

**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)
_____)	

**DEBTORS’ MOTION FOR ENTRY OF AN ORDER AUTHORIZING THE DEBTORS
TO ASSUME RESTRUCTURING SUPPORT AGREEMENT**

Portrait Innovations, Inc. (“Portrait Innovations” or the “Company”) and Portrait Innovations Holding Company (“Holding”), debtors and debtors-in-possession in the above-captioned cases (collectively the “Debtors”)¹, hereby move (the “Motion”) the Court for entry of an order (the “Order”), pursuant to sections 105(a) and 365(a), authorizing the Debtors to assume that certain Restructuring Support Agreement attached hereto as Exhibit A (the “RSA”).² In support of this Motion, the Debtors respectfully state as follows:

PRELIMINARY STATEMENT

The RSA is the lynchpin to the Debtors’ restructuring efforts, and is of critical import to the future of the Debtors’ businesses. Through extensive arm’s length negotiations, the Debtors

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. (9393) and Portrait Innovations Holding Company (5553). The Debtors address is 2016 Ayrslay Town Center Boulevard, Suite 200, Charlotte North Carolina 28273.

² Capitalized terms not defined herein shall have the meanings ascribed to them in the RSA.

were able to secure essential and necessary financing during these cases, create a competitive and value maximizing auction process for the sale of Debtors' assets³ and secure the consent and support of the Debtors' largest creditors and only secured creditors, all as embodied in the RSA. The transactions embodied in the RSA provide the Debtors with a clear path through chapter 11 to emerge a healthy enterprise, all in time for the critical holiday season. Without the RSA, the Debtors will lack operating funds and be forced to liquidate without substantial assets to repay creditors, to the detriment of the Debtors, the employees, and the entire creditor body. The Debtors, therefore, respectfully request that they be permitted to assume the RSA and perform their obligations thereunder.

JURISDICTION

1. The Court has jurisdiction over the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue of these proceedings and the Motion in this Court is proper under 28 U.S.C. § 1408.

2. The statutory and legal predicates for the relief requested herein are section 365(a) of title 11 of the United States Code (the "Bankruptcy Code") and Rule 6006 and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Rule 9014-1 of the Rules of Practice and Procedure of the United States Bankruptcy Court for the Western District of North Carolina.

BACKGROUND

A. General Background

3. On the date hereof (the "Petition Date"), the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (the "Chapter 11 Cases"). The Debtors are

³ As described in the Restructuring Term Sheet, the Company's assets will be transferred to the Reorganized Company and the equity interests of the Reorganized Company will be conveyed to the Noteholders or Winning Bidder following the Auction.

operating their businesses and managing their properties as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee, examiner or statutory committee has yet been appointed in these Chapter 11 Cases.

4. In support of this Motion, the Debtors rely on the Affidavit of John Grosso in Support of their Chapter 11 Petitions and First Day Motions (the “Grosso Affidavit”), the terms of which are incorporated herein by reference.

5. 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.⁴ Capital Fund II, Capital Fund III, and CapitalSouth Partners Florida Sidecar Fund II, L.P. (“Capital Florida” and, together with Capital Fund II and Capital Fund III, the “Noteholders”), collectively hold 100% of the Notes.

6. As of the Petition Date, the outstanding principal balance of the Notes was approximately \$15 million.

B. The Debtors’ Restructuring Efforts

7. As described more fully in the Grosso Affidavit, Portrait Innovations had operated successfully, and profitably, for over fifteen years before the Petition Date. The Company had income from operations and adjusted earnings before interest, depreciation and amortization of \$8.5 and \$19.0 million, respectively, in fiscal year 2014, and \$4.0 and \$13.6 million,

⁴ At the time of issuance, the Notes were subordinated to a senior secured credit facility provided by Fifth Third Bank, which was subsequently repaid and terminated. The Notes represent the Debtors’ only secured credit facility outstanding as of the Petition Date.

respectively, in fiscal year 2015. In the second half of the 2016 fiscal year, Portrait Innovations began seeing a significant decline in visitors to their upscale, mix-use commercial (or “lifestyle”) locations and their traditional retail park (or “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 retail bankruptcy filings in the recent past.

8. 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, to reduce current rents and occupancy costs. The Company has had only limited success in renegotiating lease 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.

9. 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 2017 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.

10. 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 2017 and pursue a transaction into late fall 2017, 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 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.

11. Therefore, in mid-July 2017, the Debtors approached the Noteholders to discuss their options in light of their likely inability to continue operations long enough to complete the Piper Jaffray process or reach the profitable holiday season without substantial additional capital. 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 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 stalking horse bidder, would be the best way to maximize value for all constituencies. In the absence of new financing, the Debtors' management believed the Debtors would have been forced to cease operations in the early fall of 2017 and liquidate their assets.

12. 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 the RSA, which the Debtors and Noteholders executed prior to the Petition Date, and which incorporates the DIP Term Sheet, Plan Term Sheet and Bidding Procedures (each as defined below).

13. The RSA binds the Debtors and the Noteholders to support the Restructuring Transaction, which consists of (A) the conveyance of all of the Debtors' Assets to the Reorganized Company, (B) the sale of the New Shares in the Reorganized Company to (1) the Noteholders in exchange for the Plan Consideration or, (2) subject to the outcome of the Auction, to the Winning Bidder pursuant to the Sale Transaction. The RSA attaches and incorporates the following documents, which are each the product of arm's length negotiations and set forth the substantive terms upon which the Restructuring Transaction shall proceed: (i) a term sheet for debtor-in-possession financing (the "DIP Term Sheet"), which sets forth the terms

upon which [certain] Noteholders (acting in their capacity as the DIP Lenders) shall provide the funding during these Chapter 11 Cases; (ii) a term sheet for chapter 11 plan of reorganization (the “Plan Term Sheet”), which sets forth the terms upon which the Noteholders will sponsor, support and vote in favor of a chapter 11 plan; and (iii) proposed bidding procedures to govern the process of seeking the highest and best value for the Debtors’ assets (the “Bidding Procedures”).

14. As set forth in detail in the RSA, the Restructuring Transaction would be implemented through confirmation of a plan of reorganization (the “Plan”). Specifically, on the Effective Date of the Plan, substantially all of Portrait Innovations’ assets would be transferred to the Reorganized Company, and the Noteholders would acquire 100% of the equity of the Reorganized Company. Under the Bidding Procedures, the Debtors, with the assistance of their financial advisors, Piper Jaffray, would solicit higher and better bids for the equity of the Reorganized Company, and the Debtors would hold an auction for the equity of the Reorganized Company if the Debtors receive more than one Qualified Bid.

THE RSA

15. To support and implement the Restructuring Transaction contemplated by the Plan Term Sheet, the Debtors and the Noteholders entered into the RSA. Pursuant to the RSA, the Noteholders have agreed to support the restructuring contemplated by the RSA and the Plan Term Sheet. A summary of the RSA is provided below:

<u>SUMMARY OF RSA</u>	
Agreements of the Noteholders	Upon the terms and subject to the conditions of the RSA and the Restructuring Term Sheet, the Noteholders agree that, for the duration of the Restructuring Support Period, each of the Noteholders shall: support, and take all reasonable actions necessary to facilitate the

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implementation or consummation of the Restructuring Transaction and the approval by the Bankruptcy Court of the Bidding Process Documents and the Plan Documents, including, without limitation, consummation and funding of the DIP Facility, it being understood that except for funding obligations under the DIP Facility, none of the Noteholders shall be required to incur any material costs, expenses or liabilities in connection therewith prior to the Effective Date of the Plan;

(A) subject to the receipt by the Noteholders of a Disclosure Statement approved by the Bankruptcy Court, timely vote or cause to be voted all of its Noteholder Claims against, and not consent to (unless also agreed to in writing by the Debtors), any Alternative Transaction; and (B) not take any other action, including but not limited to, initiating or joining in any legal proceedings or enforcing rights as a holder of Notes that is inconsistent with this Agreement or the Restructuring Term Sheet, or is reasonably likely to prevent, interfere with, delay or impede the implementation or consummation of the Restructuring Transaction (including, but not limited to, the Bankruptcy Court's approval of the DIP Motion, the RSA Assumption Motion, the Plan Documents, the Bidding Process Documents, the Disclosure Statement, the Solicitation and the confirmation of the Plan); provided, however, that nothing contained in the RSA shall limit the ability of the Noteholders to consult with the Debtors, to appear and be heard, or to file objections or other pleadings in the Chapter 11 Cases, so long as such consultation, appearance, objection, or pleading is not inconsistent with the Restructuring Transaction contemplated by this Agreement;

(A) subject to the receipt by the Noteholders of a Disclosure Statement approved by the Bankruptcy Court, timely vote, or cause to be voted, all of its Noteholder Claims to accept the Plan, and (B) not change, withdraw or revoke such vote (or cause or direct such vote to be changed, withdrawn or revoked); provided, however, that such vote may, upon written notice to the Debtors and the other Noteholders, be revoked (and, upon such revocation, deemed void *ab initio*) by any of the Noteholders (so long as such Noteholder has not materially breached this Agreement) at any time following the expiration of the Restructuring Support Period;

support the mutual release and exculpation provisions to be

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	<p>provided in the Plan, in accordance with the terms of the Restructuring Term Sheet; and</p> <p>not, from and after the date hereof until the Bankruptcy Court enters the Bidding Procedures Order, solicit or encourage any person, entity or group with respect to any offer or proposal to purchase the Assets and restructure the Debtors pursuant to a plan of reorganization inconsistent with the Restructuring Term Sheet; <u>provided</u> that prior to the entry of the Bidding Procedures Order, the Noteholders may, subject to any confidentiality or non-disclosure agreement with one or more of the Debtors, respond to any unsolicited offer or proposal related to an Alternative Transaction.</p>
Conditions to the Noteholders' Obligations	<p>The obligations of each of the Noteholders are subject to the following conditions:</p> <p>the RSA shall have become effective in accordance with the provisions of <u>Section 12</u> thereof;</p> <p>the Restructuring Term Sheet shall be acceptable in all respects to the Noteholders; and</p> <p>the RSA shall not have terminated in accordance with the terms of <u>Section 5</u> thereof.</p>
Agreements of the Debtors	<p>Among other obligations set forth in the RSA, the Debtors agree to:</p> <p>(A) commence the Chapter 11 Cases in the Bankruptcy Court, (B) file the Plan, the Disclosure Statement, the DIP Motion, the RSA Assumption Motion, the Solicitation Procedures Motion, the Lease Rejection Motion, and the Bidding Procedures Motion on the Petition Date with the Bankruptcy Court; (C) diligently seek and obtain Bankruptcy Court approval of the Plan, Disclosure Statement, DIP Motion, the RSA Assumption Motion, the Solicitation Procedures Motion, the Lease Rejection Motion, and the Bidding Procedures Motion by the deadlines set forth in the RSA, (D) support the Restructuring Transaction, and exercise best efforts, to take all actions (1) contemplated by the Restructuring Term Sheet, (2) that are necessary to facilitate, effectuate and promptly consummate the Restructuring Transaction, (3) that are necessary to prepare and complete, as soon as reasonably practicable after the date hereof, all Plan Documents, and (4) that are necessary to obtain the approval by</p>

