premium finance agreements (together, the "Insurance Finance Agreements"), on an uninterrupted basis in the ordinary course of business.

87. The Debtors' Insurance Program is comprised of (a) the commercial insurance policies listed on Attachment I of the Insurance Motion (the "Commercial Insurance Policies"),

which provide coverage for, among other things, automobile, crime, cyber liability, director and officer liability, employment practices liability, fiduciary liability, general liability, inland marine, property, workers compensation, and umbrella, that are administered through various insurers (the “Insurers”); and (b) the Insurance Finance Agreements.

88. For the 2022 to 2023 policy period, the Debtors will incur approximately \$1.57 million in annual premiums relating to the Commercial Insurance Policies, including associated fees and taxes. The Debtors have diligently reviewed their records and believe that there are no outstanding amounts owed in premiums to their Insurers under the Commercial Insurance Policies as of the Petition Date.

89. The nature and extent of the Debtors’ business operations make it essential to maintain their Insurance Program on an uninterrupted basis. Moreover, the Debtors are required to maintain insurance coverage, like the coverage provided in the Insurance Program, under the U.S. Trustee’s Operating Guidelines, the laws of the various states in which the Debtors operate, applicable federal law, and certain of the Debtors’ contracts and leases.

90. Therefore, the Debtors submit that they should pay their Insurance Program obligations as they come due in the ordinary course of business. Continuation of the Debtors’ Insurance Program is necessary and essential to the Debtors’ operation of their business during these Chapter 11 Cases. The Debtors’ inability to continue their insurance coverage would be disastrous and could doom the Debtors’ prospects for a successful chapter 11 process to the detriment of all stakeholders.

91. Non-payment of their Insurance Obligations could result in cancellation or non-renewal of the Insurance Program, and the Debtors may be unable to find alternative insurance coverage, or find such alternatives only at a much higher cost than the Debtors currently incur. If

the Commercial Insurance Policies lapse without renewal, the Debtors could be exposed to substantial liability for personal and/or property damages to the detriment of all stakeholders. In addition, the Debtors would be in default under certain key contracts and applicable law, which require that the Debtors maintain adequate insurance coverage. Consequently, if the Debtors' Commercial Insurance Policies lapsed, the Debtors would be required to obtain replacement coverage on an emergency basis and, likely, at significant expense. Therefore, the continuation of the Insurance Program on an uninterrupted basis and the payment of the Insurance Obligations are essential to preserve the Debtors' business and the value of the Debtors' estates.

92. In the ordinary course of business, the Debtors employ, and pay fees, to Marsh & McLennan Agency LLC (the "Broker") to assist the Debtors in procuring and negotiating elements of the Debtors' Insurance Program. The Broker is essential to the Debtors' ability to secure insurance coverage, as it structures and manages the Insurance Program in a reasonable and prudent manner and enables the Debtors to realize considerable savings in the procurement of aspects of the Insurance Program. The Debtors do not have access to certain key markets unless represented by the Broker as of the date hereof. The Debtors believe that they are current in their obligations to the Broker.

93. The Debtors finance certain of their insurance policy premiums through two Finance Agreements with AFCO Premium Credit LLC (the "PFA Lender"), which are attached as Attachment 2 to the Insurance Motion. The Debtors believe that they are current on amounts due under the Finance Agreements as of the Petition Date. In the Debtors' business judgment, the terms of the Finance Agreements represent fair and reasonable terms for financing the premiums of the Commercial Insurance Policies under the circumstances, and the Debtors' estates will benefit by maintaining this low-cost financing from the PFA Lender. Moreover, any interruption

of payments might adversely affect the Debtors' ability to obtain financing for future policies on favorable terms, to the extent needed. The Debtors believe that it is in the best interest of their estates to honor their obligations under the Finance Agreements. Any other alternative would likely require considerable cash expenditures and would be detrimental to the Debtors' chapter 11 efforts.

94. For the foregoing reasons, the Debtors respectfully request that the relief set forth in the Insurance Motion be approved.

