

**UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
Charlotte Division**

In re:)	Chapter 11
)	
PORTRAIT INNOVATIONS, INC.,)	Case No. 17- _____
)	
Debtor.)	
_____)	
)	
In re:)	Chapter 11
)	
PORTRAIT INNOVATIONS HOLDING COMPANY,)	Case No. 17- _____
)	
Debtor.)	(Joint Administration Requested)
_____)	

**AFFIDAVIT OF JOHN GROSSO
IN SUPPORT OF FIRST DAY RELIEF**

I, John Grosso, hereby declare under penalty of perjury:

1. I am the President and Chief Executive Officer of Portrait Innovations, Inc. (“Portrait Innovations” or the “Company”) and Portrait Innovations Holding Company (“Holding” and, collectively with Portrait Innovations, the “Debtors”).¹ I submit this Affidavit in support of the Motions and Applications of the Debtors, filed contemporaneously with the filing of the chapter 11 petitions.

2. I am generally familiar with the Debtors’ day-to-day operations, business affairs and books and records.

3. On September 1, 2017 (the “Petition Date”), the Debtors commenced their respective cases under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1330 (as amended, the

¹ The Debtors in these jointly administered cases are the following entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): Portrait Innovations, Inc. (9394) and Portrait Innovations Holding Company (5553). The Debtors address is 2016 Ayrsley Town Center Boulevard, Suite 200, Charlotte North Carolina 28273.
{00301562 v 4 }

“Bankruptcy Code”), in the United States Bankruptcy Court for the Western District of North Carolina (collectively, the “Chapter 11 Cases”). The Debtors continue to operate in the ordinary course of business as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. Contemporaneously herewith, the Debtors have filed a motion seeking to procedurally consolidate their Chapter 11 Cases for administrative purposes only.

4. The Debtors’ goal in these cases is to effectuate a restructuring transaction whereby substantially all of Portrait Innovations’ assets would be transferred to a newly created entity (the “Reorganized Debtor”), and the equity of the Reorganized Debtor would be sold to new equity ownership through a rapid but thorough marketing and auction process. The Debtors believe potential bidders will see value in the Debtors long history of successful operations, reputation for quality service and beautiful studio spaces, and plan for the Walmart business expansion which has a higher gross margin percentage than the free-standing Portrait Innovation studios. However, in order for the Debtors to successfully complete an auction process, they must preserve their ongoing business operations by instilling confidence in employees, vendors, and landlords (including Walmart) that their businesses will be stable during the reorganization process. With such stability in mind, the Debtors seek to continue to operate in the ordinary course of business during and subsequent to these Chapter 11 Cases, and have filed a number of motions on the Petition Date, seeking this Court’s authority to take steps necessary to ensure a seamless transition into these Chapter 11 Cases (collectively, the “First Day Motions”).

5. I am authorized to submit this affidavit in support of the Debtors’ petitions for relief under the Bankruptcy Code and the First Day Motions. Any capitalized term not expressly defined herein shall have the meaning ascribed to that term in the referenced First Day Motion. All facts set

forth in this affidavit are based on my personal knowledge, upon information supplied to me by employees of the Debtors and their affiliates, upon my review of relevant documents, or upon my opinion based upon my experience and knowledge of the Debtors' operations and financial condition. If I were called upon to testify, I could and would testify competently to the facts set forth herein. I am authorized to submit this affidavit.

6. Part I of this affidavit describes the Debtors' businesses, assets and the circumstances surrounding the commencement of these Chapter 11 Cases. Part II sets forth the relevant facts in support of the Debtors' motion to obtain debtor-in-possession financing and use cash collateral. Part III sets forth the relevant facts in support of the other First Day Motions.

I. BACKGROUND

A. History and Corporate Structure

7. Portrait Innovations, a Delaware corporation, is a wholly owned subsidiary of Holdings, also a Delaware corporation. Holdings, in turn, is owned by various investors in the following percentages: Southeastern Private Investment Fund IV, LLC (40.6%), Emergo Alpha Fund Limited (39.1%), John Grosso (including Garrett Alroy Grosso and Andrew Grosso) (10.7%), Johnny Grosso, III (3.5%), HENTOM, LLC (2.0%), Thomas Henson (0.1%), John Davis (3.6%) and all other shareholders (0.4%). Both Portrait Innovations and Holdings are headquartered in Charlotte, North Carolina. Holdings' sole business is ownership of the Portrait Innovations equity interests. Portrait Innovations was founded in 2000 in Charlotte, North Carolina, and has grown into one of the nation's largest and most successful professional portrait studio operators in the nation. As recently as 2014, Portrait Innovations operated over 196 studios in 40 states. As of the Petition Date, Portrait Innovations operates 119 studios in 31 states. Most of these studios are located in upscale, mixed-use commercial (or "lifestyle") locations and their traditional retail park (or "power

center”) locations, however in late 2016 the Company began opening locations in Walmart Supercenters. Portrait Innovations currently operates three (3) very successful Walmart studios and, as discussed in more detail below, plans to invest significantly in the Walmart studio model going forward.

8. Portrait Innovations provides in-studio photography sessions to consumers on both a walk-in and appointment basis. The Company offers a variety of portrait packages and other products such as canvases, mugs, calendars and holiday cards to its customers after the session’s completion, as well as through its online portal, www.portraits.com.

9. Portrait Innovations distinguishes itself from other national and regional professional portrait studio chains in several ways. First, Portrait Innovations seeks out highly skilled, well-educated and friendly Studio Associates, and provides thorough training on the latest professional portrait techniques and customer service. In addition, the Company employs proprietary software to enhance the customer portrait review and package selection process; state of the art photography equipment including cameras, lights and backgrounds; and in-studio dry printers that enable same-day delivery of portrait packages to the customer. The Company has also been successful in creating a vibrant social media presence, and can provide customers with a universal solution for the creation and customization of both professional content and personal image content due to its physical studio locations combined with its online services.

10. Portrait Innovations’ management team has a great depth of experience in the retail professional photography industry. I served as President and Chief Executive Officer of Photo Corporation of America, Inc. from 1987 through 1998, and was a co-founder of Portrait Innovations when it began operations in 2001. Combined with John Davis and Johnny Grosso, Portrait

Innovations' Chief Technology Officer and Chief Operating Officer, respectively, our management team has over 100 years of portrait studio experience.

B. Events Leading To the Petition Date

11. The Company's operating model, focusing on retail locations in power centers and lifestyle centers as well as expanding its online offerings, was very successful through the end of the 2015 fiscal year. For example, the Company had income from operations and adjusted earnings before interest, depreciation and amortization of \$8.5 and \$19.0 million in fiscal year 2014, and \$4.0 and \$13.6 million in fiscal year 2015. In the second half of the 2016 fiscal year, Portrait Innovations began seeing a significant decline in visitors to their lifestyle and power center locations. The trend of declining retail customers is not unique to Portrait Innovations and has impacted brick and mortar retailers throughout the U.S. as evidenced by the numerous bankruptcy filings in the recent past. Facing this sharp decline in customer traffic, the Debtors determined to reduce costs, in particular the cost of rents, which make up a significant portion of the Debtors' operating expenses. In recent months, the Company has attempted negotiations with landlords, first directly, and since July 2017 with the help of Hilco Real Estate, LLC. The Company has had only limited success in renegotiating leases rates to a level that would allow these studios to operate profitably, and determined to shutter underperforming stores if sufficient rent reductions or other concessions from landlords could not be negotiated. Prior to the Petition Date, the Company determined that it is in the Company's best interest to close 63 additional underperforming studios (the "Closed Studios") in lifestyle and power retail centers across the United States. In the weeks preceding the Petition Date, the Company ceased operations in the Closed Studios, liquidated the equipment in those locations, and surrendered the premises to the applicable landlords.

12. In late 2016, the Company opened three pilot studios in Walmart Supercenters. Results from these locations have exceeded the Company's expectations. The Company and Walmart have agreed to build and open seven additional studios in Walmart Supercenters prior to the beginning of the holiday season, which is historically the most profitable time period for the Company's business. Each Walmart studio requires approximately \$95,000 in capital investment. Liquidity constraints stemming from the inability to properly scale lease obligations to sales levels in non-Walmart stores have prevented the Company from pursuing an aggressive Walmart growth strategy, despite the fact that results indicate, and management believes, that extensive expansion of the Walmart business presents an excellent business opportunity for the Company.

C. The Debtors' Primary Assets and Pre-Petition Debt Structure

13. The Company owns photographic equipment in each leased studio, and receives payment from customers primarily through credit card transactions. The Company also owns certain intellectual property and is the counterparty to certain contracts the Company believes have value. As of the August 30, 2017, the Company held approximately \$1,350,000 in cash, excluding cash in transit.

14. The Debtors are party to that certain Note Purchase Agreement (the "NPA") dated as of February 26, 2015 by and between the Debtors as issuers, and CapitalSouth Partners SBIC Fund III, L.P. ("Capital Fund III"), CapitalSouth Partners Fund II Limited Partnership ("Fund II"), as purchasers, and Capital Fund III, as Collateral Agent (in such capacity, the "Noteholder Agent"), pursuant to which the Debtors issued certain 12.00% Senior Secured Subordinated Promissory Notes (the "Notes"), which are secured by liens on substantially all of the Debtors' property.² Capital Fund II, Capital Fund III, and CapitalSouth Partners Florida Sidecar Fund II, L.P. ("Capital Florida" and,

² At the time of issuance, the Notes were subordinated to a senior secured credit facility provided by Fifth {00301562 v 4 }

together with Capital Fund II and Capital Fund III, the “Noteholders”), collectively hold 100% of the Notes. As of the Petition Date, the outstanding principal balance of the Notes was approximately \$15 million.

