IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: EBH TOPCO, LLC, *et al.*,[1] Debtors.	Chapter 11 Case No. 18-_____ (___) (Joint Administration Pending)

DECLARATION OF MARTIN MCGAHAN, CHIEF RESTRUCTURING OFFICER OF DEBTORS, IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS

Pursuant to 28 U.S.C. § 1764, Martin McGahan, declares as follows under the penalty of perjury:

1. I am a Managing Director and head of Alvarez & Marsal Healthcare Industry Group, LLC ("**A&M**") and serve as the Chief Restructuring Officer ("**CRO**") of EBH Topco, LLC, a Delaware limited liability company, along with certain of its wholly-owned and majority-owned direct and indirect subsidiaries (collectively, the "**Debtors**" or the "**Company**"), as debtors and debtors in possession in the above-captioned chapter 11 cases (the "**Chapter 11 Cases**"). I am authorized to submit this declaration (the "**First Day Declaration**") on behalf of the Debtors.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are Elements Behavioral Health, Inc. (7176), EBH Topco, LLC (6103), EBH Holding Company, Inc. (0370), EBH Big Rock, Inc. (1880), SoCal Rehab and Recovery, Inc. (3741), The Sexual Recovery Institute, Inc. (1279), Westside Sober Living Centers, Inc. (5717), Ehrman Subsidiary Corp. (3958), PROMAL2, Inc. (1377), PROMAL4, Inc. (2453), SBAR2, Inc. (9844), Promises Residential Treatment Center VI, Inc. (1112), Assurance Toxicology Services, LLC (9612), Elements Screening Services, Inc. (0055), TRS Behavioral Care, Inc. (6343), Spirit Lodge, LLC (1375), San Cristobal Treatment Center, LLC (1419), EBH Acquisition Subsidiary, Inc. (6132), EBH Services of Florida, Inc. (6802), Outpatient Services FL, Inc. (9596), EBH Northeast Services, Inc. (3551), Intensive Outpatient Services PA, Inc. (5581), Wrightsville Services, LLC (9535), NE Sober Living, Inc. (1955), Northeast Behavioral Services, Inc. (8881), The Ranch on Piney River, Inc. (0195), Outpatient Services TN, Inc. (5584), EBH Southwest Services, Inc. (5202), Elements Medical Group of Utah, Inc. (9820), Southeast Behavioral Health Services, Inc. (1267), Elements Medical Group of Mississippi, Inc. (4545), Elements Medical Group of Arizona, Inc. (8468)[, Elements Medical Group of New Jersey, P.C. (1168), Elements Medical Group of Pennsylvania, P.C. (2045), David Sack, M.D., A Professional Medical Corporation (5963), and David Sack, M.D. (TN), P.C. (8488)]. The location of the Debtors' mailing address is 5000 Airport Plaza Dr., Suite 100, Long Beach, California 90815.

2. While I have just recently been appointed CRO, A&M has served as financial advisor to the Company since on or about December 13, 2017.

3. In the role as financial advisor to the Company, A&M assisted with certain financial activities and cash management of the Debtors, including but not limited to, monitoring cash flow, supporting the sale transaction process that was conducted by the Company prepetition, assisting staff and the Company's other advisors with the identification and elimination of unnecessary expenditures, and financial reporting and planning. Based on my review of public and non-public documents, and my discussions with, and information provided by, other members of the Debtors' management team, employees, agents, and advisors, and certain members of my engagement team. I am generally familiar with the Debtors' business, financial condition, policies and procedures, day-to-day operations, and books and records. Except as otherwise noted, I have personal knowledge of the matters set forth herein or have gained knowledge of such matters from other members of my engagement team or from other members of my engagement team or from the Debtors' employees, agents, attorneys, and advisors, the accuracy and completeness of which information I relied upon to provide this Declaration.

4. References to the Bankruptcy Code (as hereafter defined), the chapter 11 process, and related legal matters are based on my understanding of such matters in reliance on the explanation provided by, and the advice of, counsel. If called upon to testify, I would testify competently to the facts set forth in this First Day Declaration.

5. On the date hereof (the "**Petition Date**"), each of the Debtors filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware (the "**Court**") commencing a case for relief under chapter 11 of the Bankruptcy Code (the "**Bankruptcy**

Code"). The Debtors will continue to operate their business and manage their properties as debtors in possession.

6. I submit this First Day Declaration on behalf of the Debtors in support of the Debtors' (a) voluntary petitions for relief that were filed under chapter 11 of the Bankruptcy Code and (b) "first-day" pleadings, which are being filed concurrently herewith (collectively, the "**First Day Pleadings**").[2] The Debtors seek the relief set forth in the First Day Pleadings to minimize the adverse effects of the commencement of the Chapter 11 Cases on business operations and to maximize the value of their assets. I have reviewed the Debtors' petitions and the First Day Pleadings, or have otherwise had their contents explained to me, and it is my belief that the relief sought therein is essential to ensure the uninterrupted operation of the Debtors' business and to successfully maximize the value of the Debtors' estates.

7. This First Day Declaration (a) provides an overview of the Debtors' businesses, organizational structure, capital structure, and significant prepetition indebtedness, as well as a discussion of the Debtors' financial performance and the events leading to the Debtors' chapter 11 filings, and (b) sets forth the relevant facts in support of the First Day Pleadings.

I. COMPANY AND BUSINESS OVERVIEW

A. Overview of Business Operations

7. The Company is a provider of behavioral health services and the largest independent provider of residential drug and alcohol addiction treatment in the United States. The Company is focused on delivering clinical excellence at its treatment centers, with its outcome-driven approach to treatment addressing both the medical and psychiatric impact of addiction.

[2] Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the applicable First Day Pleadings.

8. The Company provides a wide range of clinical programs tailored to the individual needs of its patients, including detoxification, residential treatment, intensive outpatient, and continuing treatment programs, all of which the Company refers to as its "system of care." The Company's approach to patient care is differentiated from other residential treatment centers, which typically provide patient care on an episodic basis and often do not provide ongoing, post-residential monitoring and care. The Company believes that its focus on long-term patient engagement helps patients avoid relapse, maintains recovery, and improves long-term outcomes for its patients, while reducing long-term costs for payors.

9. The Debtors currently operate 13 treatment centers across 8 states, with 772 beds and 22 outpatient locations, drawing patients from all 50 states and 29 countries internationally.

10. Each patient's clinical treatment is unique and a wide spectrum of treatment options is needed to deliver optimal patient care. As a result, the Company offers a range of residential and non-residential treatment programs to provide all patients with the best chance of recovery. With 21 clinical programs and service offerings, the Company's portfolio is one of the largest in the industry. Some of the programs included in the Company's portfolio of offerings include drug and alcohol dependency, detoxification, young adult specialty treatment centers, co-occurring psychiatric disorders treatment, eating disorders, sexual addiction and intimacy disorders, trauma focused treatment, Christian-focused recovery, continuing treatment programs, intensive outpatient programs, sober living programs, and toxicology programs.

11. The Company has expanded its business through acquisitions as well as through organic growth. Since the Company's inception in 2008, the Company has acquired nine (9) independently branded treatment centers, opened one (1) new treatment center, significantly expanded bed capacity at their acquired facilities, and leveraged the clinical and market know-

how of acquired facilities to expand their range of services across their other facilities. Since its inception, the Company has acquired 772 beds and 39 licensed outpatient locations through acquisition and organic growth. The Company focuses on entering desirable markets seeking to acquire high-quality treatment centers and programs with attractive facilities at reasonable valuations. The Company has historically sought to grow organically within the market by increasing patient census, expanding bed capacity, launching new treatment centers, and providing additional therapeutic modalities.

12. The Company's clinical and operational infrastructure is essential to its national platform. Through the Company's commitment to providing the highest level of clinical care and its national network of treatment centers, the Company has developed relationships with referral sources, including physicians, mental health professionals, alumni, and other treatment programs both locally and nationally. The Company's multi-channel marketing strategy includes a national sales team that employs a broad outreach program focused on generating referrals both locally and nationally and over 50 internet web sites. The Company's national platform is further supported by a corporate compliance and quality assurance system, a national call center, centralized billing and collections, financial support functions, and a clinical toxicology facility.

B. Corporate Structure of the Company

13. A chart reflecting the Company's organizational structure is attached hereto as Exhibit A. Generally speaking, the Company is managed by existing management and a board of directors (the "**Board**") consisting of three independent directors at EBH Topco, LLC ("**EBH Topco**"), as well as all other Debtors. EBH Holding Company, Inc. is a holding company for Element Behavioral Health, Inc. ("**EBH Corp**"). EBH Corp owns all or the majority of each of the operating subsidiaries.

14. The Debtor entities include each of the following wholly-owned subsidiaries:

- Sexual Recovery Institute, Inc., a California corporation
- EBH Acquisition Subsidiary, Inc., a Delaware corporation
- TRS Behavioral Care, Inc. and subsidiaries, a Texas corporation
- EBH Services of Florida, Inc., a Delaware corporation
- EBH Southwest Services, Inc., a Delaware corporation
- EBH Big Rock, Inc., a California corporation
- Elements Screening Services, Inc., a Texas corporation
- EBH Northeast Services, Inc., a Delaware corporation
- Southeast Behavioral Health Services, Inc., a Delaware corporation
- Socal Rehab and Recovery, Inc., a Delaware corporation
- Northeast Behavioral Services, Inc. ("**Northeast Behavioral**")
- NE Sober Living, Inc., a Delaware corporation
- Outpatient Services FL, Inc., a Delaware corporation
- Outpatient Services TN, Inc., a Delaware corporation
- Intensive Outpatient Services PA, Inc., a Delaware corporation

15. The Debtor entities also include each of the following majority-owned subsidiaries:

- Westside Sober Living Centers, Inc. and Subsidiaries, a California corporation
- The Ranch on the Piney River, Inc., a Tennessee corporation
- Assurance Toxicology Services, LLC, a Delaware limited liability company
- Wrightsville Services, LLC, a Delaware limited liability company

C. Financial Overview of the Company

16. As of the March 31, 2018, the Debtors had approximately $1.9 million of cash and cash equivalents and its assets consisted of $49.4 million on an aggregate basis, based on valuation received. The Debtors' aggregate liabilities as of the Petition Date are approximately $207.3 million.