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the Bankruptcy Court of the Plan and the other Plan Documents;

conduct the Marketing Process in a commercially reasonable manner, in accordance with and subject to the Bidding Procedures, and select the Winning Bid and the Backup Bid in consultation with the Noteholders.

take commercially reasonable efforts to complete the preparation, as soon as reasonably practicable after executing the RSA, of all Bidding Process Documents;

timely file a formal objection to any motion filed with the Bankruptcy Court or any other proceeding commenced by any party seeking (A) entry of an order (x) directing the appointment of an examiner or a trustee, (y) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code or (z) dismissing the Chapter 11 Cases; (B) the entry of an order modifying or terminating the Debtors' exclusive right to file and/or solicit acceptances of a plan of reorganization; (C) confirmation or approval of an Alternative Transaction not approved by the Noteholder Agent in writing; or (D) other relief that would be inconsistent with the Plan, the Plan Documents, the DIP Documents, the Restructuring Term Sheet, and the RSA;

initiate, commence or enter into any proceeding or proposed settlement (as the case may be) by the Debtors of any claim, litigation, dispute, controversy, cause of action, proceeding, appeal, determination, investigation, matter or otherwise that involves or will require the payment by the Debtors of any amount in excess of \$100,000 in the aggregate or that are inconsistent with the Plan Documents; and

exercise best efforts to obtain as promptly as practicable any and all governmental, regulatory, licensing or other approvals (including, without limitation, any necessary third-party consents) necessary to the implementation or consummation of the Restructuring Transaction or such third party consents reasonably requested by the Noteholder Agent.

Among other negative covenants, the Debtors agree not to:

(A) except as contemplated by the RSA and pursuant to the Bidding Procedures, directly or indirectly, through any Entity, seek, solicit, entertain, propose, support, assist, engage in

<u>SUMMARY OF RSA</u>	
	<p>negotiations in connection with, enter into any agreement or participate in the formulation of, any Alternative Transaction, other than the Restructuring Transaction; or (B) take any action that is materially inconsistent with the RSA or the Restructuring Term Sheet;</p> <p>(A) amend, supplement, withdraw, modify or waive any condition under, the Plan or any of the other Plan Documents, in whole or in part; (B) publicly announce or privately indicate any intention not to pursue the Restructuring Transaction; (C) amend, modify, supplement or waive any condition under the Bidding Procedures; (D) suspend or revoke the Marketing Process or the Restructuring Transaction; or (E) execute, file or agree to file any document (including any modifications or amendments thereof) that, in whole or in part, is not consistent in any respect with the RSA or the Restructuring Term Sheet or is not otherwise acceptable to the DIP Agent and the Noteholder Agent;</p> <p>except in connection with the Debtors' selection of the Winning Bidder and the Backup Bidder in accordance with the Bidding Procedures, to the extent the Debtors have any discretionary consent, waiver, amendment or approval right in any of the Plan Documents or in any other documents or agreements related to the Restructuring Transaction over the form and/or substance of any document, instrument, consent, approval, waiver, amendment, modification, supplement, opinion or agreement, or any action or other matter, exercise such consent or approval right without the prior written consent of the DIP Agent and the Noteholder Agent; and</p> <p>except for the assumption or rejection of Executory Contracts and Unexpired Leases in accordance with the Plan and the Lease Rejection Motion, seek to assume or reject, without the consent of the DIP Agent and the Noteholder Agent, any Executory Contracts or Unexpired Leases.</p>
Noteholder Termination Events	<p>The Noteholders may terminate the RSA for the following reasons, among others set forth in the RSA:</p> <p>the Debtors or any other Party (other than the Noteholders) shall have breached any obligation contained in the RSA (other than the obligations expressly referenced in the Noteholder Termination Events contained in <u>section 5(a)(ii) through (xviii)</u></p>

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of the RSA) in any material respect and the Noteholder Agent shall have delivered written notice to the Debtors of any such breach and such breach remains uncured for the period of three (3) business days following such notice;

the occurrence of a Material Adverse Effect, or the occurrence of any other event, change, effect, occurrence, development, circumstance or change of control, management or fact that could materially impair the ability of the Debtors to perform their obligations under the RSA, or has a material adverse effect on, or prevents or materially delays the consummation of, the Restructuring Transaction;

the Bankruptcy Court enters an order denying confirmation of the Plan or grants relief that is inconsistent with the RSA, the Restructuring Term Sheet, the Bidding Process Documents, the Plan Documents, or the DIP Documents in any material respect;

the Bankruptcy Court enters an order modifying or terminating the Debtors' exclusive right to file and/or solicit acceptances of a plan of reorganization;

(A) the occurrence of an Event of Default under the DIP Facility, (B) modification of the DIP Budget in a manner not acceptable to the DIP Agent and the Noteholder Agent, or (C) the termination or modification of the Interim DIP Order or Final DIP Order in a manner that is not acceptable to the DIP Agent and the Noteholder Agent;

the Bankruptcy Court enters an order (A) directing the appointment of an examiner or a trustee; or (B) dismissing the Chapter 11 Cases;

the failure to satisfy any of the conditions to effectiveness set forth in the Plan by the deadlines set forth therein, except as such conditions may be waived by the DIP Agent and the Noteholder Agent;

the Debtors or any other Party (other than the Noteholders) fail to satisfy or comply with any of their obligations under Section 13 thereof;

the Debtors fail to satisfy or comply with any of the milestones reflected in the DIP Term Sheet and Restructuring Term Sheet,

<u>SUMMARY OF RSA</u>	
	<p>and such failure remains uncured at the time notice of termination is given by the Noteholder Agent in accordance with <u>Section 22</u> thereof; or</p> <p>the Effective Date shall not have occurred on or before December 8, 2017.</p>
Debtors Termination Events	<p>The Debtors may terminate the RSA if:</p> <p>the breach of any of the representations, warranties or covenants of the Noteholders set forth in the RSA that would reasonably be expected to have a material adverse impact on the consummation of the Restructuring Transaction and such breach remains uncured for a period of three (3) business days following such notice;</p> <p>except at the request of, or with the consent or acquiescence of the Debtors, the issuance by any required governmental, regulatory or licensing authority, or court of competent jurisdiction, of any ruling or order enjoining the consummation of a material component or portion of the Restructuring Transaction;</p> <p>except at the request of, or with the consent or acquiescence of the Debtors, the Bankruptcy Court enters an order (A) directing the appointment of an examiner or a trustee; (B) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code; or (C) dismissing the Chapter 11 Cases;</p> <p>except at the request of, or with the consent or acquiescence of the Debtors, the Chapter 11 Cases are involuntarily dismissed; or</p> <p>the DIP Facility shall not have been consummated, or initial advances contemplated by the DIP Term Sheet shall not have been made within seven (7) days after the entry of the Interim DIP Order, in each case, as a result of a material breach by the Noteholders under the DIP Facility.</p>
Transaction Expenses	<p>Whether or not the transactions contemplated by the RSA are consummated, the Debtors hereby agree to reimburse or pay in full in cash, as the case may be, the reasonable and documented Transaction Expenses, payable as follows: (i) all accrued and unpaid Transaction Expenses incurred up to (and including) the Petition Date, shall be paid on the Closing Date (as defined in the DIP Term Sheet) against receipt</p>

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of reasonably detailed invoices of amounts accrued, (ii) all accrued and unpaid Transaction Expenses incurred on or after the Petition Date and up (and including) to the date of the entry by the Bankruptcy Court of the RSA Order shall be paid within two (2) business days of the date of the entry by the Bankruptcy Court of the RSA Order against receipt of reasonably detailed invoices of amounts accrued, (iii) all accrued and unpaid Transaction Expenses incurred after the date of the entry by the Bankruptcy Court of the RSA Order and up to (and including) the Effective Date of the Plan shall be paid on a regular and continuing basis promptly (but in any event within five (5) business days) against receipt of reasonably detailed invoices of amounts accrued, without any requirement for Bankruptcy Court review or further Bankruptcy Court order, and (iv) upon termination of this Agreement, all accrued and unpaid Transaction Expenses incurred up to (and including) the date of such termination shall be paid promptly (but in any event within five (5) business days), against receipt of reasonably detailed invoices of amounts accrued, without any requirement of Bankruptcy Court review or further Bankruptcy Court order; provided, however, that the payment of the Transaction Expenses shall be subject to the terms of the RSA Order.

BASIS FOR RELIEF REQUESTED

16. The RSA was negotiated at arms' length between the Debtors and the Noteholders. Each party was represented by separate counsel in the negotiation of the agreement. The Debtors believe the terms of the RSA are fair and reasonable.

17. Section 365(a) of the Bankruptcy Code provides that a debtor in possession may assume or reject an executory contract or unexpired lease, subject to the Bankruptcy Court's approval. In addition, section 105(a) provides a bankruptcy court with broad powers in the administration of a case under the Bankruptcy Code, providing, in relevant part, that "[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code]." 11 U.S.C. § 105(a).

18. Courts review a debtor's decision to assume or reject an executory contract or unexpired lease under the "business judgment" test. See NLRB v. Bildisco & Bildisco, 465 U.S. 513, 523 (1984); Orion Pictures Corp. v. Showtime Networks, Inc. (In re: Orion Pictures Corp.), 4 F.3d 1095, 1098 (2d Cir. 1993). Applying the business judgment standard, courts generally defer to a debtor's decision to assume an executory contract if the debtor determines that, in the debtor's business judgment, the assumption of the contract will benefit the debtor's estate. See Richmond Leasing Co. v. Capital Bank, N.A., 762 F.2d 1303, 1309 (5th Cir. 1985). The rule in the Fourth Circuit is that the Court should accept a debtor's decision to assume or reject an executory contract or unexpired lease "except upon a finding of bad faith or gross abuse of [the debtor's] 'business discretion.'" Trak Auto Corp. v. Ramco-Gershenson (In re Auto Trak Corp.), 2002 Bankr. LEXIS 938 at *4 fn.1 (Bankr. E.D. Va. 2002) (citing Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1047 (4th Cir. 1985)). "More exacting scrutiny would slow the administration of the Debtors' estate and increase its cost, interfere with the Bankruptcy Code's provision for private control of administration of the estate, and threaten the court's ability to control a case impartially." Richmond Leasing Co., 762 F.2d 1303, 1311.