G. Utilities Motion

95. Pursuant to the Utilities Motion, the Debtors seek, among other things: (a) approval of the Debtors' proposed form of adequate assurance of postpetition payment to the Utility Companies, which includes depositing approximately \$148,000 in estimated utilities expenses into a segregated Bank Account (the "Utility Deposit Account"); (b) approval of procedures for resolving any objections by the Utility Companies relating the Debtors' proposed adequate assurance procedures set forth in the Utilities Motion (the "Adequate Assurance Procedures"); (c) a prohibition on the Utility Companies from altering, refusing, or discontinuing their services (collectively, the "Utilities Services") to, or discriminating against the Debtors solely on the basis of (i) the commencement of these Chapter 11 Cases, (ii) a debt that is owed by the Debtors for services rendered prior to the Petition Date, or (iii) on account of any perceived inadequacy of the Debtors' proposed adequate assurance; and (d) related relief.

96. Any disruption of the Debtors' Utility Services would cause irreparable harm to the Debtors' business operations, their estates, the sale process and the Store Closing Sales (as defined below), as it could result in the Debtors' inability to operate their business. Without the protections afforded by the Adequate Assurance Procedures, the Debtors could be forced to address *ad hoc* requests by Utility Companies in a disorganized manner in the initial, critical stages of their chapter

11 process, when their efforts should be focused on stabilizing their operations and maximizing value for all of their stakeholders. The orderly process contemplated by the Adequate Assurance Procedures is necessary for a smooth transition by the Debtors into chapter 11 and will aid in their chapter 11 efforts. Moreover, the Adequate Assurance Procedures will establish a fair process that will ensure all parties act in good faith.

97. These Chapter 11 Cases simply will not succeed if the Debtors cannot be assured continual and uninterrupted Utility Services. Any disruption of the Utility Services could have a significant impact on the Debtors' business operations and efforts to maximize value for the estates. Accordingly, the Debtors respectfully request that the relief set forth in the Utilities Motion be approved.

H. Customer Programs Motion

98. Pursuant to the Customer Programs Motion, the Debtors seek authority to: (i) maintain and administer customer-related programs, practices, and policies (collectively, the "Customer Programs") and honor certain obligations related thereto (the "Prepetition Customer Obligations") in the ordinary course of business and in a manner consistent with past practice; (ii) renew, replace, implement, modify, and/or terminate any of the Customer Programs, in each case as the Debtors deem appropriate in their business judgment and in the ordinary course of business; (iii) continue to pay the amounts due to certain payment processing companies in the ordinary course of business, whether arising before or after the Petition Date.

99. The viability and success of the Debtors' business depends on the patronage and loyalty of their customers. In the ordinary course of business, the Debtors maintain four primary Customer Programs (each as further described in the Customer Programs Motion): (i) the Refund and Exchange Program; (ii) the Gift Card Program; (iii) the Sales Promotion Program; and (iv) the Rewards Program. Based on my experience, I believe that the Customer Programs generally

represent practices that are common in the retail industry.

100. The Customer Programs are designed to drive sales, meet competitive pressures, build key relationships, and develop and sustain customer loyalty. The Customer Programs, and the ability to honor the Prepetition Customer Obligations, is critical to generating valuable goodwill, repeat business, and net revenue increases for the Debtors' going-forward brands. The Debtors believe that continuing the Customer Programs is essential to (a) preserve customer relationships for the benefit of their estates and (b) maximize the value of the Go-Forward Business. Without the Customer Programs, the Company would suffer immediate and irreparable harm.

101. Noncash payments account for the majority of the Debtors' sales. The Debtors contract with third party payment processing companies to process non-cash payments. The Debtors estimate that the payment processing companies charge the Debtors approximately \$400,000 in fees on average per month, and through the Customer Programs Motion, the Debtors seek authority to satisfy these amounts as they come due in the ordinary course of business to avoid immediate and irreparable harm to the estates.

102. For the reasons set forth above, the Debtors respectfully request that the relief set forth in the Customer Programs Motion be approved.

I. Critical Vendor Motion

103. Pursuant to the Critical Vendor Motion, the Debtors seek: (a) authority to pay, in their discretion, certain prepetition amounts owed (the "Critical Vendor Payments") to certain vendors, suppliers, service providers, and similar entities that provide goods and services critical to the ongoing operation of the Debtors' business (the "Critical Vendors"), including certain Critical Vendors which provided goods received by the Debtors in the ordinary course of the Debtors' business within twenty days of the Petition Date; and (b) related relief.

104. The Debtors see no viable path forward as a going-concern unless they retain their Critical Vendors' support during the transition into chapter 11. After careful analysis undertaken by the Debtors' management team and their advisors, the Debtors determined that, failure to make the Critical Vendors Payments on the terms proposed in the Critical Vendor Motion will cause immediate and irreparable harm to the Company, which will directly undermine the Debtors' sale efforts and compromise the Debtors' ability to obtain maximum value for all interested parties. In large part, the Debtors contemplate funding Critical Vendor Payments through cash received through operations and advances made under the proposed DIP Facility.