Prepetition First Lien

17. On February 12, 2014, the Debtors (each Debtor with the exception of EBH Topco, LLC, collectively, the "**Borrowers**"), as borrowers, Madison Capital Funding LLC

("**Madison**"), as agent, sole lead arranger, and sole bookrunner, the lenders party thereto (collectively, the "**Former Prepetition First Lien Lenders**"), Bank of Montreal ("**BMO**"), as syndication agent, and CapitalSource Bank ("**CapitalSource**"), as documentation agent, entered into that certain Second Amended and Restated First Lien Credit Agreement (as amended, restated or otherwise modified from time to time, the "**Prepetition First Lien Credit Agreement**"), pursuant to which the Former Prepetition First Lien Lenders made secured loans to the Borrowers. The First Lien Credit Agreement provided the Company with an initial term loan of $76.0 million, a revolving line of credit with initial availability up to $7.0 million, and a delayed draw loan commitment of up to $10.0 million for capital expenditures and permitted acquisitions. The Prepetition First Lien Obligation has a final maturity date of February 11, 2019.

18. The First Lien Facility is secured by first-priority liens on substantially all of the Debtors' assets, including shares of stock in each of the Debtors' subsidiaries, excluding certain non-controlling interests (the "**Prepetition First Priority Liens**").

19. On February 12, 2014, the Borrowers and Madison, as agent for the Former Prepetition First Lien Lenders, entered into that certain Second Amended and Restated Guarantee and Collateral Agreement (as amended, restated or otherwise modified from time to time, the "**Prepetition First Lien Guaranty**," and together with the Prepetition First Lien Credit Agreement, and all other documents, instruments, related writings, financing statements, security documents, warrants executed in connection with the Prepetition First Lien Credit Agreement, the "**Prepetition First Lien Loan Documents**"), pursuant to which the Prepetition Guarantors guarantied Borrowers' obligations under the Prepetition First Lien Credit Agreement.

Prepetition Second Lien

20. Simultaneously with the entry of the First Lien Credit Agreement, the Borrowers also entered into that certain Second Lien Credit Agreement with, the lenders party thereto (the "**Prepetition Second Lien Lenders**"), Cortland Capital Market Services LLC, as successor to Citibank, N.A. ("**Cortland**"), as agent for the Prepetition Second Lien Lenders and as a Prepetition Second Lien Lender, entered into that certain Second Lien Credit Agreement (as amended, restated or otherwise modified from time to time, the "**Prepetition Second Lien Credit Agreement**"), pursuant to which the Prepetition Second Lien Lenders made secured loans to the Borrowers. The Second Lien Credit Agreement provided the Company with a term loan in the initial amount of $29.0 million (the "**Prepetition Second Lien Obligations**"). The Second Lien Facility was comprised solely of the $29.0 million term loan, and has a final maturity date of February 11, 2020.

21. Upon information and belief, on February 12, 2014, the Prepetition Guarantors and Cortland, as agent for the Prepetition Second Lien Lenders, entered into that certain Guarantee and Collateral Agreement (as amended, restated or otherwise modified from time to time, the "**Prepetition Second Lien Guaranty**," and together with the Prepetition Second Lien Credit Agreement, and all other documents, instruments, related writings, financing statements, security documents, warrants executed in connection with the Prepetition Second Lien Credit Agreement, the "**Prepetition Second Lien Loan Documents**"), pursuant to which the Prepetition Guarantors guarantied Borrowers' obligations under the Prepetition Second Lien Credit Agreement.

22. The Prepetition Second Lien Obligations are secured by junior liens (the "**Junior Secured Liens**") on substantially all of the existing and after-acquired assets of the Borrowers and the Prepetition Guarantors, and the proceeds thereof, and such liens are perfected and, except

as otherwise permitted in the Prepetition Second Lien Loan Documents, have priority over all other liens other than the First Priority Liens (the "**Prepetition Junior Secured Collateral**").

Intercreditor Agreement

23. In connection with entry into the Prepetition First and Second Lien Credit Agreements, the Former Prepetition First Lien Lenders and Prepetition Second Lien Lenders entered into that certain Intercreditor Agreement on February 12, 2014 (as amended, supplemented or modified from time to time, the "**Intercreditor Agreement**").[3] The Intercreditor Agreement contains customary provisions governing the relationship between the Prepetition First Lien and Prepetition Second Lien Lenders, namely, to confirm the relative priority of their respective liens in the Prepetition Collateral.

Subordinated Notes

24. The Debtors required additional financing to fund additional acquisitions as part of their strategy. Accordingly, EBH Holding entered into that certain Loan Agreement with Comerica Bank ("**Comerica**"), dated as of September 10, 2014 (as amended, supplemented, or modified from time to time, the "**Comerica Note**"). The Comerica Note was originally issued in the amount $5.5 million but was later increased to $13.2 million to fund further acquisitions. The Comerica Note is subject to a subordination agreement in favor of the Prepetition First and Prepetition Second Lien Lenders. The Comerica Note matured on September 10, 2017. The Comerica Note was guaranteed by the Company's prepetition investors and equity holders, Frazier Healthcare V, L.P., and New Enterprise Associates 12, L.P.

25. In connection with certain acquisitions made by the Company, one of the Debtors, Northeast Behavioral, entered into the following documents:

[3] The Borrowers are not parties to the Intercreditor Agreement, but received and executed an acknowledgement of the Intercreditor Agreement.

- Two Subordinated Notes in the aggregate amount of $2,335,000, between Northeast Behavioral and Robin Barnett, dated December 23, 2014 (the "**Barnett Notes**"); and
- Two Subordinated Notes in the aggregate amount of $2,335,000, between Northeast Behavioral and Randi Massey-Alvarado, dated December 23, 2014 (together with the Barnett Notes, the "**Seller Notes**").

26. Each of the Seller Notes is unsecured, has a maturity date of the earlier of May 12, 2020 or a change of control, and is subject to a subordination agreement in favor of the Prepetition First Lien and Prepetition Second Lien Lenders.

27. The Seller Notes and the Comerica Note are collectively referred to herein as the "**Subordinated Notes**"

Prior Amendments to First Lien Facility and Second Lien Facility and Forbearance

28. In December 2014, the Debtors entered into additional amendments to the Prepetition First Lien Obligations and the Prepetition Second Lien Obligations. In September 2015, the Debtors entered into forbearance agreements and additional amendments to the Prepetition First Lien Obligations and the Prepetition Second Lien Obligations. The forbearance agreements for each respective facility were necessitated by the fact that the Debtors were not in compliance with various financial covenants, which constituted defaults under the respective credit agreements. The Former Prepetition First Lien Lenders and Prepetition Second Lien Lenders agreed to forbear from exercising their respective rights and remedies under the credit agreements with respect to these defaults through November 20, 2015.

29. In February 2016, October 2016, and April 2017, the Debtors entered into additional forbearance agreements and additional amendments to the Prepetition First Lien

Obligations and the Prepetition Second Lien Obligations. The forbearance agreements for each respective facility were necessitated by the fact that the Debtors continued to be out of compliance with various financial covenants, which continued to constitute defaults under the credit agreements. The Former Prepetition First Lien Lenders and Prepetition Second Lien Lenders agreed, among other things, to forbear from exercising their respective rights and remedies under the credit agreements with respect to these defaults through December 31, 2018.

30. On May 8, 2018, the forbearance agreement with the Prepetition Second Lien Lenders expired.

14th Amendment to the Second Amended First Lien Credit Agreement

31. In December 2017, the Company found itself in need of additional funding to sustain operations and entered into negotiations with the Former Prepetition First Lien Agent for additional liquidity. As a condition to providing additional liquidity, the Former First Lien Lenders required the Company to enter into the Fourth Amendment to Forbearance Agreement and Fourteenth Amendment to Second Amended and Restated First Lien Credit Agreement, dated December 13, 2017 (the "**14th Amendment**").

32. The 14th Amendment contained several material amendments to the Prepetition First Lien Credit Agreement including, but not limited to:

- The Former Prepetition First Lien Lenders agreed to extend the forbearance agreement through the earlier of: (a) February 14, 2018; or (b) an Enforcement Action (as defined in the Intercreditor Agreement) is taken by the Prepetition Second Lien Lenders.
- The Former Prepetition First Lien Lenders agreed to make approximately $20.0 million in additional liquidity to the Borrowers consistent with the Prepetition First Lien Credit Agreement.
- The Borrowers agreed certain commitment fees, amendment fees, and interest rate increases consistent with the Intercreditor Agreement.

- The Borrowers were required to retain A&M to serve as financial advisors[4] and Jefferies LLC ("**Jefferies**") to serve as investment banker.
- The Borrowers agreed to develop a Strategic Plan (as defined in the 14th Amendment) with A&M and Jefferies.
- The Borrowers agreed to comply with certain sale milestones regarding a potential acquisition or refinancing of the Company.
- The existing members of the board of directors agreed to resign and be replaced with independent board members

33. After entry into the 14th Amendment, the Company and the Former Prepetition First Lien Lenders entered into several additional amendments to the Prepetition First Lien Obligations designed to increase the borrowing base available to the Company consistent with 14th Amendment. Shortly before the Petition Date, the Company and the Former Prepetition First Lien Lenders entered into that certain Twenty-Fifth Amendment to Second Amended and Restated First Lien Credit Agreement to provide additional funding for operations and preparation of the bankruptcy filing.

Sale of the First Lien Lenders Debt to Project Build Behavioral Health, LLC

34. Upon information and belief, on or about May 9, 2018, the Former First Lien Lenders sold and assigned their rights under the First Lien Credit Agreement, the Intercreditor Agreement, and related documents to Project Build Behavioral Health, LLC ("**PBBH**" or, in its capacity as lender and Prepetition Agent under the Prepetition First Lien Loan Documents, the "**Prepetition First Lien Lender**").

35. As of the Petition Date, the aggregate amount owed to the Debtors' prepetition secured and unsecured debtholders is approximately $207.3 million.

II. EVENTS LEADING TO THE CHAPTER 11 FILINGS

[4] The 14th Amendment required the Debtors to retain A&M as CRO, but the First Lien Lenders consented to the retention of A&M as financial advisors.

36. While the Company has had ongoing financial difficulties, the overall census of the facilities and revenue has declined since 2017. The decline in out-of-network admissions, lower reimbursement rates by insurance providers and the decline in the average length of stay were all contributing factors to the financial losses of the Company. While the Company attempted to increase census through ongoing marketing efforts of its in-house sales team and internet advertising, the increased cost of these efforts did not result in the increase in revenue to improve the financial results of the Company and offset the Company's cash burn. Financial performance for the fiscal year 2017 was $103.7 million in revenue, $129.6 million in expenses, and EBITDA of $(25.9) million with a total net income/(loss) of $(51.2) million. In January, 2018, the former Chief Executive Officer of the Company resigned to pursue other opportunities and Dr. David A. Sak, a founder of one of the Company's medical facilities and Chief Medical Officer, was recently appointed Interim Chief Executive Officer in addition to his other duties.