19. In the exercise of their business judgment, and for the reasons set forth above, the Debtors have determined that it is in the best interest of the Debtors, their estates and their constituents that the RSA be assumed, and the Debtors be permitted to pursue and consummate the transactions contemplated thereunder. The Debtors' determination to assume the RSA is an exercise of sound business judgment, and is entitled to deference under applicable law. The agreements set forth in the RSA support a transaction that will enable the Debtors to accomplish critical balance sheet restructuring through rejection of unprofitable leases, restructuring of long-

term debt, and attracting of new capital, all of which will benefit the Debtors' estates, creditors and other parties in interest. The Debtors believe expeditious prosecution of, and emergence from, these Chapter 11 Cases is essential to preserving value for their estates and parties in interest by ensuring that the Debtors' business does not languish in chapter 11 for an extended period of time. Assumption of the RSA is a necessary component for the Debtors to implement the restructuring contemplated in the Plan Term Sheet. By serving as a roadmap for the Chapter 11 Cases, the RSA focuses on the Debtors' ultimate goal – the expedient and efficient emergence from these cases.

20. The RSA is the result of extensive, arms-length negotiations between the Debtors and the Noteholder. The final terms of the RSA (including, without limitation, the Plan Term Sheet, DIP Term Sheet and Bidding Procedures) are the result of the give-and-take of arm's-length, third party negotiations and represent the best agreement the Debtors believe they could negotiate. Without such support, even if the Debtors were able to prevent an outright liquidation of the Company, they would face the potential for complicated and expensive confirmation and disclosure statement hearings, and a prolonged stay in bankruptcy, without access to necessary post-petition financing. By securing the Noteholders' support, the RSA will allow the Debtors to propose a Plan supported by its senior secured lender that will hopefully allow the Debtors to emerge from chapter 11 successfully and on an expedited basis, thereby maximizing value for the benefits of all parties in interest.

21. Thus, given the significant benefits to be achieved, the Debtors determined, in the exercise of their business judgment, that the proposed restructuring facilitated by the RSA (including, without limitation, the Plan Term Sheet, DIP Term Sheet and Bidding Procedures) is the best opportunity to maximize the value of their estates and, thereby, maximize recoveries for

all stakeholders. The restructuring contemplated by the RSA will not only reduce the Debtors' funded indebtedness and lease obligations substantially, but will provide them with an opportunity to increase operational efficiency and profitability and provide the necessary capital to fund the Debtors' future operations, meet competitive conditions, and preserve asset value for the Debtors and their estates.

22. Based on the forgoing, the Debtors respectfully submit that they have exercised sound business judgment in deciding to enter into the RSA and request that the Court authorize the Debtors to assume the RSA and perform their obligations thereunder.

NOTICE

19. Notice of this Motion has been given to the following parties: (i) the holders of the twenty largest general unsecured claims against Portrait Innovations; (ii) the Internal Revenue Service; (iii) the Office of the United States Bankruptcy Administrator for the Western District of North Carolina; and (iv) counsel for CapitalSouth Partners SBIC Fund III, L.P. as Noteholder Agent. The Debtors submit that, in light of the nature of the relief requested, no other or further notice need be given.

WHEREFORE, the Debtors respectfully request that this Court enter an Order, substantially in the form attached hereto as Exhibit B, (a) authorizing the Debtors to assume the RSA and (b) granting such other and further relief as is just and proper.

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This, the 1st day of September, 2017

RAYBURN COOPER & DURHAM, P.A.

By: /s/ John R. Miller, Jr.
John R. Miller, Jr.
N.C. State Bar No. 28689
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Proposed Counsel to the Debtors

EXHIBIT A

THE RSA

RESTRUCTURING SUPPORT AGREEMENT

This RESTRUCTURING SUPPORT AGREEMENT (as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof, this “Agreement”), dated as of August 31, 2017, is entered into by and among (a) each of the Debtors named on the signature pages to this Agreement (each, individually a “Debtor” and, collectively, the “Company” or the “Debtors”) (b) CapitalSouth Partners SBIC Fund III L.P. (the “Noteholder Agent”) and (c) each of the beneficial owners (or investment managers or advisors for the beneficial owners) of the Notes (as defined below) identified on the signature pages hereto (such persons and entities described in this clause (c), together with any of their respective successors and permitted assigns under this Agreement, each, a “Noteholder” and, collectively, the “Noteholders”). The Debtors, the Noteholder Agent, the Noteholders and any subsequent person or entity that becomes a party hereto in accordance with the terms hereof, are referred to herein as the “Parties” and individually as a “Party.”

RECITALS

WHEREAS, as of the date hereof, the Noteholders collectively hold, in the aggregate, 100% of the aggregate outstanding principal amount of the 12.00% Senior Subordinated Secured Promissory Notes (the “Notes”) issued pursuant to that certain Note Purchase Agreement dated as of February 26, 2015 between Portrait Innovations, Inc., Portrait Innovations Holding Company, CapitalSouth Partners Fund II Limited Partnership, and CapitalSouth Partners SBIC Fund III L.P. (as the same may have been or as may be amended, modified or otherwise supplemented from time to time, the “Note Purchase Agreement”);

WHEREAS, prior to the date hereof, the Parties engaged in good faith, arm’s length negotiations that have led to an agreement regarding the material terms of a restructuring of the Company pursuant to which the Company has agreed to, among other things, (i) commence voluntary, pre-arranged reorganization cases (to be jointly administered) under chapter 11 of the Bankruptcy Code for the Debtors (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the Western District of North Carolina (the “Bankruptcy Court”); (ii) obtain Court approval of the DIP Facility (as defined below); (iii) pursue, through the Plan, the “Restructuring Transaction,” which shall consist of (A) the conveyance of all of the Debtors’ assets (the “Assets”) to the Reorganized Company (defined below), (B) the sale of the New Shares (as defined below) in the Reorganized Company to (1) the Noteholders in exchange for the Plan Consideration (as defined below) or, (2) subject to the outcome of the Auction (as defined below), to the Winning Bidder (as defined below) pursuant to the Sale Transaction (as defined below); (iv) file the Plan, accompanying Disclosure Statement (as defined below) and the Disclosure Statement Motion (as defined below) with the Bankruptcy Court; (v) undertake the Marketing Process (as defined below) and conduct an Auction (as defined below) pursuant to, and to the extent provided for, in the Bidding Procedures (as defined below); (vi) use its best efforts to (A) have the Disclosure Statement approved, and the Plan confirmed by the Bankruptcy Court and (B) to pursue consummation of the Plan; and (vii) distribute the Plan Consideration or the proceeds from the Sale Transaction in accordance with the Plan;

WHEREAS, the Restructuring Term Sheet (as defined below) and this Agreement are the product of good faith, arm's length negotiations among the Parties and their respective professionals; and

WHEREAS, the Parties desire to express to each other their mutual support and commitment in respect of the Restructuring Transaction on the terms and conditions contained in this Agreement and the Restructuring Term Sheet.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. Restructuring Term Sheet.

The Restructuring Term Sheet is expressly incorporated herein by reference and made part of this Agreement as if fully set forth herein. The Restructuring Term Sheet sets forth the material terms and conditions of the Restructuring Transaction; provided, however, that the Restructuring Term Sheet is supplemented by the terms and conditions of this Agreement. In the event of any inconsistency between the Restructuring Term Sheet and this Agreement, this Agreement shall govern.

2. Certain Definitions.

As used in this Agreement, the following terms have the meanings set forth below.

(a) "Administrative Claim" means any claim against the Debtor or its bankruptcy estate for costs and expenses of administration pursuant to section 503(b), 507(a)(2), 507(b) or 1114(e)(2) of the Bankruptcy Code, including the actual and necessary costs and expenses incurred after the Petition Date and through the Effective Date of preserving the Estate, and all fees and charges assessed against the Estate pursuant to section 1930 of title 28 of the United States Code.

(b) "Administrative and Priority Claims Estimate" means cash representing the Debtors' best estimate, as of the Effective Date, exclusive of Professional Fee Claims, of all unpaid claims that will be Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Other Secured Claims (if applicable), and Allowed Other Priority Claims, or such other amount agreed to by the Debtors and the Noteholder Agent.

(c) "Administrative Claims Reserve" means the reserve of cash funded by the Debtors into an account maintained by the Disbursing Agent for the benefit of holders of Allowed Administrative Claims (exclusive of holders of Professional Fee Claims, the reserve for which holders shall be the Professional Fee Reserve), Allowed Priority Tax Claims, Allowed Other Priority Claims and Allowed Other Secured Claims, in an amount equal to the Administrative and Priority Claims Estimate.

(d) “Affiliate” shall have the meaning set forth in section 101(2) of the Bankruptcy Code.

(e) “Alternative Bid” means the bid selected by the Debtors at the conclusion of the Auction, but only in the event that such bid is not the offer from the Noteholders embodied in the Plan.

(f) “Alternative Plan” shall have the meaning set forth in the Bid Procedures.

(g) “Alternative Transaction” means any transaction or transactions pursuant to which any Debtor or Debtors, in one or a series of transactions, sells the Assets or the New Shares or capital stock or equity interests of any Debtor or sells, transfers, leases or otherwise disposes, directly or indirectly, of all or substantially all of Debtors’ assets (other than the sale of Inventory in the ordinary course of business), other than the Restructuring Transaction; provided, however, that an Alternative Transaction does not and shall not be deemed to include any bid selected as the Winning Bid.

(h) “Alternative Transaction Proposal” means any inquiries, expressions of interest, term sheets, offers or proposals, in each case, whether formal or informal, binding or non-binding, oral or written, regarding any transaction or series of transactions with respect to an Alternative Transaction.

(i) “Assets” means substantially all of the Debtors’ assets.

(j) “Auction” means the auction to be conducted by the Debtors and their advisors pursuant to the Bidding Procedures.

(k) “Backup Bid” shall have the meaning set forth in the Bidding Procedures.

(l) “Backup Bidder” shall have the meaning set forth in the Bidding Procedures.

(m) “Bankruptcy Administrator” means the Bankruptcy Administrator for the Western District of North Carolina.

(n) “Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as codified in title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as in effect on the Petition Date (as defined below), together with all amendments and modifications thereto that are subsequently made applicable to the Chapter 11 Cases.

(o) “Bankruptcy Court” has the meaning set forth in the recitals hereto.

(p) “Bankruptcy Rules” means (i) the Federal Rules of Bankruptcy Procedure and the Official Bankruptcy Forms, as amended and promulgated under section 2075 of title 28 of the United States Code, (ii) the applicable Local Rules of Bankruptcy Practice and Procedure for the Bankruptcy Court and (iii) any general or chamber rules, or standing orders governing practice and procedure issued by the Bankruptcy Court, each as in effect on the Petition Date (as defined below), and each of the foregoing together with all amendments and modifications thereto that

are subsequently made and as applicable to the Chapter 11 Cases or proceedings therein, as the case may be.

(q) “Bidding Procedures” means the Debtors’ bidding procedures with respect to the Auction, in the form attached hereto as Exhibit C, and which shall otherwise be in form and substance acceptable to the DIP Agent and the Noteholder Agent, and shall be filed with, and approved by order of, the Bankruptcy Court. Pursuant to the Bidding Procedures, the Noteholders shall automatically be deemed “Qualified Bidders,” the proposal embodied by the Plan shall be deemed a “Qualified Bid,” and the Noteholders shall be entitled to participate in the Auction and credit bid the entire amount of the indebtedness, including the outstanding balances due under the DIP Facility, including all interest, fees and costs.