105. If the Critical Vendors, none of whom are under contract, refuse to ship product, the most important of which is pet food, the Debtors will quickly lose the ability to stock their shelves and provide the key in-store services that their customers expect. For example, certain of the Critical Vendors are essential to the production of the Debtors' private label products and the Debtors have no viable alternative sourcing options that will satisfy their customer' needs or drive revenue in the same manner.

106. The Go-Forward Business is highly dependent on the Critical Vendors' products, but the Debtors have historically relied on a real-time, demand based merchandising process and kept minimal inventory on hand. The inability to replenish their inventory would have a material adverse effect on the Debtors' business and their ability to successfully consummate a value-maximizing transaction. In short, if the Debtors cannot service their customers' needs by maintaining a sufficient inventory of essential items (i.e., pet food), their customers, who have many options in this very competitive industry, will go elsewhere, and will do so promptly given the nature of their needs (and that of their pets). Accordingly, the Debtors believe that any inability to make the Critical Vendor Payments will cause the Debtors to immediately lose market share in

their highly competitive industry, and likely force them to close some or all of the Go-Forward Stores, thereby defeating the Debtors' ongoing sale efforts.

107. The Debtors believe that the Critical Vendors would immediately stop existing shipments and services, refuse to provide future shipments and services, and/or would immediately tighten credit terms if the Debtors do not have authority to satisfy the Critical Vendors' prepetition claims. Given that the success of the Debtors' business depends on, among other things, their ability to (i) keep their store shelves stocked with goods that the customer *has* to purchase, whether from the Debtors or a competitor, and (ii) deliver services to customers, this disruption would have an immediate and detrimental impact on operations and correspondingly destroy value.

108. The Debtors operate in a highly competitive business environment, where both the Debtors' customers and vendors have choices that do not include the Debtors. The Debtors simply cannot risk loss of merchandise and services, along with the loss of customers and goodwill at this critical juncture. This confluence of factors creates a high priority around the Critical Vendor Payments.

109. The Debtors and their advisors have carefully compiled a list of potential Critical Vendors, after which the Debtors' management team, together with the Debtors' advisors, determined the appropriate number of Critical Vendors, the scope of the Critical Vendor Payments, and the timing needs related thereto. The Debtors are focused on ensuring a seamless operational transition into chapter 11 and marketing the Go-Forward Business with an optimal platform. Absent the relief sought in the Critical Vendor Motion, the Debtors believe that they would incur significant business disruption and attendant costs in securing alternative suppliers, even assuming that they could identify and implement such alternatives within the compressed timeframes necessary to ensure uninterrupted supply to the Debtors' stores and customers through their e-

commerce platform.

110. In vetting the Critical Vendors, the Debtors divided their approximately 250 vendors into two categories: (a) inventory and merchandise vendors (the “Merchandise Vendors”), which constitute 85% of the aggregate prepetition trade-facing amounts owed; and (b) service providers (the “Non-Merchandise Vendors”). The Debtors and their advisors considered, among other things, whether:

- the vendor is a sole-source or limited-source supplier or service provider;
- the vendor has the ability to exercise remedies against the Debtors;
- the vendor provides goods or services so vital to, or so commingled with, the Debtors’ business that even a brief disruption would harm the Debtors’ operations;
- the Debtors could cost-effectively obtain comparable products or services from alternative sources within a reasonable timeframe;
- the vendor could refuse providing essential supplies or services absent payment of prepetition balances;
- a contract exists between the Debtors and the vendor; and
- the vendor holds a valid claim under section 503(b)(9) of the Bankruptcy Code.

111. The Debtors identified approximately 100 Critical Vendors: approximately 80% of which are Merchandise Vendors and 20% are Non-Merchandise Vendors. These Merchandise Vendors supply unique brands and products that customers have come to expect in the Debtors’ stores and through their online platform, while many of the Non-Merchandise Vendors are the only vendors able to provide services to the Debtors on favorable terms.