37. As contemplated by the 14th Amendment, the Company undertook a process to evaluate potential strategic options, including a sale of the Company or the refinancing of the Company's debt. The Company retained Jefferies for purposes of marketing the Company and the Company was bound by certain "tail" provisions of that contract that were still in effect during January 2018 when the most recent sale process commenced. Jefferies undertook a marketing process that canvassed both strategic and financial buyers which led to fifteen (15) parties executing non-disclosure agreements and commencing some level of due diligence. Initial diligence concluded on or about January 26, 2018 and three (3) indications of interest were received for the purchase of the Company and one (1) indication of interest was received for a purchase of certain assets of the Company. The Company concluded that a sale of a portion of the Company's assets presented several complications, including the time necessary to file

ownership changes with certain state regulators and the inability to alleviate the cash burn of the Company as a result of those sales, so the Company proceeded to a second round of diligence with the three interested buyers of the Company. All three buyers submitted updated "best and final" letters of intent on or about March 9, 2018.

38. On March 15, 2018, after substantial negotiations with parties in interest and consultation with the Former First Lien Lenders, the Company selected a potential purchaser (the "**Initial Purchaser**"). As is customary, the Initial Purchaser required the Company to enter into an exclusivity agreement to continue exploring the potential transaction during an exclusive negotiation period (the "**Exclusivity Period**").

39. During the Exclusivity Period, and after significant negotiations and diligence, it became clear that the Initial Purchaser would be unable to close on a transaction consistent with the initial terms. Accordingly, the Company gave notice to the Initial Purchaser of termination of the Exclusivity Period and engaged in continued negotiations with the Former Prepetition First Lien Lenders, other potential purchasers, and other parties in interest. The Company, in consultation with its advisors and the Former Prepetition First Lien Lenders, negotiated with those parties and agreed to proceed in an alternative direction.

40. While pursuing an alternative transaction, and prior to the Petition Date, PBBH purchased the Prepetition First Lien Obligations from the Former Prepetition First Lien Lenders. After the purchase of the First Lien Obligations, and given the Debtors' precarious cash position, the Debtors and PBBH entered into extensive negotiations regarding the structure of a transaction whereby PBBH would fund a DIP to provide a runway for a sale process in a chapter 11 bankruptcy and PBBH would serve as the Stalking Horse Bidder and credit bid its debt, or a

portion thereof, under Bankruptcy Code section 363(k) in order to purchase substantially all of the Debtors' assets under Bankruptcy Code section 363.

41. Given the prior substantial marketing processes undertaken by Jefferies, neither the Debtors nor PBBH believed that an extensive postpetition marketing process is required. However, in order to fulfill its fiduciary duties to creditors and other stakeholders, the Debtors' retained Houlihan Lokey Capital, LLC ("**Houlihan**") to serve as their investment banker and conduct a comprehensive sales process in the time allotted under the DIP Credit Agreement. Upon its retention, Houlihan immediately began a marketing process for the Debtors' assets for sale pursuant to bidding procedures negotiated with PBBH. Given the Debtors' lack of liquidity, the Debtors intend to conduct the sale process on an expedited basis. After the sale is approved by this Court, PBBH, or the highest and best bidder at the auction, will likely negotiate a management agreement or other transition document with the Debtors to operate the Debtors' post-sale approvals to permit closing. The Debtors have negotiated DIP financing to fund the sale process through court approval and will finalize a go forward DIP financing with PBBH (the "**DIP Lender**"), or the highest and best bidder at the auction, in order to fund these Chapter 11 Cases through closing of the sale.

III. FIRST DAY PLEADINGS

42. In furtherance of the objective of a value-maximizing sale of the Debtors' assets, the Debtors seek approval of the First Day Pleadings and related orders (the "**Proposed Orders**"), and respectfully requests that the Court consider entering the Proposed Orders granting such First Day Pleadings. For the avoidance of doubt, the Debtors seek authority, but not direction, to pay amounts or satisfy obligations with respect to the relief requested in any of the First Day Pleadings.

43. I have reviewed each of the First Day Pleadings, Proposed Orders, and exhibits thereto (or have otherwise had their contents explained to me), and the facts set forth therein are true and correct to the best of my knowledge, information, and belief. Moreover, I believe that the relief sought in each of the First Day Pleadings (a) is vital to enabling the Debtors to make the transition to, and operate in, chapter 11 with minimum interruptions and disruptions to their business or loss of productivity or value; and (b) constitutes a critical element in the Debtors' ability to successfully maximize value for the benefit of their estates.

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

44. Pursuant to the Joint Administration Motion, the Debtors seek the joint administration of their Chapter 11 Cases, thirty-two (32) in total, for procedural purposes only. Many of the motions, hearings and other matters involved in the Chapter 11 Cases will affect all of the Debtors. Therefore, I believe that the joint administration of these cases will avoid the unnecessary time and expense of duplicative motions, applications and orders, thereby saving considerable time and expense for the Debtors and resulting in substantial savings for their estates. Accordingly, I believe the Court should approve the joint administration of these Chapter 11 Cases.

B. *Application of Debtors for Entry of an Order (I) Approving the Retention and Appointment of Donlin, Recano & Company, Inc. as the Claims and Noticing Agent to the Debtors, Effective Nunc Pro Tunc to the Petition Date, and (II) Granting Related Relief* (the "Claims Agent Application")

45. Pursuant to the Claims Agent Application, the Debtors seek entry of an order appointing Donlin, Recano & Company, Inc. ("**DRC**") as the claims and noticing agent for the Debtors in their Chapter 11 Cases. DRC is a bankruptcy administrator that specializes in providing comprehensive chapter 11 administrative services, including noticing, claims processing, balloting and other related administrative aspects of chapter 11 cases. Given the

complexity of these cases and the number of creditors and other parties in interest involved, I believe that appointing DRC as the claims and noticing agent in these Chapter 11 Cases will maximize the value of the Debtors' estates for all their stakeholders.

C. *Motion of Debtors for Entry of an Order Extending Time for Filing Schedules of Assets and Liabilities and Statement of Financial Affairs* (the "Schedules Extension Motion")

46. Pursuant to the Schedules Extension Motion, the Debtors seek entry of an order extending the deadline to file their schedules of assets and liabilities, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the "**Schedules and Statements**") by an additional fourteen (14) days, from the date such Schedules and Statements are otherwise required to be filed, for a total of forty-two (42) days from the Petition Date.

47. I believe cause exists to extend the deadline for filing the Schedules and Statements for the following reasons: (a) the size and complexity of the Debtors' business; (b) the number of creditors; (c) the number of Debtors; and (d) the burden which would be imposed on the Debtors to file schedules and statements within the allotted next 28 days. To completely and accurately file the Schedules and Statements, the Debtors must collect, review, and analyze a substantial amount of information.

48. Prior to the Petition Date, the Debtors, their advisors, counsel, and other parties in interest focused extensively on preparing for the filing and transitioning the business into the chapter 11 process. This included extensive negotiations among the multiple tranches of creditors and other creditor constituencies. The Debtors are working expeditiously to prepare and file their Schedules and Statements, and I believe, considering the expedited sale procedures being sought, that Schedules and Statements will be filed as soon as possible. Notwithstanding,

in an abundance of caution, it is in the best interests of the Debtors to respectfully request an extension of fourteen days.

D. *Motion of Debtors for Entry of an Order Authorizing Procedures to Maintain and Protect Confidential Client Information* (the "Client Confidentiality Motion")

49. Pursuant to the Client Confidentiality Motion, the Debtors seek entry of an order authorizing the implementation of procedures to protect confidential information of the Debtors' Clients (as defined below), as required by the Health Insurance Portability and Accountability Act of 1996 ("**HIPAA**").

50. As detailed herein, the Debtors are in the business of owning and operating facilities that provide behavioral health and rehabilitation services to individuals (the "**Clients**"). In the ordinary course of their business, the Debtors have access to and receive "protected health information" and data relating to Clients, which the Debtors are required to confidentially maintain pursuant to HIPAA. Notwithstanding, some of these Clients could potentially hold actual or contingent claims against the Debtors' estates, and as such, under the Bankruptcy Code, the Debtors have a duty to list all such creditors on the Debtors' mailing matrices and bankruptcy schedules.

51. In an effort to comply with both federal statutes, the Debtors propose certain procedures to maintain client confidentiality during the pendency of these Chapter 11 Cases (the "**Privacy Procedures**").

52. I believe that Privacy Procedures and the relief requested in the Client Confidentiality Motion appropriately balance the need to maintain confidential patient information under HIPAA with the need for adequate disclosure under the Bankruptcy Code. Given the nature of any information that may reveal even the identity of Clients, confidentiality in this context is of paramount importance.

E. ***Motion of Debtors for Interim and Final Orders Authorizing (I) Continued Use of Existing Cash Management System, Including Maintenance of Existing Bank Accounts, Checks, and Business Forms, and (II) Continuation of Existing Deposit Practices*** **(the "Cash Management Motion")**

53. Pursuant to the Cash Management Motion, the Debtors seek entry of interim and final orders (i) authorizing, but not directing, the Debtors to continue to maintain and use their existing Cash Management System (defined below), including maintenance of the Debtor Bank Accounts (defined below) and existing checks and business forms, (ii) granting the Debtors a temporary suspension of certain bank account and related requirements of the U.S. Trustee to the extent that such requirements are inconsistent with the Debtors' practices under their Cash Management System or other actions described herein, (iii) authorizing, but not directing, the Debtors to continue to maintain and use their existing deposit practices, and (iv) authorizing and directing all banks with which the Debtors maintain accounts to continue to maintain, service, and administer such accounts and authorize third-party payroll and benefits administrators and providers to prepare and issue checks on behalf of the Debtors.

54. In the ordinary course of their business, the Debtors maintain a cash management system (the "**Cash Management System**") that is integral to the operation and administration of their business. The Cash Management System allows the Debtors to (i) monitor and control all of the Debtors' cash receipts and disbursements, (ii) identify the cash requirements of the Debtors, and (iii) transfer cash as needed to respond to the cash requirements of the Debtors.

55. The Cash Management System is managed by the Debtors at their headquarters in Long Beach, California, where they oversee the administration of the various bank accounts to effectuate the collection, disbursement, and movement of cash. The Debtors' oversight facilitates accurate cash forecasting and reporting and the monitoring of the collection and disbursement of funds to and from the Debtor Bank Accounts (as defined below).

56. As of the Petition Date, the Debtors maintain 47 bank accounts (the "**Debtor Bank Accounts**") in the United States. Specifically, the Debtor Bank Accounts consist of 30 General Checking accounts, 7 Depository Zero Balance Accounts ("**ZBA**"), 6 ZBA Disbursement accounts, 2 concentration accounts, 1 restricted bank account with Comerica, which holds $800,000 in cash collateral used to secure company credit card accounts also with Comerica, and 1 ZBA designated for accepting refunds. A schedule of the Debtor Bank Accounts is annexed to the Cash Management Motion as Attachment 1. As reflected in Attachment 1, the Debtor Bank Accounts are held in the names of various Debtor entities.