(r) “Bidding Procedures Motion” means the motion (together with all exhibits thereto) to be filed by the Debtors with the Bankruptcy Court on the Petition Date, seeking approval of the Bidding Procedures and scheduling certain dates, deadlines, and forms of notice in connection therewith and granting other related relief, in each case in form and substance acceptable to the DIP Agent and the Noteholder Agent.

(s) “Bidding Procedures Order” means an order of the Bankruptcy Court, in form and substance acceptable to the DIP Agent and the Noteholder Agent, approving the Bidding Procedures Motion.

(t) “Bidding Process Documents” means all material agreements, instruments, pleadings, orders or other related documents utilized to consummate the marketing and sale of the New Shares, including, but not limited to, the Bidding Procedures, the Bidding Procedures Motion, the Bidding Procedures Order, the Plan, and any chapter 11 plan or other documents implementing the Winning Bid or the Back-Up Bid, as applicable, each of which shall contain terms and conditions consistent with this Agreement and the Restructuring Term Sheet (other than changes to the chapter 11 plan as a result of bidding at the Auction) and otherwise acceptable to the Debtors, the DIP Agent, and the Noteholder Agent, and, as applicable, shall be filed with the Bankruptcy Court.

(u) “Chapter 11 Cases” has the meaning set forth in the recitals hereto.

(v) “Claim” shall have the meaning set forth in section 101(5) of the Bankruptcy Code.

(w) “Committee” means a committee of creditors holding unsecured Claims appointed by the United States trustee pursuant to section 1102 of the Bankruptcy Code.

(x) “Confirmation Order” means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code, which order (and any exhibits, appendices and related documents) shall be consistent with this Agreement and the Restructuring Term Sheet and otherwise acceptable in form and substance to the DIP Agent and Noteholder Agent.

(y) “DIP Agent” shall have the meaning as defined in the DIP Term Sheet.

(z) “Debtors” has the meaning set forth in the recitals hereto.

(aa) “DIP Budget” means the budget, in form and substance satisfactory to the DIP Agent approved by the Interim DIP Order or the Final DIP Order, as the case may be.

(bb) “DIP Documents” means the DIP Motion, the orders approving the DIP Facility on an interim and final basis, the DIP Term Sheet, and each other document or agreement prepared or executed in connection therewith.

(cc) “DIP Facility” means that superiority secured post-petition credit facility in an aggregate principal amount not to exceed \$5,000,000.00 to be provided by the Noteholders, as described in the DIP Term Sheet.

(dd) “DIP Lenders” shall have the meaning as defined in the DIP Term Sheet.

(ee) “DIP Motion” means the motion and proposed form of order to be filed by the Debtors with the Bankruptcy Court on the Petition Date seeking approval, on an interim and final basis, of the DIP Facility and, *inter alia*, the use of cash collateral (including such terms and conditions relating to adequate protection in connection therewith) consistent in all respects with the DIP Term Sheet and otherwise in form and substance acceptable to the DIP Agent and Noteholder Agent.

(ff) “DIP Obligations” as defined in the DIP Term Sheet.

(gg) “DIP Term Sheet” means the *General Term Sheet for Post Petition Debtor-In-Possession Financing* relating to the DIP Facility, attached hereto as Exhibit B.

(hh) “Disbursing Agent” means the person appointed by the Debtors and the Noteholder Agent to distribute the Plan Consideration or the proceeds from the Sale Transaction in accordance with the Plan.

(ii) “Disclosure Statement” means the Debtors’ disclosure statement, including any exhibits, appendices, related documents, in each case, as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof, in respect of the Plan and that is prepared and distributed in accordance with, among other things, sections 1125, 1126(b), and 1145 of the Bankruptcy Code, Bankruptcy Rule 3018 and other applicable law, each of which shall be consistent with this Agreement and the Restructuring Term Sheet and shall otherwise in form and substance acceptable to the Debtors, the DIP Agent, and Noteholder Agent.

(jj) “Effective Date” means the date upon which all conditions precedent to the effectiveness of the Plan or any chapter 11 plan sponsored by the Winning Bidder or Backup Bidder (as applicable) in accordance with the Bidding Procedures have been satisfied or are expressly waived in accordance with the terms thereof, as the case may be, and on which the Restructuring Transaction and the other transactions to occur on the Effective Date pursuant to the Plan or a chapter 11 plan sponsored by the Winning Bidder or the Back-Up Bidder in accordance with the Bidding Procedures become effective or are consummated.

(kk) “Entity” means a natural person, corporation, limited liability company, association, partnership (whether general or limited), joint venture, proprietorship, estate, trust, Governmental Authority or any other individual or entity, whether acting in an individual, fiduciary, representative or other capacity, including the Bankruptcy Administrator, within the meaning of section 101(15) of the Bankruptcy Code.

(ll) “Equity Interests” means all equity interests, including common stock, limited liability company interests, limited partnership interests and any other equity, ownership or profits interests, and options, warrants or other agreements to acquire common stock, limited liability company or profits interests, limited partnership interests or other equity, ownership or profits interests (whether or not arising under or in connection with any employment agreement).

(mm) “Execution Date” has the meaning set forth in Section 12 hereof.

(nn) “Executory Contracts and Unexpired Leases” means any contracts or unexpired leases to which one or more of the Debtors is a party that is subject to assumption or rejection under sections 365 or 1123 of the Bankruptcy Code.

(oo) “Exit Financing” has the meaning set forth in the Restructuring Term Sheet.

(pp) “Final Order” means an order or judgment of the Bankruptcy Court (or any other court of competent jurisdiction) entered by the Clerk of the Bankruptcy Court (or such other court) on the docket in the Chapter 11 Cases (or the docket of such other court), which has not been modified, amended, reversed, vacated or stayed and as to which (a) the time to appeal, petition for certiorari, or move for a new trial, stay, reargument or rehearing has expired and as to which no appeal, petition for certiorari or motion for new trial, stay, reargument or rehearing shall then be pending or (b) if an appeal, writ of certiorari, new trial, stay, reargument or rehearing thereof has been sought, such order or judgment of the Bankruptcy Court (or other court of competent jurisdiction) shall have been affirmed by the highest court to which such order was appealed, or certiorari shall have been denied, or a new trial, stay, reargument or rehearing shall have been denied or resulted in no modification of such order, and the time to take any further appeal, petition for certiorari or move for a new trial, stay, reargument or rehearing shall have expired, as a result of which such order shall have become final in accordance with Bankruptcy Rule 8002; provided, that the possibility that a motion under Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed relating to such order, shall not cause an order not to be a Final Order.

(qq) “Final DIP Order” means the order of the Bankruptcy Court approving the DIP Facility on a final basis, which order shall be consistent with this Agreement, the DIP Term Sheet, and the Restructuring Term Sheet and otherwise in form and substance acceptable to the DIP Agent.

(rr) “First Day Motions” means any “first day” or “second day” motions and pleadings to be filed by the Debtors with the Bankruptcy Court on the Petition Date in connection with the Chapter 11 Cases, including, without limitation, the DIP Motion, the RSA Assumption Motion, the Bidding Procedures Motion, the Solicitation Procedures Motion, and the

Lease Rejection Motion, each of which shall be in form and substance acceptable to the Debtors, the DIP Agent, and the Noteholder Agent.

(ss) “GAAP” means generally accepted accounting principles in the United States consistently applied.

(tt) “General Unsecured Claim” means any claim against the Debtors that (i) is neither Secured nor entitled to priority under the Bankruptcy Code or a Final Order and (ii) is not a DIP Facility Claim, an Administrative Claim, a Priority Tax Claim, an Other Secured Claim, an Other Priority Claim, or a Noteholder Claim.

(uu) “Governmental Authority” means any United States, or other international, national, federal, state, municipal or local governmental, regulatory or administrative authority, agency or commission, licensing body or any judicial (including any state or federal court) or arbitral body or other entity exercising executive, legislative, judicial, regulatory, licensing, gaming or administrative powers or functions of government.

(vv) “Indemnified Person” has the meaning set forth in Section 24 hereof.

(ww) “Indemnifying Party” has the meaning set forth in Section 24 hereof.

(xx) “Interim DIP Order” means the order of the Bankruptcy Court approving the DIP Facility on an interim basis, which order shall be consistent with this Agreement, the DIP Term Sheet, and the Restructuring Term Sheet, and otherwise in form and substance acceptable to the DIP Agent.

(yy) “Joinder Agreement” has the meaning set forth in Section 3(d) hereof.

(zz) “Lease Rejection Motion” means the motion and proposed form of order, acceptable in form and substance to the Debtors, the DIP Agent, and the Noteholder Agent, to be filed by the Debtors with the Bankruptcy Court on the Petition Date seeking approval, on a final basis, of the rejection of certain Executory Contracts and Unexpired Leases pursuant to section 365 of the Bankruptcy Code.

(aaa) “Marketing Process” means the marketing and bidding process to be conducted by the Debtors in connection with and in accordance with the terms of the Bidding Procedures in order to solicit higher and better offers with respect to a sale of the New Shares.

(bbb) “Material Adverse Effect” means any event, effect, occurrence, development, circumstance or change of control, management or fact occurring from and after August 31, 2017 (either individually or together with other events, effects, occurrences, developments, circumstances or changes of fact occurring after the date hereof) that has had, or would reasonably be expected to have, a material adverse effect on the business, operations, results of operations, financial condition, assets or liabilities of the Debtors taken as a whole, or which would materially impair the Debtors’ ability to perform their obligations under this Agreement or the Plan, or have a materially adverse effect on or prevent or materially delay the consummation of the Restructuring Transaction and consummation of the Plan; provided, however, that “Material Adverse Effect” shall not include any event, effect, occurrence, development,

circumstance or change of fact arising out of, resulting from or attributable to (a) general economic conditions affecting the United States, (b) a change in GAAP or regulatory accounting principles or interpretations thereof after the date hereof, or a change in applicable law or interpretations thereof by any Governmental Unit after the date hereof, (c) the commencement of the Chapter 11 Cases by the Debtors, the announcement by the Debtors or the pendency of the transactions contemplated in the Restructuring Term Sheet, or compliance by any Party with the covenants and agreements contained herein or in the Plan, (d) any act of war or terrorism (or, in each case, escalation thereof) or declaration of a national emergency, or (e) any natural disaster, except in each case covered by clauses (a) through (e) to the extent such event, effect, occurrence, development, circumstance or change of fact disproportionately affects the Debtors as compared to other companies in the retail photography business. Any failure by the Debtors to meet internal or other financial projections or forecasts for any period shall not, by itself, be deemed a Material Adverse Effect (it being understood, however, that the facts or occurrences giving rise to or contributing to such failure may be taken into account in determining whether there has been a Material Adverse Effect).

(ccc) “New Notes” shall have the meaning set forth in the Restructuring Term Sheet.

(ddd) “New Shares” means the Equity Interests in the Reorganized Company.

(eee) “Note Purchase Agreement” has the meaning set forth in the recitals hereto.

(fff) “Noteholder Agent” has the meaning set forth in the recitals hereto.