112. Historically, the Debtors have maintained a concentrated supply chain. Approximately 63% of the aggregate amount of the proposed Critical Vendor Payments relates to claims held ADMC and Pet Food Experts, each a sole-source distributor with unique brands that will continue to drive value for the Go-Forward Business. Together, ADMC and Pet Food Experts are owed approximately \$8 million (approximately \$4.7 million of which would be payable as

503(b)(9) Claims). Prior to the Petition Date, the Debtors purchased goods from ADMC and Pet Food Experts without a contract. Loss of either ADMC or Pet Food Experts would significantly delay delivery of inventory and would severely impact the Debtors' business.

113. Because of the Debtors' real-time, demand-based supply chain, the Debtors receive goods from the Merchandise Vendors on an order-by-order basis (without a supply contract). As of the Petition Date, the Debtors believe that they owe Merchandise Vendors approximately \$6 million on account of goods received by the Debtors within the 20 days immediately preceding the Petition Date (claims related to such goods, the "503(b)(9) Claims"). After closely analyzing the scope of potential 503(b)(9) Claims, the Debtors expect that most of the 503(b)(9) Claims will come due within the first 21 days of the Chapter 11, which represents approximately 48% of the proposed Critical Vendor Payments. Prior to making any Critical Vendor Payment, the Debtors will require Critical Vendors to apply any Critical Vendor Payments first against such Critical Vendors' 503(b)(9) Claim(s), as provided in the proposed orders attached to the Critical Vendor Motion. The Debtors believe that payment of 503(b)(9) Claims at this time does not prejudice the estates, as it merely affects the timing of payment, whereas non-payment of the 503(b)(9) Claims at this time would have a devastating impact on the estates and the Debtors' ability to prosecute these cases.

114. The Debtors seek authority, but not direction, to condition the Critical Vendor Payments on the Critical Vendor: (a) accepting payment in satisfaction of its prepetition claims; (b) applying Critical Vendor Payments, in the first instance, against its 503(b)(9) Claims, if any; and (c) continuing to provide supplies or services to the Debtors on (i) the most favorable trade terms, practices, and programs (including credit limits, rebates, discounts, pricing, timing of payments, availability, and other applicable terms and programs) in place during the 12 months

before the Petition Date, and (ii) such other terms as the Debtors and the Critical Vendor may mutually agree ((i) and (ii) together, "Customary Trade Terms").

115. To ensure that each Critical Vendor continues providing supplies or services on Customary Trade Terms for the duration of these Chapter 11 Cases, the Debtors seek authority, but not direction, to execute binding trade agreements (the "Trade Agreements") with the Critical Vendors. A summary of the terms of a proposed Trade Agreement is set forth in the Critical Vendor Motion. Irrespective of whether a Critical Vendor executes a Trade Agreement, the Debtors reserve the right to seek repayment of Critical Vendor Payments if any Critical Vendor refuses to provide goods or services on Customary Trade Terms or refuses to waive or release claims, liens, and other rights and remedies in connection with claims satisfied by the Critical Vendor Payments. However, without authority to make the Critical Vendor Payments, the Debtors will have little ability to negotiate the Customary Trade Terms.

116. The Debtors believe the payment of an amount not to exceed \$11.5 million on an interim basis (the "Interim Cap") and \$12.4 million on a final basis (the "Final Cap"), is required to avoid immediate and irreparable harm to the Company. The Debtors carefully analyzed the list of Critical Vendors and the proposed Critical Vendors Payments to determine which payments they had to make under the Interim Cap, and which payments could await the Final Cap. Approximately 75% of the Critical Vendor Payments are owed to ten Critical Vendors.

117. In short, the Critical Vendor Payments are necessary to ensure continued operation of the Debtors' business and, in turn, preserve and enhance the value of the Debtors' estates. The Debtors have carefully reviewed their accounts payable and undertaken a lengthy and thoughtful process to identify vendors, suppliers, and service providers essential to ongoing operations. Without the Critical Vendors' inventory and other goods and services, the Debtors may be forced

to halt most, if not all, ongoing business immediately while they search for substitute vendors, if any even exist, and the Debtors could be forced to forgo existing favorable trade terms. In this context, the Prepetition Lender Group, in its capacity as lenders under DIP Loan (and Stalking Horse Bidder) has agreed to fund the Critical Vendor Payments.

118. Accordingly, for the reasons set forth herein, I believe that the relief requested in the Critical Vendor Motion is necessary to avoid immediate and irreparable harm to the Debtors, for the Debtors to operate the Company without interruption, and to preserve value for the Debtors' estates. The Debtors' management team, together with their financial and legal advisors, have extensively discussed and vetted the Critical Vendor program, and it reflects narrowly-tailored relief that I believe is critical to the success of these Chapter 11 Cases. Accordingly, the Debtors respectfully request that the relief set forth in the Critical Vendor Motion be approved.