57. The Debtor Bank Accounts are primarily utilized to (i) pay operating expenses, and (ii) receive payments from insurance providers, clients, credit card processors, and other parties. Certain Debtor Bank Accounts also facilitate the movement of funds to other accounts of the Debtors. The Debtors routinely deposit, withdraw, and otherwise transfer money to, from, and between certain of the Debtor Bank Accounts by various methods, including by wire transfer, internal transfer, ZBA transfer, automatic clearing house transfer, and checks (collectively, the "**Ordinary Transfer Methods**"). Taken together, on a monthly basis, the Debtors' business generates approximately 1,000 inbound ACH credits, 150 check deposits to lockbox accounts, 25 commercial bank deposits, 50 outbound wire transfers, 350 total ZBA transfers, 30 ACH debits, and 250 internal transfers to, from, and between the Debtor Bank Accounts, using various Ordinary Transfer Methods.

58. A diagram reflecting the flow of funds through the Debtor Bank Accounts in the Cash Management System is annexed to the Cash Management Motion as Attachment 2. The amount of funds that flow through the Cash Management System on a monthly basis fluctuates

greatly depending on, among other things, new client deposits, census level, and depositing of checks in transit.

59. Cash Collection and Distribution Process. The Debtors maintain 47 operating accounts (collectively, the "**Operating Accounts**"), all of which are located in the United States. The Operating Accounts receive funds from various external sources, including, among others: funds from clients, insurers, and the credit card processors. Direct wire transfers and account sweeps are made from the Operating Accounts to fund a master concentration account (the "**Master Concentration Account**") and one other concentration account. Funds are also transferred back from the Master Concentration Account to the Operating Accounts to pay vendors, landlords, payroll, clients, and other parties. Through transfers in the ordinary course of business, the Master Concentration Account pays operating expenses for the corporate entity and funds 32 general checking accounts, each associated with a business unit, that receive funds via manual wire transfers in amounts sufficient to cover issued and outstanding checks and other disbursements sent via Ordinary Transfer Methods. The Operating Accounts also fund 5 ZBA disbursement accounts that receive funds automatically from Operating Accounts to cover check presentments on an as-needed basis.

60. Payment transactions involving credit cards are processed by Vantiv LLC ("**Vantiv**") and American Express Company ("**AmEx**" and together with Vantiv, "**Credit Card Processors**"). The Credit Card Processors transfer via ACH credit amounts equal to the day's processed credit card sale transactions directly into applicable Operating Accounts. Vantiv charges their processing fees ("**Processing Fees**") via ACH debit from the Master Concentration Account twice a month and AmEx charges their Processing Fees via ACH debit from the applicable Operating Accounts.

61. As the foregoing overview reflects, I believe the Cash Management System is specifically designed for administering the Debtors' businesses, and cannot be altered without significant disruption to the Debtors' business operations and material distraction to the Debtors' management. Therefore, I believe it is in the best interests of the Debtors to request that the Court authorize them to continue using the existing Cash Management System, and to transfer funds into, out of, and through the Cash Management System using the Ordinary Transfer Methods in accordance with the agreements governing the Debtor Bank Accounts, including, without limitation, any prepetition cash management agreements, bank account terms and conditions, or treasury services agreements (collectively, the "**Bank Account Agreements**").

62. The Cash Management System is an ordinary course, customary and essential business practice, the continued use of which is essential to the Debtors' business operations during the Chapter 11 Cases and their goal of maximizing value for the benefit of all parties in interest. I believe that requiring the Debtors to adopt a new cash management system at this early and critical stage would be expensive, impose needless administrative burdens, and cause undue disruption. Any disruption in the collection of funds as currently implemented would adversely (and perhaps irreparably) affect the Debtors' ability to maximize estate value. Moreover, such a disruption would be wholly unnecessary because the Cash Management System provides a valuable and efficient means for the Debtors to address their cash management requirements and, to the best of the Debtors' knowledge, the majority of the Debtor Bank Accounts are held at financially stable institutions insured in the United States by the Federal Deposit Insurance Corporation ("**FDIC**"). For the aforementioned reasons, I believe that maintaining the existing Cash Management System without disruption is in the best interests of the Debtors, their estates, and all interested parties. Accordingly, the Debtors request that they be allowed to maintain and

continue to use the Cash Management System, including maintenance of their existing Debtor Bank Accounts.

F. *Motion of Debtors for Entry of Interim and Final Orders Authorizing Payment of (I) Certain Prepetition Workforce Claims, Including Wages, Salaries, and Other Compensation, (II) Certain Employee Benefits and Confirming Right to Continue Employee Benefits on Postpetition Basis, (III) Reimbursement to Employees for Prepetition Expenses, (IV) Withholding and Payroll-Related Taxes, (V) Workers' Compensation Obligations, and (VI) Prepetition Claims Owing to Administrators and Third-Party Providers* (the "Employees and Wages Motion")

63. Pursuant to the Employees and Wages Motion, the Debtors seek entry of interim and final orders authorizing, but not directing, the Debtors to (i) pay prepetition claims and honor obligations incurred or related to compensation obligations, withholding obligations, incentive programs, vacation policies, reimbursable expense obligations, employee benefits obligations, workers' compensation claims, and all fees and costs incident to the foregoing, including amounts owed to third-party administrators (including administrative fee obligations) (collectively, the "**Employee Obligations**") and (ii) maintain, continue, and honor, in the ordinary course of business, incentive programs, vacation policies, sick leave, and holiday pay policies, postpetition reimbursable expense obligations, employee benefits plans, and workers' compensation claims (collectively, the "**Employee Plans and Programs**").

64. In connection with the operation of their business, the Debtors currently employ approximately 341 full-time salaried employees, 509 full-time hourly employees, 2 part-time salaried employees, 60 part-time hourly employees, 3 temporary, part-time hourly employees, and 51 on-call, part-time hourly employees (the "**Employees**"). The Employees are employed at the Debtors' 15 facilities located throughout the United States (each, a "**Facility**").

65. In the ordinary course of business, the Debtors incur payroll obligations to their Employees, comprised generally of salaries and wages. Approximately 341 Employees are paid a fixed salary and approximately 623 Employees are paid on an hourly basis.

66. The Debtors utilize two payroll cycles, which are designated by Facility. The first payroll cycle consists of all of the Debtors' Employees that are employed at the corporate headquarters located at 5000 Airport Plaza Drive, Long Beach, California 90815; the corporate Central Billing Operations office located at 377 Riverside Drive, Franklin, Tennessee 37064; the Journey Facility located at 8072 Highland Lake Drive, Salt Lake City, Utah 84121; the Promises Malibu Facility located at 20723 Rockcroft, Malibu, California 90265; the Promises Malibu Vista Facility located at 20786 Cool Oak Way, Malibu, California 90265; and the Promises Scottsdale Facility located at 12816 East Turquoise Avenue, Scottsdale, Arizona 85259 (hereinafter, the "**First Payroll Cycle**"). The second payroll cycle consists of all of the Debtors' Employees that are employed at the Debtors' remaining Facilities (the "**Second Payroll Cycle**"). All Employees are paid on a bi-weekly basis, regardless of which payroll cycle they belong to; however, because First Payroll Cycle and Second Payroll Cycle are paid in alternating weeks, the Debtors have weekly payroll obligations.

67. The Debtors' average payroll obligation on account of the First Payroll Cycle is approximately $1,058,000. The Debtors' average payroll obligation on account of the Second Payroll Cycle is approximately $1,025,000. The last date that the First Payroll Cycle was compensated prior to the Petition Date was May 11, 2018. The last date that the Second Payroll Cycle was compensated prior to the Petition Date was May 4, 2018. I estimate that as of the Petition Date, approximately $791,000 has accrued and remains unpaid on account of First Payroll Cycle, and approximately $321,000 has accrued and remains unpaid on account of

Second Payroll Cycle (collectively, the **"Employee Compensation Obligations**"). To the best of my understanding, none of the Employees are owed more than $12,850 in accrued and unpaid general prepetition wages or salaries.

68. The Employees are critical to the Debtors' business, and their value cannot be overstated. To a significant extent, the long-term prognosis of the Debtors' patients depends on the Debtors' ability to attract and retain qualified personnel. I believe that the loss of certain Employees will impede the Debtors' business and seriously harm the ability to successfully implement their bankruptcy strategy. Furthermore, replacing Employees can be difficult for the Debtors given the limited number of individuals in their industry with the breadth of skills and experience required to successfully navigate the behavioral health space, where experienced employees are at a premium. If the Debtors cannot assure their Employees that they will promptly pay prepetition Employee Obligations to the extent allowed under the Bankruptcy Code, and continue to honor, as applicable, the Employee Benefits Obligations, certain Employees will likely seek employment elsewhere. I believe that the loss of Employees at this critical juncture would have a material adverse impact on the Debtors' business and ability to maximize value through these Chapter 11 Cases.

69. The Debtors also regularly utilize the services of contract workers ("**Contractors**" and, together with the Employees, the "**Workforce**") to provide a variety of services. The Contractors are (i) either employed directly by, and have contracts directly with, the various individual Debtors (the "**Direct Contractors**"), or (ii) employed by third party staffing agencies and outsourced to the Debtors (the "**Third Party Contractors**"). There are approximately 88 Direct Contractors, of which approximately 19 are highly skilled physicians, nurses, and therapists, both licensed and non-licensed. There are approximately 4 Third Party

Contractors who provide the Debtors with a range of functions, both operational and administrative, from high end clinicians and nurses to back office support. In 2017, the Debtors spent approximately $11,214,000 on account of wages and compensation owed to Contractors. As of the Petition Date, I estimate that the aggregate amount owing on account of the Contractors for services performed prior to the Petition Date is approximately $318,000 (the **"Contractor Obligations"** and together, with the Employee Compensation Obligations, the **"Compensation Obligations**"). I believe the Debtors would be irreparably harmed without the services of the Contractors because such parties play a critical role in the Debtors' day-to-day operations, and, as such, the Debtors request authorization, but not direction, to honor and pay any unpaid Contractor Obligations

70. The Contractors fill certain critical and immediate business needs of the Debtors and allow the Debtors to have a flexible workforce to meet their operational needs in a cost-effective manner. The Contractors are a reliable and cost-efficient component of the Debtors' operations. Thus, as with the Debtors' regular Employees, if the Debtors fail to honor their prepetition compensation obligations to the Contractors, I believe that it is likely that the Debtors will lose such individuals' valuable services to the detriment of the Debtors' ongoing business operations.