(ggg) “Noteholder Claims” means all claims for unpaid principal, interest, fees, costs and any other amounts arising under or in connection with the Note Purchase Agreement or the Notes.

(hhh) “Noteholder GUC” shall have the meaning set forth in the Restructuring Term Sheet.

(iii) “Noteholder Secured Claim” shall have the meaning set forth in the Restructuring Term Sheet.

(jjj) “Noteholder Termination Event” has the meaning set forth in Section 5(a).

(kkk) “Noteholders” has the meaning set forth in the recitals hereto.

(lll) “Notes” has the meaning set forth in the recitals hereto.

(mmm) “Petition Date” means the date of the commencement of the Chapter 11 Cases in the Bankruptcy Court.

(nnn) “Plan” means a chapter 11 plan of reorganization under the Bankruptcy Code for the Debtors, which shall be consistent in all respects with the terms and conditions of this Agreement and the Restructuring Term Sheet and otherwise acceptable in form and substance to the DIP Agent and the Noteholder Agent.

(ooo) “Plan Documents” means all agreements, instruments, pleadings, orders or other related documents utilized to implement the Restructuring Transaction and to obtain confirmation and the occurrence of the Effective Date of the Plan, including, but not limited to, the Plan, the Disclosure Statement, the Disclosure Statement Motion, the Disclosure Statement Order, the Bidding Process Documents, the Confirmation Order, and the Exit Financing, each of which shall contain terms and conditions consistent with this Agreement and the Restructuring Term Sheet and shall otherwise be in form and substance acceptable to the DIP Agent and the Noteholder Agent, and, as applicable, be filed with the Bankruptcy Court.

(ppp) “Plan Supplement” means the compendium of Plan Documents, in draft form, to be filed by the Debtors with the Bankruptcy Court, no later than [7] calendar days prior to the voting deadline.

(qqq) “Professional” means any professional employed by the Debtors or the Committee in the Chapter 11 Case pursuant to sections 327, 328, 363 or 1103 of the Bankruptcy Code and any professionals seeking compensation or reimbursement of expenses in connection.

(rrr) “Professional Fee Estimate” means the estimated aggregate amount of all reasonable fees and expenses due to Professional Fee Claims through the Effective Date, which have not been paid or otherwise funded (including with funds deposited in escrow for payment of Professional Fee Claims).

(sss) “Professional Fee Claim” means a claim of a Professional pursuant to sections 327, 328, 330, 331 or 503(b) for compensation or reimbursement of costs and expenses relating to services performed after the Petition Date and prior to and including the Effective Date.

(ttt) “Professional Fee Reserve” means the reserve of cash funded by the Debtors (as agreed to by the Noteholder Agent) to an account maintained by the Disbursing Agent in an amount sufficient to fund all Professional Fee Claims of Professionals, including but not limited to an amount sufficient to pay (i) all unpaid holdback amounts and other expenses billed by Professionals prior to the Effective Date; and (ii) all outstanding fee applications of Professionals not ruled upon by the Bankruptcy Court as of the Effective Date.

(uuu) “Record Date” means 11:59 p.m. Eastern Daylight Time on September 1, 2017.

(vvv) “Reorganized Company” means the Debtor, as reorganized on and after the Effective Date, or the Entity which shall directly or indirectly own the Assets on the Effective Date, as determined by the Debtor and the Noteholder Agent.

(www) “Required DIP Lenders” shall have the meaning as defined in the DIP Term Sheet.

(xxx) “Restructuring Support Effective Date” means, as to each Party, the date upon which this Agreement becomes effective and binding on such Party in accordance with the provisions of Section 12 hereof.

(yyy) “Restructuring Support Period” means the period commencing on the Restructuring Support Effective Date and ending on the earlier of: (i) the date on which this Agreement is terminated in accordance with Section 5 hereof, or (ii) the Effective Date.

(zzz) “Restructuring Term Sheet” means the restructuring term sheet, including any schedules, annexes or exhibits thereto, attached hereto as Exhibit A.

(aaaa) “Restructuring Transaction” has the meaning set forth in the recitals hereto.

(bbbb) “Restructuring Transaction Agreements” shall mean this Agreement and the Restructuring Term Sheet.

(cccc) “RSA Assumption Motion” means the motion and proposed form of order to be filed by the Debtors with the Bankruptcy Court on the Petition Date, each of which shall be in form and substance acceptable to the Noteholder Agent, seeking the approval and assumption of this Agreement in its entirety and without modification pursuant to section 365 of the Bankruptcy Code, authorizing the payment of certain fees, expenses and other amounts hereunder, and granting related relief.

(dddd) “RSA Order” means an order of the Bankruptcy Court, in form and substance acceptable to the Noteholder Agent, approving the RSA Assumption Motion.

(eeee) “Sale Transaction” means the transaction implemented through the Plan whereby the New Shares are conveyed to either the Noteholders or a Winning Bidder pursuant to an Alternative Bid following the Auction.

(ffff) “Solicitation Procedures” means the ballot, notice, and tabulation procedures, and any documents related to the solicitation of and tabulation of acceptances of the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code, which procedures shall be in form and substance acceptable to the Debtors, the DIP Agent, and the Noteholder Agent.

(gggg) “Solicitation Procedures Motion” means the motion to be filed by the Debtors with the Bankruptcy Court seeking entry of the Disclosure Statement Order, which motion (including any exhibits, appendices or related documents) shall be consistent with this Agreement and the Restructuring Term Sheet and shall otherwise be in form and substance acceptable to the Debtors, the DIP Agent, and the Noteholder Agent.

(hhhh) “Solicitation Procedures Order” means an order of the Bankruptcy Court approving the Disclosure Statement and the Solicitation Procedures, which order (including any exhibits, appendices or related documents) shall be consistent with this Agreement and the Restructuring Term Sheet and shall otherwise be in form and substance acceptable to the Debtors, the DIP Agent, and the Noteholder Agent.

(iiii) “Transaction Expenses” means all fees, costs and expenses of each of the Noteholders (including, without limitation, all reasonable and documented fees (including success or completion fees), costs, expenses and disbursements of the Noteholders’ and the Noteholder Agent’s advisors), in each case, solely in connection with the negotiation, formulation, preparation, execution, delivery, implementation and consummation of this

Agreement, the Restructuring Term Sheet, the Plan and the other Plan Documents, the transactions contemplated hereunder and under the Restructuring Term Sheet and the DIP Term Sheet, and all transactions related hereto and thereto.

(jjjj) “Winning Bid” has the meaning set forth in the Bidding Procedures.

(kkkk) “Winning Bidder” has the meaning set forth in the Bidding Procedures.

Capitalized terms not defined herein shall have the meanings ascribed to them in the DIP Term Sheet or Bidding Procedures, as applicable.

3. Agreements of the Noteholders.

(a) Support of Restructuring Transaction. Upon the terms and subject to the conditions of this Agreement and the Restructuring Term Sheet, the Noteholders agree that, for the duration of the Restructuring Support Period, each of the Noteholders shall:

(i) support, and take all reasonable actions necessary to facilitate the implementation or consummation of the Restructuring Transaction and the approval by the Bankruptcy Court of the Bidding Process Documents and the Plan Documents, including, without limitation, consummation and funding of the DIP Facility, it being understood that except for funding obligations under the DIP Facility, none of the Noteholders shall be required to incur any material costs, expenses or liabilities in connection therewith prior to the Effective Date of the Plan;

(ii) (A) subject to the receipt by the Noteholders of a Disclosure Statement approved by the Bankruptcy Court, timely vote or cause to be voted all of its Noteholder Claims against, and not consent to (unless also agreed to in writing by the Debtors), any Alternative Transaction; and (B) not take any other action, including but not limited to, initiating or joining in any legal proceedings or enforcing rights as a holder of Notes that is inconsistent with this Agreement or the Restructuring Term Sheet, or is reasonably likely to prevent, interfere with, delay or impede the implementation or consummation of the Restructuring Transaction (including, but not limited to, the Bankruptcy Court’s approval of the DIP Motion, the RSA Assumption Motion, the Plan Documents, the Bidding Process Documents, the Disclosure Statement, the Solicitation and the confirmation of the Plan); provided, however, that nothing contained herein shall limit the ability of the Noteholders to consult with the Debtors, to appear and be heard, or to file objections or other pleadings in the Chapter 11 Cases, so long as such consultation, appearance, objection, or pleading is not inconsistent with the Restructuring Transaction contemplated by this Agreement;

(iii) (A) subject to the receipt by the Noteholders of a Disclosure Statement approved by the Bankruptcy Court, timely vote, or cause to be voted, all of its Noteholder Claims to accept the Plan, and (B) not change, withdraw or revoke such vote (or cause or direct such vote to be changed, withdrawn or revoked); provided, however, that such vote may, upon written notice to the Debtors and the other Noteholders, be revoked (and, upon such revocation, deemed void *ab initio*) by any of the Noteholders (so long as such Noteholder has not materially breached this Agreement) at any time following the expiration of the Restructuring Support Period;

(iv) support the mutual release and exculpation provisions to be provided in the Plan, in accordance with the terms of the Restructuring Term Sheet; and

(v) not, from and after the date hereof until the Bankruptcy Court enters the Bidding Procedures Order, solicit or encourage any person, entity or group with respect to any offer or proposal to purchase the Assets and restructure the Debtors pursuant to a plan of reorganization inconsistent with the Restructuring Term Sheet; provided that prior to the entry of the Bidding Procedures Order, the Noteholders may, subject to any confidentiality or non-disclosure agreement with one or more of the Debtors, respond to any unsolicited offer or proposal related to an Alternative Transaction.

(b) Certain Conditions. The obligations of each of the Noteholders set forth in Section 3(a) above are subject to the following conditions:

(i) this Agreement shall have become effective in accordance with the provisions of Section 12 hereof;

(ii) the Restructuring Term Sheet shall be acceptable in all respects to the Noteholders;

(iii) this Agreement shall not have terminated in accordance with the terms of Section 5 hereof.

(c) Rights of the Noteholders Unaffected. Nothing contained herein shall (i) limit (A) the right of any Noteholder to consult with any other Noteholder or the Debtors or (B) the rights of the Noteholders under any applicable bankruptcy, insolvency, foreclosure or similar proceeding, including, without limitation, appearing as a party in interest in any matter to be adjudicated in order to be heard concerning any matter arising in the Chapter 11 Cases, in each case, so long as such consultation or appearance is not in breach of or materially inconsistent with the obligations of the Noteholders hereunder or under the terms of the Restructuring Term Sheet and are not for the purpose of hindering, delaying or preventing the consummation of the Restructuring Transaction; (ii) limit the ability of any Noteholder to sell or enter into any transactions in connection with Notes or any other claims against or interests in the Debtors, subject to Sections 3(d) and (e) hereof; or (iii) limit the rights of any Noteholder under the Note Purchase Agreement or constitute a waiver or amendment of any provisions of the Note Purchase Agreement, subject to Section 3(a) above.