J. Store Closing Motion

119. Pursuant to the Store Closing Motion, the Debtors seek: (a) authority to assume that certain Consulting Agreement dated as of January 24, 2023 (the "Consulting Agreement"), with B. Riley Retail Solutions, LLC (the "Consultant"), which is attached as Schedule I to Exhibit A of the Store Closing Motion; (b) the continuation of store closings or similar themed sales (the "Store Closing Sales") commenced prepetition by the Consultant at the Closing Stores listed on Schedule 2 of Exhibit A of the Store Closing Motion; (c) authority to provide customary, small bonuses to non-insider Closing Store Employees (the "Store Closing Bonuses"); (d) approval of the authorizing and approving the terms of the store closing procedures (the "Store Closing Procedures"), which are attached as Schedule 3 to Exhibit A of the Store Closing Motion; and (e) related relief.

120. As set forth above, while the Debtors are hopeful that the postpetition marketing

process will result in actionable proposals, including for the Closing Stores, they also recognize the challenges of selling the Closing Stores to one or more going-concern buyers, particularly given the outcome of the prepetition marketing process. Thus, in order to avoid further losses and administrative costs, including continuing to pay rent for these Closing Stores, which could amount to \$1.3 million for March 2023 alone, the Debtors commenced Store Closing Sales on February 3, 2023, and seek to continue them during these Chapter 11 Cases. Doing so will allow the Debtors to unequivocally surrender possession of the Closing Stores to subject landlord counterparties on or before February 28, 2023.⁶

121. The Debtors believe that the terms set forth in the Consulting Agreement, including a percentage fee based on the proceeds from asset dispositions, are the best alternative for the Store Closing Sales and will maximize value for all interested parties. Prior to entering into the Consulting Agreement, the Debtors determined, after discussions with their advisors and negotiations with the Consultant, that the terms Consulting Agreement, as a whole, are at or better than market terms for such types of contracts. The material terms of the Consulting Agreement are set forth in the Store Closing Motion. The Consultant has extensive expertise in conducting liquidation sales and can oversee and assist in the management and implementation of the Store Closing Sales in an efficient and cost-effective manner.

122. The Debtors concluded in their business judgment that: (a) the services of the Consultant are necessary (i) for a seamless and efficient large-scale store closing process, as the Debtors contemplate, and (ii) to maximize the value of the saleable Merchandise and FF&E (each as defined in the Consulting Agreement, and together, the “Store Closure Assets”); (b) the

⁶ Prior to the Petition Date, the Debtors paid their February 2023 rent obligations at the Closing Stores and the Go-Forward Stores.

Consultant is qualified and capable of performing the required tasks in a value-maximizing manner; and (c) replacing or not continuing with the Consultant would significantly disrupt the Debtors' process and impair the value of the remaining Store Closure Assets.

123. Assumption of the Consulting Agreement will enable the Debtors to utilize the skills and resources of the Consultant to efficiently conduct the Store Closing Sales for the benefit of all stakeholders. If the Consulting Agreement is not approved, operative, and effective on an interim basis, the Store Closing Sales—which commenced on or about two days prior to the Petition Date—would lose the ongoing benefit of the Consultant's oversight and might be delayed or suspended entirely, leading to a loss of additional liquidity and increased administrative expenses. Accordingly, the Debtors submit that assumption of the Consulting Agreement is beneficial to the Debtors' estates, and, therefore, a reasonable exercise of the Debtors' business judgment.

124. The Debtors also seek approval of streamlined Store Closing Procedures to effectuate the sale the Store Closure Assets, in each case free and clear of liens, claims, and encumbrances. The Debtors have determined, in the exercise of their business judgment and in consultation with their advisors, that the Store Closing Procedures provide the best and most efficient means of liquidating the Store Closure Assets and closing the Closing Stores.

125. Certain states in which the Debtors operate stores have or may have laws, which, if the Debtors are required to strictly comply, as more fully set forth in the Store Closing Motion, would impede the Debtors' ability to maximize value through the Store Closing Sales. Accordingly the Debtors request a waiver of these applicable state laws to the extent they conflict with the ability of the Debtors to complete the Store Closings.