D. The Debtors’ Pre-Petition Marketing and Plan Negotiation Process

15. By the early summer of 2017, it had become clear to the Debtors that they had insufficient capital to expand the Walmart business quickly enough to compensate for the seventy or more unprofitable or marginally profitable Portrait Innovations retail studios. Therefore, in early July 2017, the Debtors engaged Piper Jaffray as investment bankers to seek new equity investors or capital for the Debtors. The Debtors believed, based on May 2017 operational results, they would have adequate cash flow to permit Piper Jaffray to go to the market seeking bids in late summer and pursue a transaction into late fall, around the time the profitable holiday season would start. Shortly after Piper’s engagement, however, the Debtors saw a significant and unexpected further drop in revenue from June 2017 operational results. After re-evaluating their projections based on June and early July results, the Debtors determined that continued decline in revenue and profits meant that there would not be sufficient liquidity to allow Piper Jaffray to complete its transaction process, and made the decision to pursue a wholesale restructuring of the Debtors’ operations and balance sheet.

16. Therefore, in mid-July 2017, the Debtors approached the Noteholders, as their senior secured lender, to discuss options for the Debtors in light of their likely inability to continue operations long enough to complete the Piper Jaffray process or reach the profitable holiday season. The Noteholders expressed interest in providing debtor-in-possession financing for a bankruptcy proceeding for the Debtors, and also expressed interest in serving as the stalking horse bidder in a bankruptcy sale process. The Debtors’ board determined that, in light of the worse than expected

Third Bank, which was subsequently repaid and terminated. The Notes represent the Debtors’ only secured credit
{00301562 v 4 }

financial results for June 2017, pursuing a pre-negotiated plan with the Noteholders that contemplated the sale or transfer of the Debtors' assets, subject to a competitive bidding process with the Noteholders serving as the stalking horse bidder, would be the best way to maximize value for all constituencies. In the absence of new financing, I believe the Debtors would have been forced to cease operations in the early fall of 2017 and liquidate their assets.

17. In late July 2017, the Debtors and the Noteholders began negotiating (i) the terms for a plan of reorganization, whereby the Debtors would eliminate underperforming stores, close locations, and reduce operating costs, (ii) debtor-in-possession financing to fund the administrative costs of these Chapter 11 Cases and the Debtors' ongoing operations, and (iii) bidding procedures and the marketing and auction process whereby the Debtors, with Piper Jaffray's assistance, would continue and complete their marketing process in an effort to realize the highest and best value for their assets. Those negotiations culminated in a Restructuring Support Agreement, which the Debtors and Noteholders executed prior to filing these cases, and which incorporates the DIP Term Sheet, Plan Term Sheet and Bidding Procedures (all as defined in the Restructuring Support Agreement).

E. The Debtors' Proposed Path for these Cases

18. Through these cases, the Debtors seek to restructure their obligations and improve the Company's cash flow. In particular, the Debtors seek to reject the leases for the Closed Studios, and to evaluate other marginal locations and perhaps reject additional leases. The Debtors seek to attract new capital for their business through a transfer of substantially all of their assets to the Reorganized Debtors and sale of the equity interests in the Reorganized Debtor to the highest bidder. The Noteholders have submitted a stalking horse bid for the Debtors' assets. Only with new ownership and a restructured balance sheet will the Company have the capital needed to pursue an expansion of

the Walmart studio model, which has proven successful thus far. On or soon after the Petition Date, the Debtors will file a Plan of Reorganization (the “Plan”) and accompanying Disclosure Statement. The Debtors have a commitment from the Noteholders for debtor-in-possession financing in an amount not to exceed \$5,000,000.00 which the Debtors believe will be sufficient to fund the administrative expenses of the Debtors for a time period sufficient to seek higher and better bids and to consummate a restructuring under a confirmed Plan. Due to the Debtors’ severe liquidity challenges, the Debtors have proposed a fulsome, but rapid, marketing and sales process, and will seek to confirm the Plan concurrently with the Court’s approval of the winning bidder for the equity of the Reorganized Debtor.

**II. THE DEBTORS’ NEED FOR POSTPETITION FINANCING FACILITY
AND FOR USE OF CASH COLLATERAL**

19. As a consequence of the circumstances set forth above and without the relief available in Chapter 11, the Debtors need access to a postpetition credit facility and use of cash collateral to ensure that the Debtors have access to sufficient cash to meet ongoing obligations necessary to operate its businesses. The credit facility and the authority to use cash collateral would assure that the Debtors can purchase the goods and services that they need to protect the value of their business operations, and pay the wages, salaries, rent, utilities and other expenses associated with protecting their businesses and the value of their assets.

20. The Debtors are filing a motion for entry of interim and final Orders, pursuant to sections 105, 345(b), 361, 363 and 364 of title 11 of Bankruptcy Code and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), authorizing post-petition loans with the Noteholders and use of cash collateral (the “DIP Motion”). The DIP Motion

seeks authority for and approval of both an Interim and a Final DIP Financing Order³:

- (a) authorizing the Debtors to use the cash collateral of the DIP Lender;
- (b) providing adequate protection to the DIP Lender for the use of its cash collateral, as set forth more fully herein; and
- (c) authorizing the Debtors to obtain credit and incur debt pursuant to that \$5,000,000.00 financing arrangement (the “DIP Facility”) with the DIP Lender, which is contemplated by that certain Portrait Innovations, Inc., et al.

Superpriority Secured Debtor-In-Possession Credit Facility – Summary of Terms and Conditions dated August 31, 2017 and other documents (the “DIP Loan Documents”), substantially in the form annexed to the Motion as Exhibit A, which is comprised of a \$5,000,000.00 loan to be funded by the DIP Lender, secured by liens on certain property of the Debtors’ estates pursuant to Sections 364(c)(2), 364(c)(3) and 364(d)(1) of the Bankruptcy Code, and with priority, as to administrative expenses, as provided in Section 364(c)(1) of the Bankruptcy Code, as set forth more fully in the DIP Motion.

21. Based on the foregoing, it is evident that the consequences of leaving the Debtors without access to cash collateral and a postpetition debtor-in-possession financing facility may have a materially adverse effect on the Debtors’ estates and creditors. Without the immediate access to the DIP Facility to support letters of credit and similar needs, the value of the Debtors’ business operations could be damaged.

22. The Debtors require debtor-in-possession financing (“DIP Financing”) in order to continue their business operations in these chapter 11 cases through the end of a sale process. The

³ Any capitalized terms not defined herein shall have the meaning attributed to them in the Post-Petition Loan and {00301562 v 4 }

Debtors have an immediate and emergency need as well as a continuing need for DIP Financing and for use of post-petition cash collateral to pay the expenses of operating their businesses including, without limitation, salaries, administrative and leasing costs, utilities, services, repairs, maintenance and insurance costs in their capacity as debtors-in-possession. Specifically, without additional financing and use of post-petition cash collateral, the Debtors cannot pay wages, salaries, rents, utilities and other expenses associated with operating their business.

23. The Debtors also require the use of the post-petition cash collateral to fund the administrative expenses of these cases, including the fees and expenses of attorneys, financial consultants, investment bankers, accountants and other professionals authorized by the Court to be employed by the Debtors.

24. The availability of DIP Financing and use of post-petition cash collateral will provide the Debtors with more than just the necessary cash and credit support they need to operate their businesses. Of almost equal importance is the sense of confidence that such financing and use of post-petition cash collateral will instill in the Debtors' suppliers, customers and employees. The failure of the Debtors' suppliers and employees to cooperate with the Debtors at this time, and the loss of customer patronage, could irreparably harm the Debtors' hopes of maximizing the value of their assets through a sale process.

25. In sum, without immediate access to DIP Financing and the use of post-petition cash collateral, the Debtors will continue to suffer the acute liquidity crisis that existed pre-petition and that threatens the Debtors' ability to maintain their operations in the short term. The ability of the Debtors to remain viable entities and sell their assets under chapter 11 of the Bankruptcy Code is dependent upon the Debtors obtaining the interim and final relief requested in this Motion.

26. The Debtors negotiated the terms of DIP Loans with the DIP Lender at arms' length and in good faith (as that term is defined in section 364(e) of the Bankruptcy Code), with all parties represented by experienced counsel. The Debtors' liquidity crisis is acute and for the Debtors to negotiate alternative financing with any lender group other than their DIP Lender, which were already familiar with the Debtors' operations, corporate structure and financial arrangements, would be extremely difficult.

27. The Debtors are unable to obtain unsecured credit allowable solely as an administrative expense or credit secured by junior liens. The proposed DIP Facility reflects the exercise of sound and prudent business judgment. The Debtors believe that it would not have been able to obtain financing on any other basis. In the Debtors' considered business judgment, the DIP Facility is the best financing option available in the circumstances in this case.

III. OTHER FIRST DAY MOTIONS

28. Concurrently with the filing of this Chapter 11 Case, the Debtors have filed a number of First Day Motions, each of which is described briefly below. I have reviewed each of the First Day Motions (including the exhibits thereto, if any) and I believe that the relief sought in each of the First Day Motions (a) is necessary to enable the Debtors to operate in chapter 11 with a minimum of disruption or loss of value and (b) constitutes a critical element in achieving a successful Chapter 11 reorganization of the Debtors. The First Day Motions consist of the pleadings described below:

A. Debtors' Motion for Order Directing Joint Administration of Related Chapter 11 Cases

29. The Debtors will present a motion requesting the entry of an order providing for the joint administration of their Chapter 11 Cases. Such an order is a necessary administrative convenience for the Court, the Office of the Clerk of the Court, and all parties in interest.