71. As of the Petition Date, approximately 926 Employees have elected to have their payroll administered via direct deposit. The Debtors use Automatic Data Processing, Inc. ("**ADP**") to process their payroll and coordinate the payment of Withholding Obligations (as defined below). Furthermore, ADP plays a crucial role for the Debtors, effectively providing the Debtors with a comprehensive HR back-office system, including the management of all Employee data, payroll processing, recruiting services, tax filings, time and attendance services,

self-service benefits administration, and a review and compensation module. I believe that the ongoing services of ADP are imperative to the smooth functioning of the Debtors' operations and payroll system. On average, the Debtors pay ADP approximately $32,000 per month. As of the Petition Date, I estimate that the Debtors owe approximately $24,000 in outstanding fees in connection with ADP's services.

72. Additionally, CoreSource also provides crucial services to the Debtors by administering certain employee benefit plans. On average, the Debtors pay CoreSource $78,000 per month in connection with the services it provides. As of the Petition Date, I estimate that the Debtors owe approximately $64,000 on account of prepetition services provided by CoreSource (collectively with the outstanding fees in connection with ADP's services, the "**Administrative Fee Obligations**").

73. Accordingly, pursuant to the Employees and Wages Motion, the Debtors seek authorization, but not direction, to pay all unpaid Administrative Fee Obligations and to continue paying the Administrative Fee Obligations postpetition in the ordinary course of business. In addition, the Debtors seek authority to cause any prepetition checks or electronic payment requests that were given in payment of Administrative Fee Obligations to be honored and to reissue any check or electronic payment request that is not cleared by the applicable bank or other financial institution, to the extent necessary.

74. For each applicable pay period, the Debtors routinely deduct certain amounts directly from Employees' paychecks, including, without limitation, pre- and after-tax deductions payable pursuant to certain of the Employees' benefit plans discussed herein, including an Employee's share of health care benefits, insurance premiums, and 401(k) contributions, legally-ordered deductions, union dues, and other miscellaneous deductions (collectively, the

"Deductions"). The Debtors withhold approximately $21,000 per month in the aggregate from Employees' wages on account of Deductions, which the Debtors remit to the appropriate third-party recipients and/or retain on account of "self-insured" benefit programs as further described below.

75. In connection with the salaries and wages paid to Employees, the Debtors are required by law to withhold amounts related to federal, state, and local income taxes, as well as social security and Medicare taxes from Employees' wages (collectively, the **"Employee Withholding Taxes**") and to remit the same to the applicable taxing authorities. In addition, the Debtors are required to make matching payments from their own funds for, among other things, social security and Medicare taxes and to pay, based on a percentage of gross payroll, state, and federal unemployment insurance, employment training taxes, and state disability insurance contributions (the "**Employer Payroll Tax Obligations**," and together with Employee Withholding Taxes, the "**Payroll Tax Obligations**"). Each pay cycle, the Debtors withhold any applicable Employee Withholding Taxes from the Employees' wages, and ADP remits the same to the applicable taxing authorities. The Debtors withheld approximately $1,315,000 in April 2018 Employee Withholding Taxes, and the Debtors' April 2018 monthly payment for Employer Payroll Tax Obligations was approximately $391,000. The amounts in satisfaction of the Payroll Tax Obligations are transferred to ADP in advance of the relevant payroll processing day.

76. One of the Debtors' Facilities located in Wimberley, Texas employs approximately 79 Employees of which about 8 are members of the Texas State Employees Union (the "**Texas Union**"). In the ordinary course of business, the Debtors withhold applicable dues from the respective Employees and remit those amounts due (the "**Dues**") to the Texas Union on

a bi-weekly basis. As of the Petition Date, I estimate that the Debtors owe approximately $300 in outstanding Dues to the Texas Union.

77. Pursuant to the Employees and Wages Motion, the Debtors seek authorization, but not direction, to continue to make the Deductions and satisfy the Payroll Tax Obligations and Dues (collectively, the "**Withholding Obligations**") and to remit amounts withheld on behalf of third parties postpetition in the ordinary course of business.

78. In the ordinary course of business, the Debtors have typically maintained performance-based incentive and bonus programs for certain categories of Employees (collectively, the "**Incentive Program(s)**"). The Incentive Programs are available to four categories of Employees: (i) national clinical outreach directors, (ii) regional or territory outreach directors, (iii) intake call center team representatives, and (iv) intake call center treatment specialists. Compensation earned under the Incentive Programs is determined by the number of patient admissions to the Debtors' Facilities. Every admission is reviewed to assure it meets certain thresholds for overall rate, daily rate, and length of stay. Approximately 95 full time Employees and 1 part time Employee are eligible to receive compensation under the Incentive Programs. As of the Petition Date, I estimate that the Debtors owe $186,000 on account of the Incentive Programs available to eligible Employees.

79. For those Employees who receive them, bonuses earned under the Incentive Programs are an important aspect of their overall compensation. I believe that maintaining historical prepetition practices with regard to the Incentive Programs is essential to ensuring that the Debtors can retain their Employees and continue to operate their business and maximize value through the duration of these Chapter 11 Cases. Therefore, the Debtors seek authority, but

not direction, to honor their obligations under the Incentive Programs and to maintain the Incentive Programs in the ordinary course of the Debtors' business.

80. The Debtors offer their Employees vacation time ("**Vacation**"), holiday pay ("**Holiday Pay**"), and paid sick days ("**Sick Leave**"). I believe that these programs are typical and customary, and continuing to offer them is necessary for the Debtors to retain Employees during the reorganization or sale process. Thus, pursuant to the Employees and Wages Motion, the Debtors request that they be authorized, but not directed, to continue to honor their Vacation, Holiday Pay, and Sick Leave policies going forward, including during the administration of these Chapter 11 Cases. The Debtors also request authority to pay any Vacation that accrued prepetition.

81. Prior to the Petition Date, in the ordinary course of business, the Debtors reimbursed Employees for reasonable and legitimate expenses incurred on behalf of the Debtors in the scope of the Employee's employment ("**Reimbursable Expense Obligations**"). Reimbursable Expense Obligations typically include expenses for, among other things, air travel, meals, parking, mileage, and certain other business and travel related expenses. All such expenses are incurred with the applicable Employee's understanding that he or she will be reimbursed by the Debtors in accordance with the Debtors' reimbursement policy, as described in more detail below. In all cases, reimbursement is contingent on the Debtors' determination that the charges are for legitimate, reimbursable business expenses. The Debtors process expense and reimbursement claims on a rolling basis. As such, it is difficult to determine the exact amount of Reimbursable Expense Obligations outstanding as of the Petition Date because, among other things, Employees may have expenses that they have yet to submit to the Debtors for reimbursement. On average, over the past year, the Debtors have paid approximately $94,000

per month on account of Reimbursable Expense Obligations. As of the Petition Date, I estimate that the total amount of unpaid prepetition Reimbursable Expense Obligations will not exceed $70,000.

82. Additionally, the Debtors provide certain Employees with MasterCard corporate cards issued by Comerica (the "**Corporate Cards**") to be used directly to pay Reimbursable Expense Obligations. The average monthly spending for the Corporate Cards is approximately $300,000, which is paid directly by the Debtors. The Reimbursable Expense Obligations are ordinary course expenses that the Debtors' Employees incur in performing their job functions, including all expenses incurred on the Corporate Cards. I believe that it is essential to the continued operation of the Debtors' business that the Debtors be permitted to continue reimbursing, or making direct payments on behalf of, Employees for such expenses.

83. Lastly, in the ordinary course of business, the Debtors implement various benefit plans and policies for their Employees that can be divided into the following categories, all as are described in more detail in the Employees and Wages Motion: (a) medical and prescription benefits (the "**Medical Plans**"), COBRA coverage ("**COBRA**"), dental care (the "**Dental Plan**"), and vision care (the "**Vision Plan**," and collectively, with the Medical Plans, COBRA, and the Dental Plan, the "**Health Plans**"); (b) employer paid basic life and accidental death and dismemberment insurance, optional life and accidental death and dismemberment insurance, short and long term disability insurance, and other voluntary insurance plans (collectively, the "**Income Protection Plans**"); (c) retirement savings 401(k) plan (the "**401(k) Plan**"); (d) flexible spending account plan (the "**FSA Plan**"); (e) a travel assistance plan (the "**Travel Assistance Program**"); (f) an employee assistance program (the "**EAP**"); (g) voluntary accident and critical illness plans (the "**Voluntary Emergency Plans**"); (h) a transportation reimbursement plan (the

"**Transportation Plan**"); (i) the mobile device program (the "**Phone Plan**"); (j) the severance program ("**Severance Program**"); (k) the tuition reimbursement program ("**Tuition Reimbursement Program**"); (l) the employee referral program ("**Referral Program**"); and (m) the relocation services program ("**Relocation Program**," and collectively with the Health Plans, Income Protection Plans, the 401(k) Plan, FSA Plan, Travel Assistance Program, EAP, Voluntary Emergency Plans, Transportation Plan, Phone Plan, Severance Program, Tuition Reimbursement Program, and Referral Program, the "**Employee Benefits Plans**"). In certain instances, the Debtors deduct specified amounts from the participating Employees' wages in connection with the Employee Benefits Plans. All obligations with respect to the Employee Benefits Plans are referred to as the "**Employee Benefits Obligations**."

84. The Debtors' ability to successfully operate is contingent on a reliable and loyal Workforce. As stated above, competition for qualified employees is intense in the Debtors' industry. Thus, it is essential to assure the Employees that the Debtors will honor the Employee Obligations and continue and maintain the Employee Plans and Programs in the ordinary course of business throughout these Chapter 11 Cases. I believe that a failure to promptly do so will create concern and discontent among the Employees and could lead to resignations or, in the case of Contract Workers, the decision to not complete work for the Debtors or accept future hiring proposals. I believe that the loss of even a few key personnel would immediately and irreparably harm the Debtors' ability to maintain operations to the detriment of all interested parties.

G. ***Motion of Debtors for Entry of Interim and Final Orders (I) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Service, (II) Approving the Debtors' Proposed Adequate Assurance of Payment for Postpetition Services, and (II) Establishing Procedures for Resolving Requests for Additional Adequate Assurance of Payment*** **(the "Utilities Motion")**

85. Pursuant to the Utilities Motion, the Debtors seek entry of an order (i) prohibiting Utility Providers (as defined below) from (a) altering, refusing, or discontinuing utility services to, or discriminating against, the Debtors on account of any outstanding amounts for services rendered prepetition, or (b) drawing upon any existing security deposit, surety bond, or other form of security to secure future payment for utility services; (ii) determining that adequate assurance of payment for postpetition utility services has been furnished to the Utility Providers providing services to the Debtors; and (iii) establishing procedures for resolving future requests by any Utility Provider for additional adequate assurance of payment.