126. To facilitate the orderly resolution of any disputes between the Debtors and any

Governmental Units arising due to the Store Closing Procedures and the alleged applicability of any applicable state laws, the Debtors respectfully request that the Court authorize the Debtors to implement the Dispute Resolution Procedures described in the Store Closing Motion. To be clear, the Debtors intend to (a) pay their terminated employees as expeditiously as possible and under normal payment procedures; and (b) comply with state and local health and safety laws and consumer protection laws while conducting the Store Closing Sales

127. The Debtors may determine that the cost associated with holding or selling certain Store Closure Assets present in the Closing Stores exceeds the proceeds that will be realized from its sale, or such property may not be saleable at all. In such cases, retaining the property would be burdensome to the estate and the property would be of inconsequential value.⁷ The Debtors believe that abandonment of such property is in the best interests of their estates and request that authority to abandon such property where they determine in their business judgment that abandonment is the appropriate course of action.

128. The Debtors also request authority to pay Store Closing Bonuses as more specifically described in the Store Closing Motion. Store Closing Bonuses will be made exclusively to non-insiders on the condition of employment through the date on which the respective Employee's store closes. The Debtors anticipate that approximately 100 non-insider Employees would be eligible for Store Closing Bonuses. The total aggregate amount of Store Closing Bonuses will not exceed \$300,000, with the final amount dependent on, among other things, whether eligible Employees remain employed for the duration of the Closing Sales. The

⁷ For the avoidance of doubt, the Debtors will not sell any personal identifying information (which means information which alone or in conjunction with other information identifies an individual, including, but not limited to, an individual's name, social security number, date of birth, government-issued identification number, account number, and credit or debit card number) as part of the Store Closing Sales, and all personal identifying information will be removed from any FF&E prior to abandonment of same.

Debtors do not anticipate paying any individual more than \$3,000 on account of a Store Closing Bonus. The Debtors believe that the Store Closing Bonus Plan, which, in my experience, is customary for going out of business sales, is critical to ensuring that eligible Employees, who will eventually be affected by the Store Closing Sales, continue to provide critical services to the Debtors during the Store Closing process.

129. For the foregoing reasons, the Debtors respectfully request that the relief set forth in the Store Closing Motion be approved.

K. Creditor Matrix Motion

130. Pursuant to the Creditor Matrix Motion, the Debtors seek, among other things, authority to (a) file a consolidated list of creditors in lieu of submitting a separate mailing matrix for each Debtor, (b) file a consolidated list of the Debtors' thirty largest unsecured creditors; and (c) seal certain personal identifiable information for the Debtors' individual creditors and interest holders.

131. Because the Debtors have many thousands of creditors and other parties in interest, converting the Debtors' computerized information to a format compatible with the matrix requirements would be a burdensome task and would greatly increase the risk of error with respect to information already on computer systems maintained by the Debtors or their agents. Moreover, the Debtors, working together with Omni, have already prepared a single, consolidated list of the Debtors' creditors in electronic format.

132. Because certain of the Debtors share many creditors, the Debtors request authority to file a single, consolidated list of their thirty largest general unsecured creditors. Compiling separate top twenty creditor lists for each individual Debtor would consume a substantial amount of the Debtors' time and resources. Further, the Debtors believe a single, consolidated list of the

Debtors' thirty largest unsecured, non-insider creditors will aid the U.S. Trustee in its efforts to communicate with these creditors.

133. The Debtors respectfully submit that it is appropriate to authorize the Debtors to redact from any paper filed or to be filed with the Court in these Chapter 11 Cases the home addresses of the Debtors' individual creditors and interest holders because such information could be used, among other things, to perpetrate identity theft or locate survivors of domestic violence or stalking who have otherwise taken steps to conceal their whereabouts. Absent such relief, the Debtors would unnecessarily render individuals more susceptible to identity theft and could jeopardize the safety of individuals who, unbeknownst to the Debtors, are survivors of domestic violence or stalking by publishing their home addresses without any advance notice or opportunity to opt out or take protective measures.

134. For the foregoing reasons, the Debtors respectfully request that the relief set forth in the Creditor Matrix Motion be approved.

L. Conclusion

135. For the reasons stated herein, and in each of the First Day Motions filed concurrently or in connection with these Chapter 11 Cases, the Debtors respectfully request that each First Day Motion be granted in its entirety, together with such other and further relief as the Court deems just and proper.

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CONCLUSION

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

Dated: February 5, 2023

/s/ Stephen Coulombe

Stephen Coulombe
Co-Chief Restructuring Officer
Independent Pet Partners Holdings, LLC