B. Debtors' Emergency Motion for Order (I) Authorizing Continued Use of Existing Business Forms and Records, (II) Authorizing Maintenance of Existing Bank Accounts and Cash Management System, (III) Authorizing Payment of Prepetition Charges and Fees Associated with Customer Credit and Debit Card Transactions, and (IV) Waiver of Deposit Requirements (the "Bank Account Motion")

30. The Debtors seek the immediate entry of an order: (i) authorizing the continued use of the Debtors' existing business forms and records, (ii) authorizing the continued maintenance of the Debtors' existing bank accounts and cash management system, (iii) authorizing the payment of certain prepetition costs and fees associated with customer credit and debit card transactions, and (iv) waiving the deposit guidelines of section 345(b) of the Bankruptcy Code.

31. Prior to the Petition Date, in the ordinary course of business, the Debtors used a cash management system (the "Cash Management System"), the basic structure of which constitutes the Debtors' ordinary, usual, and essential business practices. This integrated, centralized Cash Management System facilitates the timely and efficient collection, concentration, management, and disbursement of funds used by the Debtors. The Cash Management System is similar to those commonly employed by corporate enterprises comparable to the Debtors in size and complexity.

32. The Cash Management System consists of numerous bank accounts (collectively, the "Bank Accounts"), consisting of (i) two disbursement accounts, with one at Fifth Third Bank, N.A. and the second at Wells Fargo Bank, N.A. (the "Disbursement Accounts"); (ii) two operating accounts, with one at Fifth Third Bank, N.A. and the second at Wells Fargo Bank, N.A. (the "Operating Accounts"); (iii) one payroll account at Wells Fargo Bank, N.A. (the "Payroll Account"); and (iv) thirty cash deposit accounts held at various banks (the "Deposit Accounts"). Each of these accounts is described in greater detail in the Bank Account Motion and are listed, with account numbers, on Exhibit A attached thereto. Fifth Third Bank, N.A., Wells Fargo Bank, N.A., and the other financial institutions listed on Exhibit A to the Bank Account Motion shall collectively be

referred to herein as the “Banks.” All of the Bank Accounts are maintained by financially stable banking institutions with Federal Deposit Insurance Corporation insurance.

33. The Debtors’ business operations are funded, in part, from cash receipts which are deposited into the Deposit Accounts. Funds from the Deposit Accounts then may be transferred to one of Operating Accounts, from which funds may be transferred to the Debtors’ Disbursement, and/or Payroll Accounts as needed. The Debtors deposit their customer collections paid in the form of cash or checks at the Debtors’ various studio locations into the applicable Deposit Account for such location. The deposits in the Deposit Accounts are periodically transferred to the Debtors’ Operating Accounts, and creditors and normal operational costs are paid through the Debtors’ respective Operating Accounts. The average highest daily balance in the Bank Accounts, with one potential exception, is and will remain substantially less than \$250,000, and, therefore, such balances are fully insured by the FDIC. With respect to the Debtor’s Operating Account at Wells Fargo Bank, N.A. (the “Wells Fargo Operating Account”), the average highest daily balance has historically exceeded \$250,000. It is anticipated, based on the proposed DIP Budget, that the balance in the Wells Fargo Operating Account or the Operating Account at Fifth Third Bank, N.A. may rise to approximately \$3,254,000 post-petition.

34. The Debtors believe that requiring them to close the Bank Accounts and open new bank accounts would unnecessarily disrupt the Debtors’ businesses. The Debtors believe that if the Bank Accounts are continued in their current form then the transition through chapter 11 will be smooth and orderly and such continuity will greatly facilitate the Debtors’ “seamless transition” to post-petition operations. To protect against the possible inadvertent payment of prepetition claims, the Debtors have already advised both Fifth Third Bank, N.A. and Wells Fargo Bank, N.A. to not honor payments made prior to the petition date, except as otherwise expressly permitted by an order

of the Court and directed by the Debtors. The Debtors, moreover, have the capacity to draw the necessary distinctions between prepetition and post-petition obligations and payments without closing the Bank Accounts and opening new ones.

35. Another integral component of the Debtors' Cash Management System is the Debtors' card processing system (the "Card Processing System"). The Debtors have historically received approximately 84% of their receipts through credit and debit cards which are primarily processed through a credit card processing agreement with Elavon, Inc. ("Elavon"). The fees payable to Elavon associated with the Card Processing System equate to approximately 1.3% of gross receipts. Based on the prepetition sales for the month of August 2017, the prepetition fees owed to Elavon associated with the Card Processing System for the month of August 2017 will be approximately \$43,000. The Debtors' arrangement and continued business with Elavon is critical to its operations and cash flows, and continuing to receive, process and honor credit and debit card transactions and payment of the obligations associated therewith is within in the Debtors' ongoing ordinary course of business.

36. Indeed, the disruption and adverse publicity that would necessarily result from the failure to continue to offer payment options for use of credit card and debit card would threaten the Debtors' customer base and their ability to successfully reorganize, thereby causing harm to the Debtors and all parties in interest that is grossly disproportionate to the cost of the obligations related to the credit cards. The Debtors have examined other options short of payment of those obligations related to the credit cards and have determined that to avoid significant disruption of the Debtors' business operations there exists no practical or legal alternative to payment of such obligations.

37. To minimize expense to their estates, the Debtors also request authority to continue to use all correspondence and business forms (including, but not limited to, letterhead, purchase orders,

invoices, etc.), as well as checks existing immediately before the Petition Date, without reference to their debtor-in-possession status, unless and until new forms are ordered during the pendency of these cases.

38. In the ordinary course of the Debtor's businesses, the Debtors use a variety of checks and other business forms. By virtue of the nature and scope of the Debtors' business operations, it is important that the Debtors be permitted to continue using their existing checks and other business forms without alterations or change. Alterations such as adding a "debtor-in-possession" designation to these forms could disrupt the Cash Management System. The Debtors issue checks printed by the Debtors in their principal place of business using a check-writing software program. The Debtors believe that they may be able to add text to these printed checks through their check-writing software denoting their status as "Debtors-in-Possession"; however, as of the Petition Date, they have been unable to verify that the addition of such text is possible. While the Debtors will attempt to add the text "Debtors-in-Possession," the Debtors nonetheless seek a waiver of this requirement with respect to its checks in the event they are unsuccessful in adding this text to checks printed post-petition.

39. In the ordinary course of business, the Debtors also maintain certain books and records in connection with the operation of their businesses. Continuing with such books and records subsequent to the Petition Date rather than closing those and opening new books will enable the Debtors to avoid unnecessary cost and burden.

40. Changing correspondence and business forms or opening new books and records would be unnecessary and burdensome to the estate, as well as expensive and disruptive to the Debtors' business operations. For this reason, the Debtors request (i) that they be authorized to use their existing checks and business forms without placing the label "debtor-in-possession" on each such check or form, provided that, if able, the Debtors shall add such designation to any new checks

printed through their check writing software program and (ii) that they be permitted to continue with their existing books and records.

41. Finally, the Debtors seek the entry of an order waiving the investment and deposit requirements imposed by Bankruptcy Code section 345(b) for the reasons set forth in the Bank Account Motion. Due to the significant amounts of money that may be in the Bank Accounts from time to time, it would take a large amount of time for the Debtors to locate and determine, where necessary, appropriate alternative accounts that satisfy Section 345(b). Requiring the Debtors to further change their deposits and other procedures could result in harm to the Debtors, their estates, and creditors because such change would further disrupt the Cash Management System. Conversely, the Debtors' estates and creditors will not be harmed by the Debtors' maintenance of the status quo as modified by the relief requested herein because of the relatively safe and prudent practices already utilized by the Debtors.

C. Debtors' Motion for Entry of an Order (I) Authorizing the Debtors to Continue Payroll and Payroll Related Practices Including Payment or Reimbursement of Certain Pre-Petition (A) Wages, Salaries, Vacation Pay and Other Compensation and Amounts Withheld from such Compensation; (B) Employee Health Benefits and Similar Benefits; (C) Reimbursement of Employee Expenses; and (D) Payment of All Costs Incident thereto and (II) Authorizing Applicable Banks and Other Financial Institutions to Receive, Process, Honor and Pay Certain Checks and Transfers (the "Payroll Motion")

42. The Debtors seek the entry of an order (I) authorizing, among other things, the Debtors, in the Debtors' sole discretion, to continue payroll and payroll related practices including payment to or on behalf of current or former employees of certain pre-petition (a) wages, salaries, vacation pay and other compensation and amounts withheld from such compensation; (b) payment of health insurance, life insurance and other insurance premiums for employees' benefit and similar benefits, (c) reimbursement of employee expenses; and (d) all costs and expenses incident to the

foregoing (collectively, the “Employee Obligations”) and (II) authorizing applicable banks and other financial institutions to receive, process, honor and pay all pre-petition checks and transfers drawn on the Debtors’ accounts to satisfy the Employee Obligations.

43. Portrait Innovations employs a total of approximately 590 people⁴, including employees at its Charlotte, North Carolina corporate headquarters and at studios throughout the country (collectively referred to herein as the “Employees” or, in the singular, “Employee”). Employees include studio associates, store managers and regional studio managers, as well as corporate staff and management. Portrait Innovations employs approximately 570 hourly Employees and 18 salaried Employees. In the weeks prior to the Petition Date, the Debtors eliminated approximately 6 employee positions at their corporate offices, and approximately 240 additional hourly positions as a result of the pre-petition closure of 63 retail studios.