86. In conjunction with their day-to-day operations, the Debtors receive traditional utility services from various utility providers (each, a "**Utility Provider**" and collectively, the "**Utility Providers**") for, among other things, water, sewer, electricity, gas, telecommunications, waste disposal, and similar utility products and services (collectively, the "**Utility Services**"). The Utility Providers include, without limitation, the entities set forth on the list annexed to the Utilities Motion as Exhibit C (the "**Utility Providers List**").

87. The Debtors paid an average of approximately $265,000 per month on account of all Utility Services during 2017. As "adequate assurance," the Debtors propose to segregate on their books and records, within 20 days of the Petition Date, an amount equal to the estimated cost for two weeks of Utility Services (*i.e.,* approximately $121,843), calculated based on the historical data for 2017 (the "**Adequate Assurance Deposit**") into one segregated bank account designated for the Adequate Assurance Deposit (the "**Adequate Assurance Deposit Account**") for the benefit of all Utility Providers.

88. I believe that uninterrupted Utility Services are essential to the Debtors' business operations during the pendency of these Chapter 11 Cases. Should any Utility Provider alter,

refuse, or discontinue service, even for a brief period, the Debtors' business operations could be disrupted, and such disruption could jeopardize the Debtors' ability to consummate a sale through chapter 11. Therefore, the Debtors seek to establish an orderly process for providing adequate assurance to their Utility Providers without hindering the Debtors' ability to maintain operations. I am informed and believe that the proposed Adequate Assurance Procedures (as defined in the Utilities Motion) are consistent with procedures that are typically approved in chapter 11 cases in this District. Accordingly, based on the foregoing and those additional reasons set forth in the Utilities Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates, their creditors, and all other parties in interest.

H. *Motion of Debtors for an Order Authorizing Payment of Prepetition Taxes and Fees* (the "Taxes Motion")

89. Pursuant to the Taxes Motion, the Debtors seek entry of an order authorizing them to pay, in their sole discretion any prepetition tax and fee obligations including, without limitation, income and franchise taxes, property taxes, sales and use taxes, business license fees, annual report taxes, and other taxes and fees (collectively, the "**Taxes and Fees**") owing to those federal, state, provincial, and local governmental entities in the United States, including as listed on Exhibit B attached to the Taxes Motion (the "**Taxing Authorities**"). The Debtors propose to limit the aggregate amount of payments to be made on account of prepetition Taxes and Fees under the Taxes Motion to $1.35 million unless further authorization is obtained from this Court.

90. Prior to the Petition Date, the Debtors incurred obligations to federal, state, provincial, and local governments in the United States. Although, as of the Petition Date, the Debtors were substantially current in the payment of assessed and undisputed Taxes and Fees, certain Taxes and Fees attributable to the prepetition period may not yet have become due.

Certain prepetition Taxes and Fees may not be due until the applicable monthly, quarterly, or annual payment dates—in some cases immediately and in others not until next year. In 2017, the Debtors paid approximately $1.55 million on account of all Taxes and Fees.

91. I believe the continued payment of the Taxes and Fees on their normal due dates will ultimately preserve the resources of the Debtors' estates, thereby promoting their prospects for a successful chapter 11 process. If such obligations are not timely paid, the Debtors will be required to expend time and incur attorneys' fees and other costs to resolve a multitude of issues related to such obligations, each turning on the particular terms of each Taxing Authority's applicable laws, including whether (i) the obligations are priority, secured, or unsecured in nature, (ii) the obligations are proratable or fully prepetition or postpetition, and (iii) penalties, interest, attorneys' fees and costs can continue to accrue on a postpetition basis and, if so, whether such penalties, interest, attorneys' fees, and costs are priority, secured, or unsecured in nature.

92. Moreover, certain of the Taxes and Fees may be considered to be obligations as to which the Debtors' officers and directors may be held directly or personally liable in the event of nonpayment. In such events, collection efforts by the Taxing Authorities would provide obvious distractions to the Debtors and their officers and directors in their efforts to bring the Chapter 11 Cases to an expeditious conclusion.

93. I believe that failure to pay the Taxes and Fees to the Taxing Authorities in full and on time, thereby risking the cessation of normal relations between the Taxing Authorities and the Debtors, will make these estates worse off than they will be having paid the Taxes and Fees. I believe it is in the best interests of the Debtors' estates that the Taxes and Fees be paid on time so as to avoid administrative difficulties. Failure to timely pay, or a precautionary

withholding by the Debtors of payment of, the Taxes and Fees may cause the Taxing Authorities to take precipitous action, including an increase in audits, a flurry of lien filings, and significant administrative maneuvering at the expense of the Debtors' time and resources. Prompt and regular payment of the Taxes and Fees will avoid this unnecessary governmental action.

94. The Chapter 11 Cases are complicated due to the nature of the Debtors' business, and the Debtors' focus should be on addressing their operational and financial issues in a manner that will maximize recoveries. In this context, the payment of the Taxes and Fees is insignificant and will have no meaningful effect on the recoveries of creditors in the Chapter 11 Cases, particularly in view of the priority or secured status of a significant portion of such obligations. Moreover, the payment amount will likely be offset in no small part by the amount of postpetition resources that the Debtors will conserve by obviating the need to spend time and money to address disputes with the Taxing Authorities that are unnecessary and wasteful of the resources of the Debtors and this Court.

I. ***Motion of Debtors for Order (I) Authorizing Continuation of, and Payment of Prepetition Obligations Incurred in the Ordinary Course of Business in Connection with, Various Insurance Policies, (II) Authorizing Banks to Honor and Process Checks and Electronic Transfer Requests Related Thereto, (III) Preventing Insurance Companies From Giving Any Notice of Termination or Otherwise Modifying Any Insurance Policy Without Obtaining Relief From the Automatic Stay, (IV) Authorizing the Debtors to Continue to Honor Premium Financing Obligations, and (V) Authorizing the Debtors to Continue Surety Bond Program*** **(the "Insurance Motion")**

95. Pursuant to the Insurance Motion, the Debtors seek entry of an order authorizing the Debtors to (i) continue and renew their Insurance Policies (defined below), or obtain new insurance policies, as needed in the ordinary course of business, and (ii) honor all of their prepetition and postpetition obligations, including payment of all outstanding prepetition Insurance Obligations (defined below), under and in connection with the Insurance Policies on an uninterrupted basis and in accordance with the same practices and procedures as were in

effect before the Petition Date, including premiums arising under the Insurance Policies and the Broker Fees (defined below). Additionally, pursuant to the Insurance Motion, the Debtors also seek entry of an order (i) authorizing the Banks (defined below) to receive, process, honor, and pay checks or electronic transfers used by the Debtors to pay the foregoing and to rely on the representations of the Debtors as to which checks are issued and authorized to be paid in accordance with this Motion, and (ii) preventing the Insurers (defined below) from giving any notice of termination or otherwise modifying or cancelling any Insurance Policies without obtaining relief form the automatic stay.

96. In the ordinary course of their business, the Debtors maintain approximately 40 insurance policies with various insurance providers (collectively, the "**Insurers**") that provide coverage for, among other things, the Debtors' general liability, director and officer liability, fiduciary liability, employment practices liability, workers compensation liability, automobile liability, professional liability, cyber liability, and property liability (each, an "**Insurance Policy**" and collectively, the "**Insurance Policies**"), as summarized in Exhibit B annexed to the Insurance Motion.

97. The Debtors have incurred a total of approximately $2.35 million in the aggregate in premiums under the terms of their existing Insurance Policies as well as other obligations, including the Broker Fees (defined below) and other related fees and costs (collectively, the "**Insurance Obligations**"). In addition, the Debtors may make retroactive adjustments in the ordinary course of business with respect to one or more of the Insurance Policies, as applicable.

98. The Debtors seek authority to pay premiums under the Insurance Policies based on a fixed amount established and billed by each Insurance Provider. Depending on the particular Insurance Policy, premiums are primarily (i) pre-paid in full at a policy's inception or

renewal; (ii) financed through a premium financing company; or (iii) paid in installments to a broker over the term of the policy.

99. Debtors' Pre-Paid Policies. Generally, these Insurance Policies require annual premium payments to be made at the beginning of the applicable policy period. In the ordinary course of business, the Debtors renew annual coverages under many of their policies, including those related to director and officer liability, employment practices liability, crime liability, fiduciary liability, and flood insurance, and the Debtors pay the full amount of the premiums owed for such policies due at renewal. Accordingly, as of the Petition Date, the Debtors do not owe unpaid premium amounts on account of policies that require payment in full at the inception of the applicable policy period.

100. Premium Financing Agreement. Generally, the Insurance Policies require annual premium payments to be made at the beginning of the applicable policy period. However, it is not always economically advantageous for the Debtors to pay the premiums on all of the Insurance Policies on a lump-sum basis. Accordingly, in the ordinary course of business, the Debtors finance the premiums on certain policies pursuant to a premium financing agreement (the "**PFA**") with BankDirect Capital Finance ("**BankDirect**"). The Debtors entered into the PFA with BankDirect in order to finance insurance premiums for certain policies as detailed in Exhibit B attached to the Insurance Motion. Under the PFA, the Debtors are obligated to make, in addition to a down payment of $45,296.04, a total of 10 monthly installment payments of approximately $39,050.54 on the last day of each month. The Debtors paid the down payment prior to the Petition Date, and have continued to pay the monthly installments as they have come due. The next monthly installment payment for the current policy period on account of the PFA will be due on May 31, 2018. If the Debtors are unable to continue making payments on the

PFA, BankDirect may be permitted to terminate the PFA. The Debtors would then be required to obtain replacement insurance on an expedited basis and at significant cost to the estates. If the Debtors are required to obtain replacement insurance and to pay a lump-sum premium for such Insurance Policy in advance, this payment would likely be greater than what the Debtors currently pay. Even if BankDirect were not permitted to terminate the PFA, I believe any interruption of payment would have a severe, adverse effect on the Debtors' ability to finance premiums for future policies. In light of the importance of maintaining insurance coverage with respect to their business activities and preserving liquidity by financing their insurance premiums, I believe it is in the best interest of the Debtors' estates to receive Court approval to honor their obligations under the PFA and, as necessary, renew or enter into new such agreements.