(d) Transfers. The Noteholders agree that, for the duration of the Restructuring Support Period, none of the Noteholders shall sell, contract to sell, give, transfer, loan, issue, pledge, encumber, grant a security interest in (except for blanket security interests of lenders to any of the Noteholders), hypothecate, assign, offer or otherwise transfer or dispose of (including by participation) any economic, voting or other rights in or to, directly or indirectly, in whole or in part, all or any portion of any of the Noteholder Claims or any option thereon or any right or interest therein (including grant any proxies, deposit any Notes into a voting trust or enter into a voting agreement with respect to any Notes), unless the transferee thereof either (A) is a Noteholder, or (B) prior to such transfer, agrees in writing for the benefit of the Parties to be bound by all of the terms of this Agreement applicable to the Noteholders (including with respect

to any and all claims or interests it already may hold against or in the Debtors prior to such transfer) by executing the joinder attached hereto as Exhibit D (the “Joinder Agreement”), and delivering an executed copy thereof, within two (2) business days of closing of such sale or transfer, to K&L Gates LLP, in which event (x) the transferee shall be deemed to be a Noteholder to the extent of such transferred rights and obligations and shall be deemed to make all of the commitments, representations, and warranties of a Noteholder hereunder and (y) the transferor shall be deemed to relinquish its rights (and be released from its obligations) under this Agreement to the extent of such transferred rights and obligations. Notwithstanding anything contained herein to the contrary, during the Restructuring Support Period, a Noteholder may offer, sell or otherwise transfer any or all of its holdings of Noteholder Claims to any Entity that, as of the date of transfer, controls, is controlled by or is under common control with any such Noteholder; provided, however, that such Entity shall automatically be subject to the terms of this Agreement and deemed a Noteholder party (as applicable) hereto and shall execute a Joinder Agreement hereto. The Noteholders agree that any sale, transfer or assignment of any Noteholder Claims that does not comply with the terms and procedures set forth herein shall violate this agreement and be deemed void *ab initio*, and the Parties shall have the right to enforce the voiding of such transfer.

(e) Additional Claims or Equity Interests. To the extent that any of the Noteholders (i) acquire additional Noteholder Claims, (ii) hold or acquire any other claims against the Debtors, or (iii) hold or acquire any Equity Interests, such Noteholders agree that such additional Noteholder Claims or other claims or Equity Interests shall be subject to this Agreement and that, for the duration of the Restructuring Support Period, the Noteholders shall support the Restructuring Transaction, shall vote (or cause to be voted) any such additional Noteholder Claims or other claims or Equity Interests entitled to vote on the Plan (in each case, to the extent still held by it or on its behalf at the time of such vote) in a manner consistent with Section 3(a) hereof, and shall not transfer any such additional Noteholder Claims or other claims or equity interests except in accordance with Section 3(d) hereof.

4. Agreements of the Debtors.

(a) Affirmative Covenants. Upon the terms and subject to the conditions of this Agreement and the Restructuring Term Sheet, the Debtors agree that, for the duration of the Restructuring Support Period, unless otherwise expressly consented to in advance in writing by the Noteholder Agent, the Debtors shall:

(i) (A) commence the Chapter 11 Cases in the Bankruptcy Court, (B) file the Plan, the Disclosure Statement, the DIP Motion, the RSA Assumption Motion, the Solicitation Procedures Motion, the Lease Rejection Motion, and the Bidding Procedures Motion on the Petition Date with the Bankruptcy Court; (C) diligently seek and obtain Bankruptcy Court approval of the Plan, Disclosure Statement, DIP Motion, the RSA Assumption Motion, the Solicitation Procedures Motion, the Lease Rejection Motion, and the Bidding Procedures Motion by the deadlines set forth herein, (D) support the Restructuring Transaction, and exercise best efforts, to take all actions (1) contemplated by the Restructuring Term Sheet, (2) that are necessary to facilitate, effectuate and promptly consummate the Restructuring Transaction, (3) that are necessary to prepare and complete, as soon as reasonably practicable after the date

hereof, all Plan Documents, and (4) that are necessary to obtain the approval by the Bankruptcy Court of the Plan and the other Plan Documents;

(ii) conduct the Marketing Process in a commercially reasonable manner, in accordance with and subject to the Bidding Procedures, and select the Winning Bid and the Backup Bid in consultation with the Noteholders.

(iii) take commercially reasonable efforts to complete the preparation, as soon as reasonably practicable after the date hereof, of all Bidding Process Documents;

(iv) convene a daily conference call, to the extent practicable (but in any event not less than four times a week) and on reasonable advance notice, with the Noteholders, which calls will include the management and the financial and legal advisors of the Debtors, which conference calls shall include updates on the Marketing Process, and deliver written updates on the Marketing Process to the Noteholder Agent not less than once per week;

(v) provide to the Noteholder Agent through its counsel, (A) reasonable access (without any material disruption to the conduct of their businesses) during normal business hours to the books, records and facilities of the Debtors; (B) reasonable access to the respective management and advisors of the Debtors for the purposes of evaluating the finances and operations of the Debtors, ensuring the Debtors' compliance with the Plan Documents, the DIP Facility and the DIP Budget and participating in the planning process with respect to the Marketing Process, the Auction and the Restructuring Transaction; and (C) information reasonably requested by the Noteholder Agent with respect to all Executory Contracts and Unexpired Leases of the Debtors;

(vi) provide prompt written notice to the Noteholders and their counsel of (A) the occurrence, or failure to occur, of any event of which any Debtor has knowledge which occurrence or failure would be likely to cause (1) any representation or warranty of the Debtors contained in this Agreement, the Plan Documents, or the DIP Documents to be untrue or inaccurate in any material respect, (2) any covenant of any of the Debtors contained in this Agreement, the Plan Documents, or the DIP Documents not to be satisfied in any material respect or (3) any condition precedent contained in the Plan, the Restructuring Term Sheet, the DIP Documents, or this Agreement not to occur or become impossible to satisfy; (B) receipt of any written notice from any third party alleging that the consent of such party is or may be required in connection with the transactions contemplated by the Restructuring Transaction; (C) receipt of any written notice from any governmental body in connection with this Agreement or the transactions contemplated by the Restructuring Transaction; (D) receipt of any written notice of any proceeding commenced, or, to the knowledge of any Debtor, threatened against any Debtor, relating to or involving or otherwise affecting in any material respect the transactions contemplated by the Restructuring Transaction; and (E) any failure of any of the Debtors to comply, in any material respect, with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder;

(vii) (A) notify the Noteholders' and the Noteholder Agent's advisors promptly (but in no event later than twenty-four (24) hours) after receipt by the Debtors of any Alternative Transaction Proposal, or any material modification or material amendment of any Alternative

Transaction Proposal, or any request for nonpublic information relating to the Debtors, which notification shall be made orally and in writing, in connection with the Marketing Process or otherwise, and shall (1) indicate the identity of the person or entity submitting or making the Alternative Transaction Proposal (or intending to make or considering making an Alternative Transaction Proposal) or requesting non-public information, and (2) include a copy (if in writing) and a summary of the terms of any such Alternative Transaction Proposal or modification or amendment of an Alternative Transaction Proposal; and (B) use commercially reasonable efforts to keep the Noteholders and their counsel fully informed, on a current basis and both orally and in writing, with respect to the Marketing Process and with respect to any changes in the status and any material changes or modifications in the terms of any Alternative Transaction Proposal, indication or request and of any negotiations or discussions, as the case may be; provided, however, that the Debtors shall not enter into any confidentiality or other agreement that would reasonably be expected to impede their ability to comply with their obligations under this subclause (vii);

(viii) pay in full in cash, all fees (including success and/or completion fees), costs, expenses, charges, disbursements and all other amounts provided for in Section 13 hereof;

(ix) provide draft copies of all documents, motions (including, without limitation, the First Day Motions, the DIP Documents), orders, procedures, agreements and other papers the Debtors intend to file with the Bankruptcy Court to the DIP Agent, the Noteholder Agent, and their counsel no later than three (3) business days prior to the date the Debtors intend to file any such document, motion, order, procedure, agreement or other paper, other than the Plan and other Plan Documents and the Bidding Process Documents, which shall be provided within a longer reasonable time, and consult in advance in good faith with counsel to the DIP Agent and the Noteholder Agent regarding the form and substance of any such proposed filings with the Bankruptcy Court;

(x) comply with the terms and conditions of any confidentiality agreements by and between the Debtors and one or more Noteholders (the "Confidentiality Agreements");

(xi) timely file a formal objection to any motion filed with the Bankruptcy Court or any other proceeding commenced by any party seeking (A) entry of an order (x) directing the appointment of an examiner or a trustee, (y) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code or (z) dismissing the Chapter 11 Cases; (B) the entry of an order modifying or terminating the Debtors' exclusive right to file and/or solicit acceptances of a plan of reorganization; (C) confirmation or approval of an Alternative Transaction not approved by the Noteholder Agent in writing; or (D) other relief that would be inconsistent with the Plan, the Plan Documents, the DIP Documents, the Restructuring Term Sheet, and this Agreement;

(xii) initiate, commence or enter into any proceeding or proposed settlement (as the case may be) by the Debtors of any claim, litigation, dispute, controversy, cause of action, proceeding, appeal, determination, investigation, matter or otherwise that involves or will require the payment by the Debtors of any amount in excess of \$100,000 in the aggregate or that are inconsistent with the Plan Documents; and

(xiii) exercise best efforts to obtain as promptly as practicable any and all governmental, regulatory, licensing or other approvals (including, without limitation, any necessary third-party consents) necessary to the implementation or consummation of the Restructuring Transaction or such third party consents reasonably requested by the Noteholder Agent.