44. The Employees perform a variety of functions for the Debtors, including, without limitation, professional photography, sales and customer service at the Debtors’ retail studios, manufacturing, and generally sustaining the Debtors’ business operations through various administrative, accounting, supervisory and managerial functions. The Employees’ knowledge and handling of operational tasks are essential to the Debtors’ efforts to preserve and maximize the value of the Debtors’ businesses and assets for the benefit of creditors and other stakeholders in these Chapter 11 Cases. The Debtors’ history of profitable business operations has depended on the efforts of their Employees, and the Debtors have instituted the following payroll and benefit plans designed to reward Employees and keep them motivated toward the Debtors’ continued success. Without the

⁴ With the upcoming holiday season, the Debtors anticipate that their workforce will grow to meet increased customer demand.

continued, dedicated service of the Employees, the Debtors' goal to maximize the value of the Debtors' estates for the benefit of all constituencies will not be possible.

45. Salary and Wages. The Debtors issue payroll to hourly Employees on a weekly basis, each Friday, and to salaried Employees on the fifteenth day of the month and the last day of the month. The Debtors have paid their respective salaried Employees for services rendered through August 31, 2017. The Debtors have paid their respective hourly Employees for services rendered through August 25, 2017. These payments were funded to the Debtors' payroll processor, ADP, prior to the Petition Date and should have been received by the Employees prior to the time the Petition was filed. As of the Petition Date, the Debtors had accrued but unpaid wage obligations of approximately \$280,000 for hourly Employees, covering the period after August 25, 2017. As of the Petition Date, there were no accrued but unpaid salary obligations for salaried employees.

46. Paid Vacation/Personal Time. The Debtors offer paid vacation/personal time off ("PTO") and certain paid holidays to eligible Employees. Any unused PTO time may not be carried forward from year to year. Upon termination with proper notice, it has been the Debtors' practice to pay accrued but unused PTO to the terminated Employee. PTO is accrued as described below.

47. After an Employee has completed six full fiscal months of active, full-time employment, the Employee becomes eligible to begin accruing paid time off. An Employee will accrue one PTO day on the first day of the new month for each completed month worked, from the start of the seventh month, until the Employee has reached a maximum full year potential of seven accrued PTO days. After 13 months of continuous, active full-time employment, the Employee will have accrued seven PTO days that may be used in that fiscal year. On the first day of the next fiscal year following the Employee's 13th month of continuous full-time employment, the Employee

accrues one additional PTO day. An Employee accrues one additional PTO day each year thereafter, up to a maximum of 20.

48. In addition, after 4 weeks of full-time employment, employees are eligible to be paid for six national holidays: New Year's Day, Memorial Day, Labor Day, Thanksgiving and Christmas.

49. The Debtors estimate that, as of September 1, 2017, obligations to Employees for accrued but unused vacation (excluding holidays) total approximately \$125,000.

50. As of the Petition Date, the Debtors do not believe any Employee, with one exception,⁵ is owed accrued but unpaid salary and wages and accrued but unused PTO exceeding the \$12,850.00 priority claim limit provided under section 507(a)(4) of the Bankruptcy Code.

51. The Debtors seek authority to continue to allow Employees to take paid time off in accordance with the Debtors' pre-petition practices and procedures, regardless of whether such time was earned pre- or post-petition. Further, the Debtors seek authority to continue to allow Employees to purchase paid time off, as permitted under the vacation purchase program.

52. Employee Withholdings. The Debtors deduct certain amounts from Employees' paychecks and are obligated to remit such withholdings on behalf of the Employees including: (a) federal, state and local income taxes and the individual Employee's portion of FICA; (b) deductions for health insurance plan premiums for which the Employees are responsible; (c) deductions for court-ordered child support, garnishment, and bankruptcy-related obligations; (d) deductions requested by individual Employees for deposit into such Employee's credit union, savings, or other financial institution accounts; and (f) deductions requested by individual Employees for deposit into Employee's health spending account. The Debtors seek authority to

⁵ One Employee has accrued but unused PTO in an amount that exceeds \$12,850. The Debtors do not anticipate that {00301562 v 4 }

remit the sums withheld pre-petition that the Debtors are obligated to remit to such third-party payees but have not yet remitted to the appropriate payees.

53. Health Insurance Plans. An Employee and the Employee's family are eligible to participate in the Debtor's sponsored Health Insurance Benefit Program after the Employee has completed ninety (90) days of active employment. The Debtors offer a choice of two plans: BlueOptions HSA plan, which is a high-deductible base plan, and BlueOptions PPO, which provides more coverage at a higher monthly premium. For employees who participate, the Debtor contributes a set monthly amount of \$249.35 toward the cost of the premiums, and the Debtor deducts the remaining amount of the premium from the Employees' paycheck for remittance to the Health Program provider, Blue Cross Blue Shield. Approximately 135 employees participated in this program prior to the Petition Date, and the Debtors' August 2017 cost for its share of premiums was approximately \$33,000. With the reduction in headcount that was effected prior to the Petition Date, the Debtors anticipate the number of participants, and the Debtors' obligation for premium payments, will be reduced.

54. The Debtors also allow Employees who participate in the BlueOptions HSA plan to make contributions to a healthcare spending account. The Debtors may have certain amounts that have been collected and not yet deposited. The Debtors request authority to remit those funds to any Employee's healthcare spending account as appropriate in their ordinary course of business.

55. Life Insurance. All full-time Employees are automatically enrolled in the Group Life Insurance Plan. Coverage is effective after the Employee completes ninety days of employment. The Group Life Insurance Plan provides life insurance coverage equal to the Employee's annual base salary, up to a maximum of \$50,000. The Group Life Insurance provider

is Reliance Standard. Under the Group Life Insurance Plan, the Debtors contribute 100% of the premium costs for participating Employee. The Debtors' average monthly expense for this benefit in the year prior to the Petition Date was \$1,750.

56. Accidental Death & Dismemberment. All full-time Employees are automatically enrolled in an accidental death and dismemberment plan administered by Reliant Standard (the "Basic AD&D Plan"). The Basic AD&D Plan is third-party insured, meaning that the Debtors are only responsible for the payment of premiums under the plan. Coverage is effective after the Employee completes thirty days of employment. The Debtors contribute 100% of the premium costs for Employees participating in the Basic AD&D Plan. Typically, the total monthly employer premiums for Employees' participation in the Basic AD&D Plan are approximately \$500.

57. Employee Severance Policies. The Debtors have a policy of paying all terminated studio associates severance pay equal to forty (40) hours of wages, and paying all terminated studio managers severance pay equal to eighty (80) hours of wages. Further, the Debtors have a policy of paying all exempt salaried personnel and Regional Managers 1 week of severance pay for each full calendar year of service, up to to a maximum of 12 weeks, and paying all nonexempt hourly personnel 1 week of severance pay for each full calendar year of service, up to to a maximum of 8 weeks. Part-time Employees are not eligible for any severance pay. As a condition to any Employee's eligibility to receive any severance payment, the Employee must sign a release of any claims against the Debtors. These severance payments are payable if: (i) the Employee's termination is due to a change in operations, a facility relocation or closing, or a reduction in staff for other economic reasons, and the Employee does not accept another position which may be available with the Debtors, or (ii) the Employee's termination is the result of a sale, merger of all

or part of the Company's business or assets, acquisition, or other form of corporate reorganization and the Employee is not offered a position by the acquiring or resulting company. The above-described severance practices and policies are hereafter referred to as the "Severance Policies"

58. As of the Petition Date, there are no former Employees entitled to any payment under the Severance Policies. Furthermore, the Debtors do not currently anticipate any significant payments under the Severance Policies during 2017. However, the Debtors believe that continuation of the Severance Policies are necessary and appropriate to maintain the morale and loyalty of the Employees during this Chapter 11 Case and, out of abundance of caution, request authority to pay sums that arise under the Severance Policies in the ordinary course of business.

59. Reimbursement of Employee Costs and Expenses. The Debtors owe certain of their Employees for reimbursement of business-related expenses, including travel, meals and similar charges. The Debtors provide a corporate American Express card for a very limited number of corporate Employees for business-related expenses. Employees with corporate American Express cards are not responsible for any business-related expenses, however at times these employees may incur incidental personal expenses, for which they have the obligation to reimburse the Debtors. Any business-related expenses that have been charged to the corporate card are paid for by the Debtors directly to American Express. Employees may also incur business expenses that may have been paid using cash or an Employee's personal credit card depending on the circumstances. Employees submit expenses for reimbursement, regardless of the original method of payment, on a periodic basis. After appropriate review and approval, expenses are reimbursed to Employees on behalf of each Employee, based on the original method of payment. Studio associates and studio managers may incur substantial business expenses including purchase of studio supplies and travel expenses such as hotel charges and mileage, which the Employee

charges to his or her personal credit card and then seeks reimbursement from the Debtors. The Debtors' typical monthly reimbursements for business-related expenses owed to Employees are approximately \$45,000 per month.

60. The Debtors believe that the reimbursement of business expenses incurred by Employees is essential to prevent immediate, irreparable harm to the Debtors' business and maintain the good will of the Employees and ensure that Employees are not saddled with expenses incurred on behalf of the Debtors, and therefore request authority to pay any such reimbursements, regardless of whether they are related to pre-petition or post-petition periods, in the ordinary course of the Debtors' businesses.