101. The Debtors' Insurance Broker Services. The Debtors retain the services of Arthur J. Gallagher & Co. Insurance Brokers of Ca., Inc. (the "**Broker**") to assist them with the procurement and negotiation of certain Insurance Policies. The Broker assists the Debtors in obtaining comprehensive insurance coverage for their operations, analyzing the market for available coverage and negotiating policy terms, provisions, and premiums. The Broker also provides ongoing support through the policy periods. The Debtors pay the Broker an annual commission for services rendered in the amount of $200,000, which is paid quarterly (the "**Broker Fees**"). As of the Petition Date, I do not believe that the Debtors owe any amounts to the Broker on account of fees, commissions, or any other prepetition obligations beyond the commission amounts already contained in the next quarterly payment that will come due in the ordinary course of the Debtors' business. Out of an abundance of caution, however, the Debtors

seek authority to honor any amounts owed to the Broker to ensure uninterrupted coverage under their Insurance Policies.

102. The Debtors' Surety Bond Program. In the ordinary course of business, the Debtors are required to provide surety bonds to certain third parties to secure the Debtors' payment or performance of certain obligations, often to governmental units or other public agencies (the "**Surety Bond Program**"). Often, statutes or ordinances require the Debtors to post surety bonds to secure such obligations. As such, failure to provide, maintain, or timely replace their surety bonds may prevent the Debtors from undertaking essential functions related to their operations. The premiums for the surety bonds are generally determined on an annual basis and are paid by the Debtors when the bonds are issued and annually upon each renewal. The Debtors have four outstanding surety bonds in the aggregate amount of approximately $63,000, issued by two separate sureties: (i) Western Surety Company, and (ii) Hartford Fire Insurance Company (collectively, the "**Sureties**"). Annual premiums for the Debtors' surety bonds total approximately $850, which were paid in full prior to the effective date of the bonds. As such, I estimate that no prepetition amounts remain outstanding on account of the Surety Bond Program. To continue their business operations during the reorganization or sale process, the Debtors must be able to provide financial assurances to state governments, regulatory agencies, and other third parties. Indeed, without the relief requested, the Debtors' ability to conduct operations in many locations could come to a halt, thereby destroying value for all stakeholders. In order to maintain the existing Surety Bond Program, the Debtors request the authority, but not direction, to pay all obligations under the Surety Bond Program as they come due, including the bond premiums, and any bond commissions as needed. In addition, the Debtors seek authority to renew or potentially

acquire additional bonding capacity as needed in the ordinary course of their business, and execute other agreements in connection with the Surety Bond Program.

103. The coverage provided under the Insurance Policies is essential for preserving the value of the Debtors' assets and, such coverage is required by various regulations, laws, and contracts that govern the Debtors' business operations. If the Debtors fail to perform their obligations under the Insurance Policies, their coverage thereunder could be voided. Such a disruption of the Debtors' insurance coverage could expose the Debtors to serious risks, including but not limited to: (i) direct liability for the payment of claims that otherwise would have been payable by the Insurers; (ii) material costs and other losses that otherwise would have been reimbursed by the Insurers under the Insurance Policies; (iii) the loss of good standing certification in jurisdictions that require the Debtors to maintain certain levels of insurance coverage; (iv) the inability to obtain similar types of insurance coverage; and (v) higher costs for re-establishing lapsed policies or obtaining new insurance coverage. I believe that any or all of these consequences could cause serious harm to the Debtors' business. Granting the relief requested in the Insurance Motion will enhance the likelihood of the Debtors' successful rehabilitation or sale process.

J. *Motion of Debtors for Entry of Interim and Final Orders Authorizing Payment of Prepetition Obligations Owed to Critical Vendors* (the "Critical Vendors Motion")

104. Pursuant to the Critical Vendors Motion, the Debtors seek entry of interim and final orders authorizing, but not directing, the Debtors to pay all or a portion of their prepetition claims (the "**Critical Vendor Claims**") of certain vendors, suppliers, service providers, and other similar parties that are essential to maintaining the going concern value of the Debtors' business (the "**Critical Vendors**") in an amount not to exceed $900,000 on an interim basis and $1,350,000 on a final basis, which amounts include approximately $65,000 on account of claims

entitled to administrative priority under Bankruptcy Code section 503(b)(9) (with respect each of the interim and final periods, as applicable, the "**Critical Vendor Cap**").

105. In the ordinary course of their businesses, the Debtors purchase essential goods and utilize services from certain vendors and suppliers that are unaffiliated with the Debtors without which the Debtors could not operate. The Critical Vendors are essential to maintaining business continuity, delivering essential services to clients in a timely manner and, ultimately, maintaining customer satisfaction.

106. Because the Debtors will benefit from maintaining lower costs of goods and services purchased during the postpetition period and avoiding the severe disruption to the Debtors' operations that would occur if the Debtors were to lose certain vendors, I believe that it is prudent for the Debtors, at their discretion, to pay selected Critical Vendors some or all of their prepetition claims (including Critical Vendors with claims under Bankruptcy Code section 503(b)(9)). Consistent with these needs, and to ensure that the Debtors' liquidity is preserved as they transition their business into chapter 11, the Debtors seek authority to implement procedures that will assist them in securing favorable terms and to deal with any vendors that may repudiate or otherwise refuse to honor existing obligations to the Debtors.

107. The Debtors are mindful of their fiduciary obligations to seek to preserve and maximize the value of their estates. Toward that end, the Debtors have carefully estimated all potential vendor claims as of the Petition Date, including the Critical Vendor Claims, and have determined that the ability to satisfy Critical Vendor Claims is absolutely necessary to maximize enterprise value and avoid immediate and irreparable harm to the Debtors. To be clear, the Debtors are aware of the need to seek relief only for those vendors truly critical to the Debtors' ongoing operations.

108. The Debtors have spent significant time reviewing and analyzing their books and records to identify truly critical suppliers of goods and services. The Debtors have carefully reviewed their suppliers to determine, among other things, (i) which suppliers were sole source or limited source suppliers, without whom the Debtors could not continue to operate without disruption, (ii) the Debtors' ability to find alternative sources of supply and the potential disruption or lost revenues while a new supplier was resourced, (iii) which suppliers would be prohibitively expensive to replace, (iv) which suppliers would present an unacceptable risk to the Debtors' operations given the volume of essential services or products that such suppliers provide, and (v) the extent to which suppliers may have an administrative expense claim pursuant to Bankruptcy Code section 503(b)(9). After compiling this information, the Debtors estimated the amount they believe they would be required to pay to ensure the continued supply of critical goods and services. The Debtors estimate that they will be required to pay approximately $450,000 of the Critical Vendor Claims during the interim period prior to a final hearing on this Motion.

109. I believe that the Critical Vendors are so essential to the Debtors' business that the absence of any of their particular goods or services, even for a short duration, could disrupt the Debtors' operations and cause irreparable harm to the Debtors' business, goodwill, and client satisfaction. I believe that this irreparable harm to the Debtors and to the recovery of all of the Debtors' creditors will far outweigh the cost of payment of the Critical Vendor Claims.

K. *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Secured Postpetition Financing, (II) Authorizing the Use of Cash Collateral, (III) Granting Adequate Protection, (IV) Modifying the Automatic Stay, (V) Setting a Final Hearing, and (VI) Granting Related Relief* (the "Cash Collateral and DIP Motion")

110. Pursuant to the Cash Collateral and DIP Motion, the Debtors seek authority to, among other things: obtain postpetition loans from the DIP Lender in an aggregate amount not to

exceed $14.2 million; enter into the DIP Documents (as defined in the Cash Collateral and DIP Motion); grant the DIP Lender certain liens upon the Debtors' estates; provide adequate Assurance to the Prepetition First Lien Lender and Prepetition Second Lien Lender; and use Cash Collateral.

111. The Debtors are unable to sufficiently generate cash to operate their business or satisfy their obligations under, among other things, the Prepetition Secured Obligations. Given the Debtors' current financial condition, financing arrangements, and capital structure, the Debtors have an immediate need to obtain the DIP Loan and to use Cash Collateral to permit the Debtors to, among other things, continue the orderly operation of their businesses, maximize and preserve their going concern value, make payroll and satisfy other working capital and general corporate purposes, and pay other costs, fees and expenses associated with administration of the Chapter 11 Cases. In the absence of the authority of this Court to borrow under the DIP Loan Documents and use Cash Collateral, the Debtors' estates would suffer immediate and irreparable harm.

112. The Debtors are unable to obtain financing from sources other than the DIP Lender on terms more favorable than the DIP Loan and are unable to obtain adequate unsecured credit allowable as an administrative expense under Bankruptcy Code section 503(b)(1). The Debtors are also unable to obtain unsecured credit with administrative priority under Bankruptcy Code section 364(c)(1) or 364(d). The Debtors are unable to obtain the DIP Loan and the Prepetition First Lien Lender's consent to the use of Cash Collateral without the grant of certain liens as described in the Cash Collateral and DIP Motion. After considering all alternatives, the Debtors have concluded, in the exercise of their sound business judgment, that the DIP Loan represents the best financing available to the Debtors at this time.

113. The DIP Lender and the Prepetition First Lien Lender have consented to the Debtors' proposed use of Cash Collateral. The Prepetition Second Lien Lenders are deemed to consent to the Debtors' proposed use of Cash Collateral and postpetition financing pursuant to the Intercreditor Agreement.

114. I firmly believe that no other lender would provide financing to the Debtors on more favorable terms at this time.

115. I submit that it is within the Debtors' sound and prudent business judgment to obtain the postpetition financing set forth in the Cash Collateral and DIP Motion. The Debtors have exercised their sound business judgment by entering into the DIP Loan. The terms and conditions set forth the DIP Documents are fair and reasonable. The DIP Loan will allow the Debtors to access up to $14,200,000. Further, the DIP Loan benefits the Debtors by allowing the use of Cash Collateral, thereby reducing the amount which must be borrowed.

116. While the Debtors are not required to seek credit from every source, the Debtors and their professionals nevertheless undertook an extensive process to evaluate other potential sources of postpetition financing, finding none obtainable on better terms.

117. The terms and conditions of the DIP Documents were negotiated by the parties in good faith and at arm's length. The Debtors will require a significant postpetition financing to support operations and restructuring. Only the DIP Lender was able to provide a facility which was adequate, reasonable, and fair under the circumstances.

118. I have determined, in sound business judgment, based upon analysis and the recommendations of the Debtors' professionals, that the DIP Documents provide the best opportunity for postpetition financing on the most favorable terms available. I believe it is necessary to preserve the administrative of the Chapter 11 Cases, and therefore, will benefit all

creditors. The DIP Loan allows the Debtors to continue operations and maintain the value of the estates for an anticipated sale of all or substantially all of their assets under Bankruptcy Code section 363.