(b) Negative Covenants. Upon the terms and subject to the conditions of this Agreement and the Restructuring Term Sheet, the Debtors agree that, for the duration of the Restructuring Support Period, unless (x) otherwise permitted or required by this Agreement or the Restructuring Term Sheet, or (y) otherwise expressly consented to in advance in writing by the Noteholder Agent, the Debtors shall not:

(i) (A) except as contemplated by this Agreement and pursuant to the Bidding Procedures, directly or indirectly, through any Entity, seek, solicit, entertain, propose, support, assist, engage in negotiations in connection with, enter into any agreement or participate in the formulation of, any Alternative Transaction, other than the Restructuring Transaction; or (B) take any action that is materially inconsistent with this Agreement or the Restructuring Term Sheet;

(ii) (A) amend, supplement, withdraw, modify or waive any condition under, the Plan or any of the other Plan Documents, in whole or in part; (B) publicly announce or privately indicate any intention not to pursue the Restructuring Transaction; (C) amend, modify, supplement or waive any condition under the Bidding Procedures; (D) suspend or revoke the Marketing Process or the Restructuring Transaction; or (E) execute, file or agree to file any document (including any modifications or amendments thereof) that, in whole or in part, is not consistent in any respect with this Agreement or the Restructuring Term Sheet or is not otherwise acceptable to the DIP Agent and the Noteholder Agent;

(iii) cause any other Entity to, directly or indirectly, or encourage any other Entity to, object to, delay, impede, appeal, or take any other action, directly or indirectly, that would interfere with, delay or impede the consummation of the Restructuring Transaction;

(iv) investigate, seek discovery, prepare or commence an avoidance action or other legal proceeding that challenges the validity, security, perfection, priority, extent or enforceability of any amount due or any liens and security interests granted under the Note Purchase Agreement or the Noteholder Claims;

(v) issue, sell, pledge, dispose of or encumber any additional shares of, or any options, warrants, conversion privileges or rights of any kind to acquire any shares of, any Equity Interests, including, without limitation, capital stock or limited liability company interests (except as may be expressly permitted under the DIP Facility);

(vi) amend or propose to amend its respective certificate or articles of incorporation, bylaws or comparable organizational documents;

(vii) adjust, split, combine or reclassify any outstanding shares of capital stock or other equity interests, or issue or propose or authorize the issuance of any other securities (including options, profits interests, warrants or any similar security exercisable for, or convertible into, such other security) of a Debtor;

(viii) declare, set aside or pay any dividend or make any other distribution payable in cash, stock, property or otherwise with respect to any Equity Interest;

(ix) adopt or propose any amendments to the respective certificates or articles of incorporation, bylaws or other organizational documents of any Debtor, except, in furtherance of the Restructuring Transaction (and approved by the Noteholders);

(x) subject to the Bidding Procedures, select or enter into any purchase or investment agreement or other transaction document with any Entity without first consulting with the DIP Agent and the Noteholder Agent;

(xi) except in connection with the Debtors' selection of the Winning Bidder and the Backup Bidder in accordance with the Bidding Procedures, to the extent the Debtors have any discretionary consent, waiver, amendment or approval right in any of the Plan Documents or in any other documents or agreements related to the Restructuring Transaction over the form and/or substance of any document, instrument, consent, approval, waiver, amendment, modification, supplement, opinion or agreement, or any action or other matter, exercise such consent or approval right without the prior written consent of the DIP Agent and the Noteholder Agent;

(xii) except for the assumption or rejection of Executory Contracts and Unexpired Leases in accordance with the Plan and the Lease Rejection Motion, seek to assume or reject, without the consent of the DIP Agent and the Noteholder Agent, any Executory Contracts or Unexpired Leases;

(xiii) redeem, purchase or acquire or offer to acquire any of any shares of capital stock or equity interests of a Debtor or any other securities thereof, or any rights, including, without limitation, capital stock, limited liability company interests, partnership interests, warrants or options to acquire any such shares or other securities;

(xiv) acquire (by merger, exchange, consolidation, acquisition of any portion of the stock of, or other ownership interests in, or substantial portion of assets, or otherwise) (A) any corporation, partnership, limited liability company, joint venture or other business organization or division; or (B) assets of the Debtors, in each case, other than in the ordinary course of business consistent with past practices (except as may be expressly permitted under the DIP Facility);

(xv) sell, lease, mortgage, pledge, grant, incur or suffer to exist any encumbrance on, or otherwise encumber or dispose of, any of properties or assets of any Debtor, including the capital stock or equity interests of any Debtor, other than sales or disposals of tangible assets in the ordinary course of business consistent with past practices and sales or donation of furniture, fixtures and equipment from studios identified in the Lease Rejection Motion (except as may be expressly permitted under the DIP Facility);

(xvi) incur or suffer to exist any indebtedness or debt, or guarantee any indebtedness of any Entity (other than a Debtor) or enter into any "keep well" or other agreement to maintain any financial condition of another person (other than a Debtor) or enter into any arrangement having the economic effect of any of the foregoing, in each case, outside of the

ordinary course of business consistent with past practices (except as may be expressly permitted under the DIP Facility);

(xvii) change materially its financial or tax accounting methods, except insofar as may have been required by a change in GAAP or applicable law, or revalue any of its material assets;

(xviii) (A) enter into, adopt or amend any collective bargaining agreements, works council or similar agreement with any labor union or labor organization representing employees or any Debtor; (B) enter into, adopt or amend any existing employment agreements or any management compensation or incentive plans, or increase in any manner the compensation or benefits (including severance) of any director, officer or management level employee of any of the Debtors; or (C) enter into or amend any existing employee agreements or any benefit or compensation plans except in the ordinary course of business consistent with past practices; in each case, except as may be expressly permitted under the DIP Facility; or

(xix) enter into any new agreement, contract or other arrangement, amend, supplement or otherwise modify any existing agreement, contract or other arrangement, effect any transaction or commit to enter into or otherwise effect any of the foregoing with any Affiliate of the Debtors, or that provides (directly or indirectly) any benefit (economic or otherwise) to, any Affiliate of the Debtors (or, in any such case, any employee, officer, director, manager, shareholder, member or partner of the Debtors or any Affiliate of the Debtors, or any such individual's parents, spouse or descendants, or any trust or entity which is for the benefit of such individual and/or such individual's relatives), in each case, except as may be expressly permitted under the DIP Facility.

(c) Automatic Stay. The Debtors acknowledge and agree, and shall not dispute that, the giving of notice of termination by any Party pursuant to this Agreement shall not be a violation of the automatic stay of section 362 of the Bankruptcy Code (and the Debtors hereby waive the applicability of the automatic stay to the giving of such notice).

5. Termination of Agreement.

(a) Noteholder Termination Events. The Noteholders may elect to terminate this Agreement, upon written notice to the other Parties, delivered in accordance with Section 22 hereof, at any time after the occurrence of, and during the continuation of, any of the following events (each, a "Noteholder Termination Event"), unless waived in writing by the Noteholders:

(i) the Debtors or any other Party (other than the Noteholders) shall have breached any obligation contained in this Agreement (other than the obligations expressly referenced in the Noteholder Termination Events contained in subclauses (ii) through (xviii) below) in any material respect and the Noteholder Agent shall have delivered written notice to the Debtors of any such breach and such breach remains uncured for the period of three (3) business days following such notice;

(ii) the Chapter 11 Cases are not commenced on or before September 1, 2017;

(iii) any representation made by the Debtors or any other Party other than the Noteholders in this Agreement, any Plan Document, or DIP Document proves to have been materially incorrect on the Restructuring Support Effective Date (or such other applicable date with respect to a representation expressly made as to a period of time other than the Restructuring Support Effective Date);

(iv) the issuance by any required governmental regulatory or licensing authority, or court of competent jurisdiction, of any ruling or order enjoining the consummation of a material component or portion of the Restructuring Transaction;

(v) the occurrence of a Material Adverse Effect, or the occurrence of any other event, change, effect, occurrence, development, circumstance or change of control, management or fact that could materially impair the ability of the Debtors to perform their obligations under this Agreement, or has a material adverse effect on, or prevents or materially delays the consummation of, the Restructuring Transaction;

(vi) the Bankruptcy Court enters an order denying confirmation of the Plan or grants relief that is inconsistent with this Agreement, the Restructuring Term Sheet, the Bidding Process Documents, the Plan Documents, or the DIP Documents in any material respect;

(vii) the Bankruptcy Court enters an order modifying or terminating the Debtors' exclusive right to file and/or solicit acceptances of a plan of reorganization;

(viii) except as necessary to implement the DIP Facility, the Bankruptcy Court grants relief terminating, annulling, or modifying the automatic stay (as set forth in section 362 of the Bankruptcy Code) with regard to any assets of the Debtors having an aggregate fair market value in excess of \$50,000;

(ix) except for an order approving the assumption or rejection of Executory Contracts and Unexpired Leases in accordance with the Plan or the Lease Rejection Motion, the Bankruptcy Court enters an order authorizing the assumption or rejection of an Executory Contract or Unexpired Leases without the written consent of the DIP Agent or the Noteholder Agent;

(x) the commencement of an avoidance action, motion, or other legal proceeding by the Debtors or any other Party (other than the Noteholders) to challenge the validity, enforceability or priority of the Notes or all or any portion of the Noteholder Claims;

(xi) the Plan is amended or otherwise modified so as to be inconsistent with this Agreement or the Restructuring Term Sheet or in any other manner that is not acceptable to the DIP Agent or the Noteholder Agent;

(xii) (A) the occurrence of an Event of Default under the DIP Facility, (B) modification of the DIP Budget in a manner not acceptable to the DIP Agent and the Noteholder Agent, or (C) the termination or modification of the Interim DIP Order or Final DIP Order in a manner that is not acceptable to the DIP Agent and the Noteholder Agent;

(xiii) the Bankruptcy Court enters an order (A) directing the appointment of an examiner or a trustee; or (B) dismissing the Chapter 11 Cases;

(xiv) the failure to satisfy any of the conditions to effectiveness set forth in the Plan by the deadlines set forth therein, except as such conditions may be waived by the DIP Agent and the Noteholder Agent;

(xv) the Debtors or any other Party (other than the Noteholders) fail to satisfy or comply with any of their obligations under Section 13 hereof;

(xvi) the Debtors fail to satisfy or comply with any of the milestones reflected in the DIP Term Sheet and Restructuring Term Sheet, and such failure remains uncured at the time notice of termination is given by the Noteholder Agent in accordance with Section 22 hereof; or

(xvii) the Effective Date shall not have occurred on or before December 8, 2017.

(b) Mutual Termination. This Agreement, and the obligations of all Parties hereunder, may be terminated at any time, upon written notice to all other Parties in accordance with Section 22 hereof, by mutual agreement among the Debtors and the Noteholders.

(c) Debtor Termination Events. The Debtors may elect to terminate this Agreement as to all Parties upon written notice to the other Parties, delivered in accordance with Section 22 hereof, at any time after the occurrence of, and during the continuation of, any of the following events, unless waived in writing by the Debtors:

(i) the breach of any of the representations, warranties or covenants of the Noteholders set forth in this Agreement that would reasonably be expected to have a material adverse impact on the consummation of the Restructuring Transaction and such breach remains uncured for a period of three (3) business days following such notice;

(ii) except at the request of, or with the consent or acquiescence of the Debtors, the issuance by any required governmental, regulatory or licensing authority, or court of competent jurisdiction, of any ruling or order enjoining the consummation of a material component or portion of the Restructuring Transaction;

(iii) except at the request of, or with the consent or acquiescence of the Debtors, the Bankruptcy Court enters an order (A) directing the appointment of an examiner or a trustee; (B) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code; or (C) dismissing the Chapter 11 Cases;

(iv) except at the request of, or with the consent or acquiescence of the Debtors, the Chapter 11 Cases are involuntarily dismissed; or

(v) the DIP Facility shall not have been consummated, or initial advances contemplated by the DIP Term Sheet shall not have been made within seven (7) days after the entry of the Interim DIP Order, in each case, as a result of a material breach by the Noteholders under the DIP Facility.