61. To minimize the personal hardship that the Employees will suffer and the immediate, and irreparable harms to the Debtors' business that will result if the Employee Obligations, as explained in detail above, are not paid when due or as expected, as well as to maintain morale and assure continuity in the Debtors' workforce and operations, the Debtors seek authority to continue to pay the Employee Obligations regardless of whether such Employee Obligations arose pre-petition or post-petition, to, or on behalf of, Employees, including all costs and expenses incident thereto.

62. Any delay in honoring the Employee Obligations would immediately and irreparably harm the Debtors' business due to the damage to the Employees' morale and would result in significant hardship to the Employees, at the very time when their dedication and cooperation is most critical. If the relief requested in the Payroll Motion is not granted, the Debtors face the imminent risk that their operations may be severely impaired. At this critical stage, the Debtors cannot risk the substantial disruption to their business operations that would inevitably attend any decline in Employee morale attributable to the Debtors' failure to honor the

Employee Obligations. The Debtors' continued operation at this time is required to preserve and maximize the value of the Debtors' estates and, as such, the Employees' dedication and cooperation remain essential.

D. Debtors' Emergency Motion for Entry of Order Authorizing Debtors to Pay Certain Prepetition Taxes and Directing Financial Institutions to Honor and Process Related Checks and Transfers (the "Tax Motion")

63. In the ordinary course of business, the Debtors incur, or collect, various taxes, including sales and use taxes, property taxes, franchise taxes, and income taxes (collectively the "Taxes") and remit payment for the same to the appropriate taxing authorities (each a "Taxing Authority" and collectively the "Taxing Authorities"). Prior to the Petition Date, the Debtors have generally paid their undisputed Taxes in a timely fashion in accordance with and subject to applicable grace periods, if any. The Debtors believe that they are current on all of their Taxes as of the Petition Date, including sales and use taxes (which are remitted monthly) and other trust fund taxes. Nevertheless, and out of an abundance of caution, the Debtors are seeking authorization through the Tax Motion to pay any and all Taxes which may have accrued prior to and remain unpaid as of the Petition Date (the "Prepetition Taxes"). This requested relief will be without prejudice to the Debtors' right to contest the amount of Prepetition Taxes on any grounds deemed appropriate in the Debtors' discretion.⁶

64. Property Taxes. The Debtors own or lease real property and personal property that are subject to state and local real property taxes (the "Real Property Taxes") and business personal property taxes (the "BPP Taxes" and together with the Real Property Taxes, the "Property Taxes").

⁶ Nothing herein should be considered an admission by the Debtors with respect to (i) its liability to any Taxing Authority, (ii) whether any particular obligation owed by the Debtors constitutes a Tax, or (iii) whether any Tax liability constitutes a prepetition or post-petition obligation of the Debtors. In addition, while the Debtors are obligated under various leases to pay certain monthly amounts to various landlords constituting the estimated amount of real property tax liability associated with a particular studio location or other leased real property, the Debtors do not believe that those amounts constitute tax liabilities, but rather lease obligations.

Property Taxes are assessed and due annually, and become delinquent at various times, either in the year they are assessed or in the following year. Property Taxes are assessed and become payable in the ordinary course of business and are typically calculated based on a statutorily mandated percentage of property value. The Debtors believe they are current on all Property Taxes which have been assessed and which have come due prior to the Petition Date. To the extent any Property Taxes are assessed and come due post-petition for any period of time prepetition and to the extent that such Property Taxes constitute prepetition obligations of the Debtors, the Debtors seek authority, but not direction, to pay such Property Taxes as they are assessed and come due in the ordinary course of business.

65. Franchise Taxes. In the ordinary course of business, the Debtors incur obligations to pay certain business licensing fees, franchise taxes, and other fees (collectively the “Franchise Taxes”) to the Taxing Authorities to remain in good standing and maintain the right to operate their businesses. The Franchise Taxes are assessed and due annually, and generally become delinquent during the following year. As of the Petition Date, the Debtors believe that no Franchise Tax amounts are delinquent to the Taxing Authorities, as all Franchise Taxes for years prior to 2016 have been assessed and paid prior to the Petition Date. Further, the Debtors do not believe that any other Franchise Tax is due and payable at this time. To the extent any Franchise Taxes are assessed and come due post-petition for any period of time prepetition and to the extent that such Franchise Taxes constitute prepetition obligations of the Debtors, the Debtors seek authority, but not direction, to pay such Franchise Taxes as they are assessed and come due in the ordinary course of business.

66. Certain State and Local Income Taxes. Under certain applicable laws, state or local authorities, or both, levy taxes based on the Debtors’ income (the “State and Local Income

Taxes”). In certain states, state and local authorities are entitled to statutory liens on the Debtors’ property located in, or subject to tax in, the respective state if these income taxes are not paid. Moreover, in certain states, the Debtors’ directors and officers have personal liability for failure to timely pay these taxes. Due to the Debtors’ pre-tax losses in 2016, the Debtors estimate that they do not owe any prepetition amounts with respect to the State and Local Income Taxes. To the extent any State or Local Income Taxes are assessed and come due post-petition for any period of time prepetition and to the extent that such State or Local Income Taxes constitute prepetition obligations of the Debtors, the Debtors seek authority, but not direction, to pay all prepetition and post-petition State and Local Income Taxes in the ordinary course of business as they become due.

67. Sales and Use/Trust Fund Taxes. Certain Taxing Authorities require the Debtors to collect from their customers, and/or for the Debtors to pay as a customer, sales and use taxes that are based on a percentage of sales prices and other trust-fund taxes (the “Trust Fund Taxes”). In most cases, the Trust Fund Taxes are collected and held by the Debtors in escrow on behalf of the Taxing Authorities, and then paid in arrears on a monthly or other periodic basis once collected. While it is difficult for the Debtors to estimate the precise amount of Trust Fund Taxes owed as of the Petition Date, as such taxes are taken into account in the invoices either generated by or paid by the Debtors, the Debtors currently estimate that the sales tax due in September for August sales will total approximately \$240,000

68. The Debtors believe it is in the best interest of the estate and their creditors that they be permitted, in their sole discretion, to continue their ordinary business practices of paying, as appropriate, all applicable Taxes as and when due, whether incurred pre- or post-petition. As such, the Debtors request the authority, but not direction, to continue their ordinary business practices of

invoicing and paying invoices that account for the applicable sales and use taxes, whether such invoices are prepetition or post-petition invoices.

E. Debtors' Emergency Motion for Entry of Order (I) Prohibiting Utilities from Altering, Refusing, or Discontinuing Services on Account of Prepetition Invoices, (II) Approving Deposit Account as Adequate Assurance of Payment, and (III) Establishing Procedures for Resolving Requests by Utility Companies for Additional Assurance of Payment (the "Utility Motion")

69. In the ordinary course of business, the Debtors have relationships with many different utility companies and other providers (each a "Utility Company" and, collectively, the "Utility Companies") for the provision of electric, water, sewer, natural gas, trash removal, telephone, cellular telephone, internet services, and similar utility products and services (collectively, the "Utility Services") at their corporate headquarters as well as at their various leased studio locations. The Utility Companies include, without limitation, the entities set forth on the list attached as Exhibit A to the Utilities Motion.⁷

70. As part of the Debtors prepetition structuring efforts, the Debtors closed approximately 63 studio locations before the Petition Date (the "Closed Studios") and will not be using further Utility Services from any of the Utility Companies for any Closed Studios.

71. The average monthly amount owed to the Utility Companies, not including the Utility Companies that provided Utility Services for the Closed Studios, is approximately \$110,000. The Debtors have also placed deposits totaling approximately \$20,000 with certain Utility Companies (each an "Existing Utility Deposit" and together the "Existing Utility Deposits").

⁷ While the Debtors have used their best efforts to list the Utility Companies in Exhibit A to the Utilities Motion, the Debtors may have inadvertently omitted certain Utility Companies. Additionally, due to the fact that the Debtors have very recently exited many of their studio locations and the Debtors' accounts payable system has not been fully updated to reflect those changes, it is possible that certain of the entities included on Exhibit A to the Utilities Motion are no longer the Debtors' utility providers.

72. With the exception of the Utility Companies that provided Utility Services for the Closed Studios, the Debtors are generally current with the Utility Companies as of the Petition Date. The Debtors have a lengthy payment history with the Utility Companies indicating consistent timely payment of utility services. However, as of the Petition Date, the Debtors may have had (a) pre-petition accounts payable for Utility Services, (b) outstanding checks issued to pay pre-petition charges for Utility Services that had not cleared their accounts prior to the Petition Date, or (c) liabilities for pre-petition Utility Services that had not yet been billed.

73. The Debtors' businesses involve the operation of portrait studios and entail the hosting of customers during portrait sessions, which requires consistent services from the Utility Companies. Should any Utility Company refuse or discontinue service even for a brief period of time, operations would be disrupted. Any such disruption would damage customer relationships, revenues, and profits and generally would result in a depletion of the Debtors' estates. As the Debtors seek to reorganize their operations, preservation of the value of the estates is paramount. In this regard, it is in the best interest of the Debtors, the estates, and creditors of the Debtors to maintain certain, continuous, and uninterrupted utility service at the Debtors' various business locations.

74. To avert disruption to their businesses, the Debtors would be required to pay whatever amounts are demanded by the Utility Providers to avoid the cessation of necessary services. Accordingly, the Debtors seek the entry of an order (a) prohibiting the Utility Providers from altering, refusing or discontinuing Utility Services on account of prepetition invoices and (b) establishing procedures for determining requests for additional adequate assurance of payment.