119. The Adequate Protection offered to the Prepetition First Lien Lender, DIP Lender, and the Prepetition Second Lien Lender are fair and reasonable. The adequate protection proposed in the Interim Order is consistent with customary protections, including Adequate Protection Payments, replacement liens, and superpriority claims. The adequate protection properly protects the Prepetition First Lien Lender, DIP Lender, and Prepetition Second Lien Lender from any diminution in value of their interests in the use of the cash collateral during the pendency of the Chapter 11 Cases. These provisions were negotiated in good faith and at arm's-length with the DIP Lender. Without these protections, the Debtors would not be able to secure the DIP Loan.

120. The modification of the automatic stay in the Cash Collateral and DIP Motion is ordinary and standard feature of postpetition debtor in possession financing facilities, and, in the Debtors' business judgment, reasonable and fair under the current circumstances.

121. I believe that the Debtors will face immediate and irreparable harm without the entry of an interim order approving the Cash Collateral and DIP Motion.

L. *First Omnibus Motion for Entry of an Order (I) Authorizing the Debtors to Reject Certain Executory Contracts and Unexpired Leases Nunc Pro Tunc to the Petition Date, and (II) Granting Certain Related Relief* (the "Rejection Motion")

122. Pursuant to the Rejection Motion, the Debtors have identified certain executory contracts and unexpired leases, listed on Exhibit 1 to the proposed order for the Rejection Motion (the "**Rejected Contracts and Leases**"), which are no longer necessary for the Debtors to conduct their business, reorganization, and/or sale process. Accordingly, by the Rejection

Motion, the Debtors seek to reject the Rejected Contracts and Leases *nunc pro tunc* to the Petition Date.

123. The Debtors seek to reject numerous contracts and agreements by and between the Debtors and various parties. Under the various contracts, the counterparties provide the Debtors with general corporate and legal services, leases for IT and other business equipment, business advisory and tax services, and analytical patient experience platforms. After reviewing the Debtors' books and records and the services provided under the contracts, the Debtors believe that the services are no longer needed for an effective reorganization or sale process and are too costly to the estates. Furthermore, because of the unique nature of the services provided to the Debtors under the contracts, the Debtors do not anticipate that a buyer would be willing to accept assignment of the Debtors' obligations under the contracts. As such, pursuant to the Rejection Motion, the Debtors seek to reject the executory contracts *nunc pro tunc* to the Petition Date.

124. The Debtors also seek to reject certain non-residential real estate leases located in Taos, New Mexico and Fort Lauderdale, Florida (collectively, the "**Leases**"). The Leases are non-occupied ground leases, which the Debtors have vacated on or before the Petition Date, and relinquished control of the properties to the respective landlords. Thus, the costs of maintaining the Leases outweigh any benefit that the Debtors' estates receive from continuing to lease the premises after the Petition Date. Further, because of the nature of the Leases, the Debtors do not believe they could be easily assumed and assigned. Therefore, pursuant to the Rejection Motion, the Debtors requests rejection of the Leases, effective as of the Petition Date.

M. ***Motion of Debtors for Entry of (I) An Order (A) Approving Bidding Procedures in Connection with the Sale of Substantially All of the Debtors' Assets, (B) Approving the Stalking Horse and Bid Protections, (C) Approving the Form and Manner of Notice Thereof, (D) Scheduling an***

Auction and Sale Hearing, (E) Approving Procedures for the Assumption and Assignment of Contracts, and (F) Granting Related Relief; and (II) An Order (A) Approving the Asset Purchase Agreement Between the Debtors and the Successful Bidder, (B) Authorizing the Sale of Substantially All of the Debtors' Assets Free and Clear of Liens, Claims, Encumbrances, and Interests, (C) Authorizing the Assumption and Assignment of Contracts, and (D) Granting Related Relief **(the "Sale and Bid Procedures Motion")**

125. The Debtors intends to sell substantially all of their assets in the Chapter 11 Cases and Project Build Behavioral Health, LLC (the "**Prepetition First Lien Lender and DIP Lender**") has, subject to certain conditions, agreed to provide financing and to allow its cash collateral to be used to fund the Chapter 11 Cases and the 363 sale. However, given their lack of liquidity, the Debtors needs to complete the 363 sale process as expeditiously as possible.

126. The Debtors, through their investment banker, Jefferies, LLC, engaged in an extensive prepetition marketing process. In addition, the Debtors have retained, subject to court approval, Houlihan Lokey as their investment banker in these Chapter 11 Cases. As part of the proposed sale process, the Debtors, through Houlihan Lokey and their professionals, will continue to engage in the robust marketing effort for the Debtors' assets, which started well before the Petition Date, continuing to contact both financial and strategic investors regarding a potential sale process, including all parties contacted prior to the commencement of the cases. There will be no conditions on potentially interested parties regarding bid levels, structure, financing, or management in connection with the solicitation of indications of interest. All interested parties will be given an opportunity to execute a confidentiality agreement and be given access to the data room maintained by counsel to the Debtors. Those parties that execute a confidentially agreement will be provided with substantial due diligence information concerning, and access to, the Debtors, including, without limitation, presentations by the Debtors and their advisors, and access to financial, operational, and other detailed information.

127. I believe a prompt sale of the Debtors' assets represents the best option available to maximize value for all stakeholders in these Chapter 11 Cases. Moreover, it is critical for the Debtors to execute on a sale transaction as expeditiously as possible, as the Debtors are utilizing the Prepetition First Lien Lender's and DIP Lender's cash collateral and additional financing in order to conduct this sale process. Therefore, time is of the essence.

128. Pursuant to the Sale and Bid Procedures Motion, the Debtors request that the Court approve the following general timeline, with the assumption that the Bankruptcy Court will enter an order granting this motion on shortened notice. These dates are subject to change in the event that the Bankruptcy Court does not enter an order at that hearing:

(i) **Contract Cure Objection Deadline**: Objections to the potential assumption and assignment of any Contract will be filed and served no later than **June 21, 2018** at 4:00 p.m. (prevailing Eastern Time) (the "**Cure or Assignment Objection**").

(ii) **Bid Deadline**: Bids for the Assets, including a marked-up form of the Stalking Horse Agreement, if one has been accepted by the Debtors as contemplated by the Bidding Procedures Order, as well as the deposit and the other requirements for a bid to be considered a Qualified Bid (as defined in the Bidding Procedures) must be received by no later than **June 26, 2018** at 4:00 p.m. (prevailing Eastern Time) (the "**Bid Deadline**").

(iii) **Auction**: The Auction, if necessary, will be held at the offices of Polsinelli PC, 222 Delaware Avenue, Suite 1101, Wilmington, Delaware 19801 on **June 27, 2018** at 10:00 a.m. (prevailing Eastern Time), or such other location as identified by the Debtors after notice to all Qualified Bidders.

(iv) **Sale Objection Deadline**: Objections to the Sale will be filed and served no later than 4:00 p.m. (prevailing Eastern Time) on **June 21, 2018**.

(v) **Sale Hearing**: Consistent with the Court's availability and schedule, the Sale Hearing will commence on or before **June 28, 2018**.

129. I believe that this timeline maximizes the prospect of receiving a higher or otherwise better offer without unduly prejudicing the bankruptcy estates. Given the Debtors' extensive prepetition marketing efforts, I believe that the proposed timeline is more than

sufficient to complete a fair and open sale process that will maximize the value received for the Assets. To further ensure that the Debtors' proposed Auction and Sale process maximizes value for the benefit of the Debtors' estates, the Debtors and their professionals will use the time following the Petition Date to continue to actively market the Assets in an attempt to solicit the highest or otherwise best bids available. I believe that the relief requested in the Sale and Bid Procedures Motion is in the best interests of the Debtors' creditors, their other stakeholders, and all other parties in interest, and should be approved.

130. Moreover, I determined that the bid submitted by the Project Build Behavioral Health, LLC (the "**Stalking Horse Bidder**") was the highest and best because, among other reasons, but perhaps most importantly, it preserves jobs. The bid submitted by the Stalking Horse Bidder provides that the Company will continue to operate as a going concern. As part of its bid, the Stalking Horse Bidder negotiated for the timeline requested herein. I believe that an expedited sale process will minimize any further deterioration of the Assets and is in the best interests of all stakeholders. Thus, the Debtors have determined that pursuing the Sale in the manner and within the time periods prescribed in the bidding procedures is in the best interest of the Debtors' estates and will provide interested parties with sufficient opportunity to participate.

N. ***Motion to Shorten Notice and Objection Periods in Connection with the Motion of Debtors for Entry of (I) An Order (A) Approving Bidding Procedures in Connection with the Sale of Substantially All of the Debtors' Assets, (B) Approving the Form and Manner of Notice Thereof, (C) Scheduling an Auction and Sale Hearing, (D) Approving Procedures for the Assumption and Assignment of Contracts, (E) Granting Related Relief; and (II) An Order (A) Approving the Asset Purchase Agreement Between the Debtors and the Successful Bidder, (B) Authorizing the Sale of Substantially All of the Debtors' Assets Free and Clear of Liens, Claims, Encumbrances, and Interests, (C) Authorizing the Assumption and Assignment of Contracts, and (D) Granting Related Relief*** **(the "Motion to Shorten Notice")**

131. Cause exists to shorten the time for the notice of the Sale and Bid Procedures Motion. On the Petition Date, the Debtors are facing a severe liquidity crisis. The only means

they can survive is via DIP financing. The Debtors are also required to achieve various milestones in conjunction with the provisions of their DIP financing. An order approving the Bidding Procedures, the Auction, and an order approving the Sale all must occur by certain delineated dates, as discussed in the DIP Order. In addition, the Debtors undertook a comprehensive prepetition marketing process. Furthermore, expeditiously conducting a Sale of the Debtors' Assets as a going concern will preserve value for the Debtors' estates and maximize value for the Debtors' creditors.

IV. CONCLUSION

132. The Debtors' goal in these Chapter 11 Cases is the maximization of estate value through a sale of the business as a going concern, preserving value for the Debtors' creditors, employees and other parties-in-interest. In the near term, however, the Debtors' immediate objective is to continue operating their business during the early stages of these Chapter 11 Cases, with as little interruption or disruption to the Debtors' operations as possible. I believe that if the Court grants the relief requested in each of the First Day Pleadings, the prospect for achieving these objectives and a sale of substantially all of the Debtors' assets will be substantially enhanced.

133. I hereby certify that the foregoing statements are true and correct to the best of my knowledge, information and belief, and respectfully request that all of the relief requested in the First Day Pleadings be granted, together with such other and further relief as is just.

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I declare under penalty of perjury that the foregoing is true and correct.

Executed this 23rd day of May, 2018.

EBH Topco, LLC

Debtors and Debtors in Possession

/s/ Martin McGahan

Martin McGahan
Chief Restructuring Officer