75. The Debtors anticipate that the cash flow from ongoing business operations, together with funding from the proposed debtor-in-possession financing agreement filed with this

Court (the “DIP Financing”), will be sufficient to allow them to satisfy all administrative expenses, and, while the Debtors do not intend to pay any outstanding prepetition obligations related to Utility Services for the Closed Studios, the Debtors do intend to pay all post-petition obligations owed to the Utility Companies in a timely manner. Nevertheless, to provide additional adequate assurance of payment for future Utility Services, the Debtors established or will establish a segregated account prepetition and deposited \$90,000 therein (the “Utility Deposit Account”), a sum equal to approximately the historical average monthly amount owed to the Utility Companies minus the Existing Utility Deposits. In addition to the Utility Deposit Account, the Debtors will also maintain all of their Existing Utility Deposits.

76. The Debtors submit that the Utility Deposit Account and the Existing Utility Deposits, together with the Debtors’ ability to pay for future Utility Services in the ordinary course of business, provides protection well in excess of that required to grant adequate assurance to the Utility Companies.

F. Debtors’ Emergency Motion for Entry of Order Authorizing Debtor to Continue Customer Practices and Honor Certain Prepetition Obligations of Customers in the Ordinary Course of Business (the “Customer Practices Motion”)

77. Prior to the commencement of this Chapter 11 case, in the ordinary course of business, the Debtors instituted and engaged in certain activities to develop and sustain a positive reputation and relationship with its customers. To that end, the Debtors implemented two programs and policies (the “Customer Programs”) designed to ensure customer satisfaction, develop and sustain customer relationships and loyalty, improve profitability, and generate goodwill for the Debtors and their services. As of the Petition Date, the Customer Programs include a gift certificate program (the “Gift Certificate Program”) and the advertised portrait collection program (the “APC Program”).

78. Gift Certificate Program. In the ordinary course of business, the Debtors maintain the Gift Certificate Program wherein they distribute gift certificates (the "Gift Certificates") for use in all of their portrait studio locations. The Gift Certificate Program is managed by the Debtors, and the Gift Certificates are general for-sale certificates with no expiration date. Customers may purchase the Gift Certificates at any of the Debtors' studio locations. Once purchased, the Gift Certificates may be used like cash for purchases at the Debtors' studios, but may not be redeemed for cash or monetary credit.

79. The Debtors maintain transaction data regarding the sale and redemption of Gift Certificates, but the Debtors do not track and have no information about the identity of the holders of the Gift Certificates. As of the Petition Date, the total liability maintained on the Debtors' books for all outstanding Gift Certificates was approximately \$1,095,000.⁸ The historical rate of redemption for the Gift Certificates, in total, is approximately fifty percent (50%), but the historical rate of redemption for Gift Certificates older than two years is less than five percent (5%). Therefore, the Debtors believe the likelihood of a Gift Certificate that was issued before September 1, 2015 (including Gift Certificates which have escheated) being redeemed post-petition is less than five percent (5%) in total. Conversely and based on historical redemption rates, the Debtors expect approximately forty five percent (45%) of the Gift Certificates issued on or after September 1, 2015 (two years prior to the Petition Date) to be redeemed.

80. In the two years prior to the Petition Date, the Debtors have approximately \$390,000 in unredeemed Gift Certificates outstanding. Based on the historical redemption rate, the

⁸ The total balance for unredeemed Gift Certificates is in excess of \$3,000,000. However, of this amount, approximately \$2,000,000 has escheated to the state of Delaware and is no longer maintained as a liability in the Debtors' records. Notwithstanding the escheatment, the Debtors' regular practice is to honor Gift Certificates as presented regardless of age and regardless of whether such amounts have escheated.

Debtors reasonably expect that only approximately \$175,500 of this amount will be redeemed post-petition.

81. The Debtors believe that continuing to honor the Gift Certificate Program is essential for maintaining customer goodwill and continuing their business operations. The negative impact of refusing to honor the Gift Certificate Program would severely jeopardize the Debtors' relationships with customers and the Debtors' ability to reorganize successfully. Current customers may choose to patronize other portrait studios, and the negative publicity could jeopardize the Debtors' ability to attract new customers.

82. APC Program. The Debtors also offer, in the ordinary course of business, the APC Program, which is, in essence, a coupon program, advertised online via the Debtors' website and through various other media sources, which currently includes a portrait package consisting of a 33-portrait assortment, a free canvas, plus a twenty percent (20%) discount on other products purchased in excess of the package. The APC Program is designed to enhance goodwill, attract new customers, and promote customer loyalty. A significant portion of the Debtors' customers, especially new customers, will redeem the coupons associated with the APC Program and purchase add-ons resulting in enhanced sales and goodwill.

83. The Debtors believe that continuing to honor the coupons and other promotions associated with the APC Program is essential for maintaining customer goodwill and continuing its business. The Debtors do not incur any obligation to any third party related to the APC Program, and any refusal to honor the APC Program will only serve to jeopardize the Debtors' relationships with customers and negatively impact the Debtors' continued operations.

84. It is critical that the Debtors maintain their customer base. If they do not honor the Customer Programs, the Debtors are likely to face negative publicity and substantial ill-will from

their customer base. Current customers are more likely to be lost to other portrait studios, and new customers may not be attracted or may be frightened off. The Debtors submit that the continuing support of their customers is imperative to their ongoing operations and the viability of their business enterprise. The uninterrupted continuance of the Customer Programs is critical to maintaining and preserving such support.

85. The Debtors' continued honoring of the Customer Programs will have no negative effect on the value of the estates or the Debtors' going concern value. In contrast, the effect of refusing to honor the Customer Programs will result in significant harm to the Debtors' goodwill and ongoing customer base—a harm that is disproportionate to the amount of the customers' prepetition claims under the Customer Programs.

86. As with the honoring of prepetition claims arising under the Customer Programs, the Debtors' ability to continue its Customer Programs post-petition in the ordinary course of business is necessary to maintain goodwill, preserve customer relationships, and attract new customers thereby generating increased post-petition revenue.

87. As stated above, the Debtors currently maintain sufficient records of the issuance and redemption of Gift Certificates to enable the Debtors to differentiate between prepetition and post-petition Gift Certificate sales. The Debtors propose to continue maintaining such records in the ordinary course of business.

88. Refunds. In the ordinary course of business, the Debtors also issued and paid refunds for defective products or as otherwise warranted in the Debtors' sole discretion (the "Refunds"). If appropriate, Refunds were issued to customers through the Debtors' centralized customer service as well as at the various Studio locations. Although the Refunds could be redeemed for portrait services at the Studio locations, the vast majority of the Refunds were

processed for payment, via the issuance of a refund voucher (the “Refund Vouchers”) through the Debtors’ centralized customer service, which is dated when issued and then date stamped again when redeemed and processed for payment.

89. Based on the Debtors’ historical records, the amount of refunds paid on a monthly basis ranges from approximately \$50,000 during peak months to \$10,000 during off-peak months. The Debtors estimate that the amount of received but unprocessed Refunds as of the Petition Date is approximately \$5,000.

90. The Debtors believe that honoring all Refunds—including Refunds for pre- and post-petition purchases—is in the best interest of the Debtors’ respective estates and creditors as it will continue to promote and maintain customer goodwill and prevent any negative publicity or harm to existing customer relationships.

91. Similar to the Debtors’ other Customer Programs, the Debtors’ ability to continue processing and paying Refunds in the ordinary course of business is necessary to maintain goodwill, preserve customer relationships, and avoid any negative publicity which would likely result from either not paying previously issued Refunds or not issuing Refunds post-petition.

92. The expense of processing and paying prepetition Refunds, which will be approximately \$5,000, is negligible, and the cost to the Debtors of issuing post-petition refunds, similar to the issuance of post-petition Gift Certificates, is significantly outweighed by the potential damage to the Debtors’ goodwill and customer relationships if the Debtor is unable to issue a Refund to an unhappy customer due to defective products or poor service.

93. For the reasons set forth above, in the sound business judgment of the Debtors, I believe the relief requested is in the best interest of the Debtors’ estates and creditors.

G. Debtors' Emergency Motion for Entry of Order Authorizing Debtors to Pay or Honor Prepetition Obligations to Certain Shippers, Warehousemen and Miscellaneous Lien Claimants (the "Shippers Motion")

94. To successfully operate their businesses, the Debtors must ensure that their Studios are continuously replenished with a supply of goods for use in conducting their photography business. For example, the Debtors require camera equipment, on-location photo processing equipment and printing supplies, marketing materials, packaging materials, props, bulk inventory supplies, pre-installment fixtures, IT equipment, and other goods and materials (collectively, the "Merchandise"). The Debtors primarily rely on UPS for their shipping needs, although some Studios occasionally use FedEx (collectively, the "Shippers"), and the Debtors have historically paid between \$12,000 and \$32,000 per month in shipping costs.

95. During the shipping and storage process, the Merchandise is often temporarily warehoused in a warehouse facility leased by the Debtors. However, the Debtors often have overflow Merchandise which is temporarily warehoused in a third-party warehouse facility (collectively with the Debtors' leased warehouse, the "Warehouses") operated by a third-party warehouse operator (together with the Shippers and any bailees capable of asserting a lien on the Debtor's goods, the "Warehousemen"). The Merchandise is thereafter shipped from the Warehouses to the Debtors' various Studios.

96. Due to the Debtors' numerous Studio closing during the weeks leading up to the Petition Date, the Debtors have also stored a significant amount of equipment, supplies, inventory, and other goods (the "Stored Equipment") in one or both Warehouses.

97. The Debtors believe that, before the Petition Date, the Debtors pre-paid each of the Warehousemen in an amount sufficient to cover any pre-petition claim of such Warehousemen and

that the Debtors therefore do not owe any outstanding prepetition obligations to the Warehousemen for the shipping and storage of the Debtors' Merchandise. Nevertheless, out of an abundance of caution, the Debtors are seeking authorization to pay any such Warehousemen for any of the Debtors' prepetition obligations related to the shipping and storage of the Debtors' Merchandise.

98. The Debtors also regularly have camera equipment repaired and stored by certain providers of camera repair services and have other items, such as furniture and photography equipment (collectively the "Equipment"), held by specialty product vendors who manufacture and/or repair such furniture and equipment (the "Miscellaneous Lien Claimants" and together with the Warehousemen, the "Lien Claimants"). The Miscellaneous Lien Claimants could potentially assert liens, including mechanic's liens, artisan's liens, and materialman's liens, against the Debtors' property for amounts the Debtors owe to these third parties.

99. In the event the Debtors fail to pay or reimburse the Lien Claimants for charges incurred in connection with the transport, storage, and repair of the Merchandise and Equipment, various state laws may permit the Lien Claimants to assert a statutory lien against the Merchandise and Equipment in their possession that is subject to any delinquent charges, potentially blocking the Debtors' access to the stored or shipped Merchandise and Equipment. To maintain access to the Merchandise and Equipment that is essential to the continued viability of the Debtors' retail operations and to preserve the value of the Merchandise and Equipment, the Debtors seek authority (but not direction) to pay any and all prepetition amounts related to the shipping, warehousing, logistics, repair, and other services provided to the Debtors by the Lien Claimants prior to the Petition Date (collectively, the "Warehousing Charges"). In their sole discretion, the Debtors intend to undertake appropriate efforts to cause the Lien Claimants to acknowledge in writing that

payment of their respective claims is conditioned upon such Lien Claimants continuing to supply services to the Debtors on trade terms that such Lien Claimants have provided on a historical basis.

100. In addition, the imposition of a lien by one or more of the Miscellaneous Lien Claimants in one of the Debtors' Studio locations would also likely violate the provisions of many of the leases and related agreements with their business partners. Accordingly, the Debtors seek authority to pay and discharge, on a case-by-case basis, any obligation owed to the Miscellaneous Lien Claimants that the Debtors believe have created, or could give rise to, a lien against the Debtors' Studios, property, or equipment regardless of whether such Miscellaneous Lien Claimants have already perfected their interests.

101. For the reasons set forth above, in the sound business judgment of the Debtors, I believe the relief requested is in the best interest of the Debtors' estates and creditors.

H. Debtors' Motion for an Order Authorizing the Debtors to Honor and Continue Pre-Petition Practices with Certain Critical Vendors (the "Critical Vendor Motion")

102. Portrait Innovations provides in-studio portrait photography sessions to consumers on both a walk-in and appointment basis and offers a variety of portrait packages and other products such as canvases, mugs, calendars and holiday cards to its customers after the session's completion, as well as through its online portal, www.portraits.com.

103. Portrait Innovations distinguishes itself from other national and regional professional portrait studio chains in several ways. First, the Company seeks out highly skilled, well-educated and friendly Studio Associates, and provides thorough training on the latest professional portrait techniques and customer service. In addition, the Company employs proprietary software to enhance the customer portrait review and package selection process; state-of-the-art photography equipment including cameras, lights and backgrounds; and in-studio digital printers that enable same-day delivery of portrait packages to the customer. The Company has also

been successful in creating a vibrant social media presence, and can provide customers with a universal solution for the creation and customization of both professional content and personal image content due to its physical studio locations combined with its online services.

104. In the ordinary course of the Debtors' business operations, the Debtors must have uninterrupted supply and use of materials and equipment used to produce portrait packages and specialty products for customers. For example, in order to fulfil portrait package orders, the Debtors must have on hand photographic color paper and related chemicals, as well as correctly functioning digital printers, which are used for printing portrait packages and are located on site in each of the Debtors' studios. In addition, the Debtors have long-standing relationships with suppliers of certain specialty products such as calendars, mugs, albums, apparel, jewelry, gifts and home décor. While the sale price of the advertised portrait collection is generally between \$10 and \$30, the sales total for customers has averaged approximately \$150 over the past year. The providers of these services, described in more detail below, are so critical to the Debtors' business, and would be so difficult and/or expensive to replace if the vendor were to stop selling to the Debtors post-petition, that the Debtors believe each vendor should qualify for critical vendor treatment. The Debtors propose that, as to each approved critical vendor, the Debtors would be authorized to pay such vendor's pre-petition claim in the ordinary course of business in exchange for a commitment by the vendor to continue post-petition sales on the same credit and other terms as they sold to the Debtors pre-petition.

105. Fuji. FUJIFILM North America Corporation ("Fuji") supplies all of the Debtors photographic color paper and related chemicals ("Paper Products"), supplies and services all of the Debtors' digital printers ("Printer Services"), and supplies substantially all of certain types of specialty products the Debtors offer to their studio and online customers ("Fuji Specialty

Products”). The Fuji Specialty Products primarily consist of all of the 16 inch by 20 inch canvas prints that are promotional items in the Debtors’ advertised portrait collection, as well as an assortment of other specialty products including mugs, tumblers, mousepads and keepsake boxes. The Company is party to a supply agreement with Fuji with respect to Paper Products, however, the agreement includes a provision that purports to allow Fuji to terminate the Debtors’ ability to purchase Paper Products on credit under certain circumstances. The Debtors are still operating under a Master Service Agreement with respect to the Printer Services, which runs through February 28, 2018.

106. With the exit of all most other major suppliers of photographic paper and chemicals from the market over the past several years, Fuji is the only acceptable major supplier of Paper Products and accompanying chemistry. The Paper Products are absolutely essential to the Debtors’ ability to provide the core, basic product its customers expect from a portrait session at one of their studios: a physical package of high quality prints delivered in a short period of time. While other potential sources of Paper Products might be available in the market, there would be a significant lead time in obtaining Paper Products, as well as concerns about quality and pricing. The potential delays and start-up costs attendant to outsourcing printing requirements on the cusp of the holiday season, when the Debtors see by far the most business of the year, would be risky to the Debtors’ reorganization prospects and may result in irreparable harm to the Debtors’ business.

107. Additionally, each studio has at least one digital printer used to print portrait packages that require a significant capital investment of between \$3,000 and \$85,000 per printer. The Debtors cannot afford to not make use of the printing capabilities they have in-studio, which would be jeopardized by a delay in the supply of Paper Products.

108. Fuji has given the Debtors sixty (60) day terms for payment of invoices related to Paper Products, and thirty (30) day terms for payment of invoices related to Printer Services. Fuji also provides what the Debtors believe to be very attractive pricing for the Paper Products⁹ and Printer Services. For these reasons, the Debtors believe Fuji should be eligible for treatment as a critical vendor with respect to both the Paper Products and the Printer Services, subject to its agreement to continue providing the Debtors with the Paper Products and Printer Services post-petition, continuing pre-petition credit terms, and continuing the pre-petition pricing structure.

109. Fuji also supplies the Fuji Specialty Products, described above. These are products customers can either order after their studio session or through the Debtors' online portal. Fuji and the Debtors have established a long-standing relationship for the purchase of these products, and Fuji is specially positioned to be able to deliver the Fuji Specialty Products on a very quick turnaround and at attractive pricing. For example, Fuji is typically able to process an order for gift products or framed prints within three to four days of receipt.

110. Like the Paper Products and Printer Services, it would be extremely difficult, if not impossible, to find a vendor who would be able to provide the services Fuji provides with respect to the Fuji Specialty Products. Additionally, Fuji has provided the Debtors with 30 day terms for payment of invoices.

111. The approximate balance due and owing to Fuji as of the Petition Date with respect to Paper Products, Printer Services and Fuji Specialty Products is \$225,000.

112. ColorCentric. ColorCentric Corp. ("ColorCentric") also supplies the Debtors with certain specialty products (the "CCC Specialty Products"). The CCC Specialty Products are different from the Fuji Specialty Products, and include hard and soft-covered portrait books,

⁹ Debtors understand that Fuji has increased prices on its Paper Products multiple times in the past two years, but {00301562 v 4 }

calendars, greeting cards and holiday ornaments and mugs. Colorcentric and the Debtors have partnered for over 6 years to develop new specialty product offerings for the Debtor's customers. Because Colorcentric is set up to produce the CCC Specialty Products to the Debtors' specifications with a quick turn-around time—usually within three to four days of the customer's order—it would be very difficult to find another vendor to supply the CCC Specialty Products in a manner acceptable to the Debtors and that would not harm the Debtors' ongoing business. If the Debtors were forced to find a replacement provider of the CCC Specialty Products, the Debtors would risk being unable to fulfil customers' orders during the very profitable holiday season. The approximate pre-petition amount due to Colorcentric is \$143,000.¹⁰ Prior to the Petition Date, Colorcentric has provided the Debtors with 30-day terms for payment of invoices.

113. The Debtors seek entry of an order authorizing, but not directing, the Debtors, in their business judgment and sole discretion, to pay certain pre-petition obligations owed to Critical Vendors (the "Critical Vendor Claims") in an amount not to exceed \$400,000 ("Critical Vendor Cap").

114. The Debtors contemplate making such payments solely to Critical Vendors that agree to continue supplying to the Debtors post-petition according to the normal and customary trade terms, practices and programs (including, but not limited to, credit limits, pricing, cash discounts, timing of payments and allowances) that were most favorable to the Debtors and in effect between such Critical Vendor and the Debtors on a historical basis within 180 days of the Petition Date or such other trade terms, practices or programs that are at least as favorable as those that were in effect before the Petition Date ("Customary Trade Terms").

has not increased prices charged to the Debtors during that time.

¹⁰ The Debtors also have a receivable due from Colorcentric in the approximate amount of \$135,000, due to a pre-petition sale of certain assets to Colorcentric. Colorcentric is satisfying this receivable through a credit of \$22,917 per month. The Debtors reserve all rights with respect to this receivable. The amount the Debtors' approximate pre-
{00301562 v 4 }

115. The Debtors also propose that a letter be sent to the Critical Vendors, along with a copy of the order granting the Critical Vendor Motion, which provides, in pertinent part, as follows:

(i) The Debtors and the Critical Vendor shall mutually determine the amount of such Critical Vendor's estimated pre-petition claim (provided that, such amount shall not be deemed a claim allowed by the Court, and the right of any party in interest to object to the claim is preserved).

(ii) The Debtors and the Critical Vendor shall agree upon the amount and timing of any payment on the estimated pre-petition claim.

(iii) The Critical Vendor shall be obligated to provide goods and services to the Debtors based upon Customary Trade Terms, and the Debtors shall pay the Critical Vendor in accordance with such terms.

(iv) The Critical Vendor shall not file or assert, or if applicable, shall immediately release, any lien against property of the Debtors arising out of any remaining pre-petition amount allegedly owed to the Critical Vendor by the Debtors.

(v) The Critical Vendor shall apply any payment made by the Debtors on its Critical Vendor Claim first to any administrative claim that could be asserted by the Critical Vendor pursuant to § 503(b)(9).

(vi) The Critical Vendor shall not assert or seek payment of any reclamation claim.

(vii) If the Critical Vendor receives payment on its Critical Vendor Claim and then refuses to provide goods and services to the Debtors on Customary Trade Terms, then any payments received by the Critical Vendor will be deemed to have been in payment of then outstanding post-petition obligations owed to the Critical Vendor, and the Critical Vendor shall be obligated to repay to the Debtors any payments received on account of its Critical Vendor Claim to the extent that the aggregate amount of such payments exceed the post-petition obligations then outstanding, without the right of setoff or reclamation.

116. Upon acceptance of the terms provided in the referenced letter and payment on a Critical Vendor Claim, the letter agreement shall govern the parties' post-petition trade relationship ("Trade Agreement"). If the Critical Vendor thereafter refuses to comply with the terms of the Trade Agreement during the pendency of these Chapter 11 cases, then the Debtors hereby seek

authority to, in their discretion and without further order of the Court, terminate the Trade Agreement.

117. In the event the Debtors terminate the Trade Agreement, (a) the payment made to the Critical Vendor on account of the Critical Vendor Claim shall be deemed to have been in payment of then-outstanding post-petition claims of such Critical Vendor, and (b) the Critical Vendor shall immediately return to the Debtors any payments made on account of its Critical Vendor Claim to the extent that such payments exceed the post-petition amounts then owed to such Critical Vendor, without giving effect to any rights of setoff or reclamation.

118. The Debtors believe that approximately \$100,000 of Fuji's Critical Vendor Claims may be on account of goods that were received by the Debtors in the ordinary course of their businesses within the twenty-day period before the Petition Date. Thus, the Critical Vendors may possess allowed administrative expense priority claims for those undisputed obligations ("Critical Priority Claims"). The Debtors seek authority to pay, in their discretion, any portion of the Critical Priority Claims in the ordinary course of business and upon execution of the Trade Agreement by the parties.

119. The Debtors believe that obtaining the authorization to pay Critical Vendor Claims is vital to their continued viability. Specifically, the Debtors believe that any interruption in the provision of the Paper Products, Fuji Specialty Products, CCC Specialty Products, and Printer Services would immediately jeopardize the Debtors' continued ability to attract customers and sell products after the customers' studio sessions. If the Debtors cannot attract the volume of customers it projects under its DIP Financing Budget or sell those customers packages approximating its pre-petition per customer sales average, the Debtors may find that the DIP Financing leaves them with insufficient liquidity. The Debtors' inability to operate efficiently and provide customers the

products and services they have come to expect will not only harm the Debtors' ability to operate during the case but also harm the prospects for competitive bidding for the Debtors' assets.

120. Paying the Critical Vendor Claims immediately is necessary to allow the Debtors to continue their business operations uninterrupted and maintain the Critical Vendors' goodwill. Moreover, it would be difficult, if not impossible, for the Debtors to find replacement vendors able to supply the volume of goods and services the Critical Vendors provide. Interruption or slow-down in the delivery of the goods and services provided by the Critical Vendors would be especially harmful at this time, on the cusp of the profitable holiday season.

121. For the reasons set forth above, in the sound business judgment of the Debtors, I believe the relief requested is in the best interest of the Debtors' estates and creditors.

I. Debtors' Motion for an Order Pursuant to 11 U.S.C. §§ 102 and 105(a) and Bankruptcy Rules 2002(m) and 9007 Establishing Case Management and Notice Procedures (the "Case Management Motion")

122. The Debtors seek an order establishing certain notice and case management procedures, all subject to further order of the Court, including: (a) limiting the notice procedures in these chapter 11 cases and (b) designating the parties upon whom notice must be served. By regulating the service, notice and filing requirements at the outset of these cases, the Court will minimize confusion regarding such important procedural matters. Further, these proposed procedures will ease the Court's administration of these cases and dramatically reduce the economic burdens on the Debtors' estates

123. Specifically, the Debtors propose that every notice, motion or application, and all briefs, memoranda, affidavits, declarations or other documents filed concurrently in support thereof in these cases (collectively, the "Filings") and all Filings, complaints and other pleadings filed in

any adversary proceeding commenced in these cases shall be subject to the notice procedures described in the Case Management Motion (the “Notice Procedures”), unless otherwise ordered by the Court.

124. There are over five hundred (500) creditors, potential creditors and parties in interest involved in the Debtors’ cases, each of which may be entitled to certain notices. In addition, the Debtors expect numerous parties to file notices of appearance and requests for notices and copies of pleadings as these cases proceed (the “2002 Parties”). The potential costs associated with copying and mailing or otherwise serving all Filings on all creditors and parties in interest, as well as all 2002 Parties, would impose an undue and expensive administrative and economic burden on the Debtors’ estates and the Debtors’ creditors. Such mass mailings would be extraordinarily costly to the Debtors’ estates and require the Debtors to divert limited resources to comply with these administrative requirements. Additionally, the repeated drafting and filing of motions to limit notice for various matters which may be brought before the Court will only further increase the administrative and economic burden on the Debtors’ estates.

125. The Debtors believe that adopting the Notice Procedures will substantially reduce administrative burdens and result in substantial cost savings to the Debtors’ estates because of the reduction of time and money the Debtors will have to expend on the Filings. The Debtors further believe that adopting the Notice Procedures will also significantly reduce the administrative and economic burden placed on creditors and parties in interest when filing the Filings.

126. The Notice Procedures have been tailored to attempt to ensure that all parties in interest that may be directly affected by the relief sought by a particular Filing will receive notice of such filing directly from the party submitting the filing to the Court. Thus, the Debtors believe no party will be adversely affected.

J. Debtors' Motion for an Order (I) Establishing Bar Dates for Filing Proofs of Claim, (II) Approving Bar Date Notices and Mailing Procedures and (III) Providing Certain Supplemental Relief (the "Bar Date Motion")

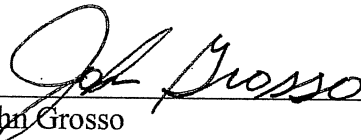
127. The Debtors have filed the Bar Date Motion, seeking entry of an order: (i) establishing the general bar date by which all creditors and certain interest holders must file proofs of claim in these chapter 11 cases (the "General Bar Date"); (ii) establishing the later of the General Bar Date and twenty-four (24) days after the effective date of rejection of such executory contract or unexpired lease as provided by an order of this Court or pursuant to a notice under procedures approved by this Court as the bar date by which a proof of claim relating to the Debtors' rejection of such contract or lease must be filed (the "Rejection Bar Date"); (iii) establishing a bar date by which creditors holding claims which have been amended by the Debtors in their Schedules (as defined below) as the later of the General Bar Date and twenty-four (24) days after the date that notice of the amendment is served on the affected claimant (the "Amended Schedule Bar Date" and collectively, with the General Bar Date, and the Rejection Bar Date, the "Bar Dates"); (iv) approving the forms of notice to be used to inform potential creditors of the Bar Dates; (v) approving mailing procedures with respect to notice of the Bar Dates; and (vi) providing certain supplemental relief.

128. The Debtors seek to establish the Bar Dates in order to accommodate the need for an expedited sale and plan confirmation process. The Debtors will file a Plan and Disclosure Statement very early in these cases, and intend to seek confirmation of a Plan within the first three months of the cases. The Debtors need to establish the Bar Dates in order to be able to identify the creditors who need to be solicited for Plan confirmation, and also to enable the Debtors to accurately establish reserves for Secured and Priority claims under the Plan.

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CONCLUSION

In order to minimize any disruption in continuing the ordinary course of business for the Debtors or any potential loss of value to the Debtors' business operations, the Debtors' immediate objective is to take all necessary and required steps to protect the value of its businesses and the value of its assets following the commencement of the Chapter 11 Cases. The Debtors believe and further I believe that if this Court grants the relief requested in each First Day Motion, the prospect for achieving these objectives, to the maximum benefit of creditors and the Debtors' estate, will be substantially enhanced.



John Grosso

Sworn to and subscribed before me
This the 31 day of August, 2017.



[print name] Tiffany N. Lindsay
Notary Public
My Commission Expires: June 19, 2019