(d) Effect of Termination. Upon the termination of this Agreement in accordance with this Section 5, and except as provided in Section 16 herein, this Agreement shall forthwith become void and of no further force or effect and each Party shall, except as provided otherwise in this Agreement, be immediately released from its liabilities, obligations, commitments, undertakings and agreements under or related to this Agreement and shall have all the rights and remedies that it would have had and shall be entitled to take all actions, whether with respect to the Restructuring Transaction or otherwise, that it would have been entitled to take had it not entered into this Agreement, including all rights and remedies that would have been available to it under applicable law, the Note Purchase Agreement and any ancillary documents or agreements thereto; provided, however, that in no event shall any such termination relieve a Party hereto from liability for its breach or non-performance of its obligations hereunder prior to the date of such termination; provided, further, that except as set forth in Section 15 hereof, the breach of this Agreement by one or more Parties shall not create any rights or remedies against any non-breaching Party. Upon any such termination of this Agreement, a Noteholder may, so long as such termination was not caused by, or the result of, such Noteholder's breach of this Agreement, upon written notice to the Debtors and the other Parties, revoke its vote or any consents given by such Noteholder prior to such termination, whereupon any such vote or consent shall be deemed, for all purposes, to be null and void *ab initio* and shall not be considered or otherwise used in any manner by the Parties in connection with the Restructuring Transaction and this Agreement. If this Agreement has been terminated in accordance with this Section 5 at a time when permission of the Bankruptcy Court shall be required for a Noteholder to change or withdraw (or cause to change or withdraw) its vote to accept the Plan, the Debtors shall not oppose any attempt by such Noteholder, as applicable, to change or withdraw (or cause to change or withdraw) such vote at such time. The Noteholders shall have no liability to the Debtors or to each other in respect of any termination of this Agreement in accordance with the terms of this Section 5.

6. Joinder of Parties

Any Entity that becomes a Noteholder shall agree in writing to join this Agreement as a Party and be bound by all of the terms, conditions, and obligations of this Agreement as such terms may be amended, restated, or otherwise modified from time to time in accordance with the provisions hereof, by executing a Joinder Agreement.

7. Good Faith Cooperation; Further Assurances; Acknowledgment; No Solicitation.

During the Restructuring Support Period, the Parties shall cooperate with each other in good faith and shall coordinate their activities (to the extent practicable and subject to the terms hereof) in respect of (a) all matters relating to their rights hereunder in respect of the Debtors or otherwise in connection with their relationship with the Debtors, (b) all matters concerning the implementation of the transactions contemplated by the Restructuring Term Sheet, including but not limited to the DIP Term Sheet, the Marketing Process, and the Auction, and (c) the pursuit and support of the Restructuring Transaction (including confirmation of the Plan and consummation of the Plan). Subject to any applicable confidentiality restrictions, the Debtors shall provide (i) reasonable access to the Debtors' books, records, facilities, management and advisors, (ii) timely and reasonably detailed responses to all reasonable diligence requests of the

Noteholders, the Noteholder Agent, the DIP Agent and counsel to the Noteholder Agent and the DIP Agent and (iii) information with respect to all Executory Contracts and Unexpired Leases to the Noteholder Agent, the DIP Agent, and counsel to the Noteholder Agent and the DIP Agent. Furthermore, subject to the terms hereof, each of the Parties shall take such action as may be reasonably necessary to carry out the purposes and intent of this Agreement, the Restructuring Term Sheet, and the DIP Term Sheet, including making and filing any required governmental or regulatory filings and voting any claims or securities of the Debtors in favor of the Plan (provided that none of the Noteholders shall be required to incur any expenses (other than nominal expenses associated with the performance of its obligations hereunder), liabilities or other obligations in connection therewith), and shall refrain from taking any action that would frustrate the purposes and intent of this Agreement or the Restructuring Term Sheet. This Agreement is not, and shall not be deemed, a solicitation for consents to the Plan or a solicitation to tender or exchange of any of the Notes. Each Noteholder's vote on the Plan shall not be solicited until the Noteholders have received the Disclosure Statement and related ballot(s), as approved by the Bankruptcy Court.

8. Plan Documents.

During the Restructuring Support Period each Party hereby covenants and agrees (i) to negotiate in good faith the Plan Documents and (ii) to execute (to the extent such Party is a party thereto) and otherwise support the Plan Documents. For the avoidance of doubt, during the Restructuring Support Period, each Party agrees to (a) act in good faith and use commercially reasonable efforts to support and complete successfully the implementation of the Restructuring Term Sheet, the Plan Documents, and the Restructuring Transaction in accordance with the terms of this Agreement, (b) do all things reasonably necessary and appropriate in furtherance of consummating the Restructuring Transaction in accordance with, and within the time frames contemplated by, the Restructuring Term Sheet and this Agreement and (c) act in good faith and use commercially reasonable efforts to consummate the Restructuring Transaction as contemplated by the Restructuring Term Sheet and this Agreement.

9. Representations and Warranties.

(a) Each Party, severally (and not jointly), represents and warrants to the other Parties that the following statements are true, correct and complete as of the date hereof:

(i) such Party is validly existing and in good standing under the laws of the jurisdiction of incorporation of its organization and has all requisite corporate, limited liability company, partnership or similar authority to (1) enter into this Agreement, (2) carry out the transactions contemplated under this Agreement and the Restructuring Term Sheet and (3) perform its obligations contemplated under this Agreement and the Restructuring Term Sheet; and the execution and delivery of this Agreement and the performance of such Party's obligations under this Agreement and the Restructuring Term Sheet have been duly authorized by all necessary corporate, limited liability company, partnership or other similar action on its part;

(ii) the execution, delivery and performance by such Party of this Agreement and the Restructuring Term Sheet does not and will not (1) violate any provision of law, rule or

regulation applicable to it or any of its subsidiaries or its charter or bylaws (or other similar governing documents) or those of any of its subsidiaries, (2) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it or any of its subsidiaries is a party or (3) violate any order, writ, injunction, decree, statute, rule or regulation;

(iii) the execution, delivery, and performance by such Party of this Agreement and the Restructuring Term Sheet does not and will not require any registration or filing with, consent or approval of, or notice to, or other action to, with or by, any federal, state or governmental authority or regulatory body, except such filings as may be necessary and/or required for disclosure by the Securities and Exchange Commission (to the extent applicable) and in connection with the Chapter 11 Cases, the Plan, and the Disclosure Statement; and

(iv) this Agreement and the Restructuring Term Sheet are the legally valid and binding obligations of such Party, enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability or a ruling of the Bankruptcy Court.

(b) Each of the Noteholders who have executed this Agreement as of the Execution Date severally (and not jointly), represents and warrants to the Debtors that, as of the date hereof, such Noteholder (i) (a) is the beneficial owner of the aggregate principal amount of the Notes set forth below its name on the signature page hereof as of the Record Date and as of the date hereof, and (b) does not currently have any of its Notes out for borrow or loan (ii) has, with respect to the beneficial owners of such Notes, (x) sole investment or voting discretion with respect to such Notes, (y) full power and authority to vote on and consent to matters concerning such Notes, or to exchange, assign and transfer such Notes, or (z) full power and authority to bind or act on the behalf of, such beneficial owners.

(c) Each Noteholder severally (and not jointly), represents and warrants to the Debtors that, such Noteholder has made no prior assignment, sale, participation, grant, conveyance or other transfer of, and has not entered into any other agreement to assign, sell, participate, grant, convey or otherwise transfer, in whole or in part, any portion of its right, title, or interests in any Notes that are inconsistent with the representations and warranties of such Noteholder herein or would render such Noteholder otherwise unable to comply with this Agreement and perform its obligations hereunder.

10. Publicity.

The Debtors shall submit drafts to the Noteholders of any press releases and public documents that constitute disclosure of the existence or terms of this Agreement, the DIP Facility, or the Restructuring Term Sheet, or any amendment to the terms of this Agreement, the DIP Facility, or the Restructuring Term Sheet, at least three (3) business days prior to making any such disclosure, which such press releases and public documents shall be subject to the prior approval of the DIP Agent and the Noteholder Agent. Except as required by law or otherwise permitted under the terms of any other agreement among the Parties, no Party or its advisors, officers, directors, shareholders or agents shall (a) use the name of any Noteholder in any public

manner, (b) disclose the existence or terms of this Agreement, the DIP Term Sheet, or the Restructuring Term Sheet, prior to filing the First Day Motions, without the prior written consent of the Noteholders, or (c) provide any verbal or informal statements to any media outlets regarding the Noteholders, the terms of this Agreement, the DIP Term Sheet, or the Restructuring Term Sheet.

11. Amendments and Waivers; Withdrawal of Noteholders in Certain Circumstances.

This Agreement (including all of its exhibits, including the Restructuring Term Sheet), the Plan Documents, and the DIP Documents, and each of their respective terms and conditions, may not be amended, waived or modified in any respect except in a writing executed by the Debtors and the Noteholders. A Noteholder Termination Event may be waived by a writing signed by the Noteholders.

12. Effectiveness.

This Agreement shall become effective and binding on the date and at such time as the counterpart signature pages to this Agreement have been executed and delivered by each of the Debtors and the Noteholders (the "Execution Date"). Upon the Restructuring Support Effective Date, the Restructuring Term Sheet shall be deemed effective on the Parties for the purposes of this Agreement and thereafter the terms and conditions therein may only be amended, modified, waived or otherwise supplemented only as set forth in Section 11 above. With respect to any Noteholder or DIP Lender that becomes a party to this Agreement by executing and delivering a Joinder Agreement after the Restructuring Support Effective Date, this Agreement shall become effective at the time such Joinder Agreement is delivered to the Debtors and the Noteholders (subject to redaction as provided above).

13. Transaction Expenses.

(a) Whether or not the transactions contemplated by this Agreement are consummated, the Debtors hereby agree to reimburse or pay in full in cash, as the case may be, the reasonable and documented Transaction Expenses, payable as follows: (i) all accrued and unpaid Transaction Expenses incurred up to (and including) the Petition Date, shall be paid on the Closing Date (as defined in the DIP Term Sheet) against receipt of reasonably detailed invoices of amounts accrued, (ii) all accrued and unpaid Transaction Expenses incurred on or after the Petition Date and up (and including) to the date of the entry by the Bankruptcy Court of the RSA Order shall be paid within two (2) business days of the date of the entry by the Bankruptcy Court of the RSA Order against receipt of reasonably detailed invoices of amounts accrued, (iii) all accrued and unpaid Transaction Expenses incurred after the date of the entry by the Bankruptcy Court of the RSA Order and up to (and including) the Effective Date of the Plan shall be paid on a regular and continuing basis promptly (but in any event within five (5) business days) against receipt of reasonably detailed invoices of amounts accrued, without any requirement for Bankruptcy Court review or further Bankruptcy Court order, and (iv) upon termination of this Agreement, all accrued and unpaid Transaction Expenses incurred up to (and including) the date of such termination shall be paid promptly (but in any event within five (5) business days), against receipt of reasonably detailed invoices of amounts accrued, without any

requirement of Bankruptcy Court review or further Bankruptcy Court order; provided, however, that the payment of the Transaction Expenses shall be subject to the terms of the RSA Order.

(b) The terms set forth in this Section 13 shall survive termination of this Agreement and shall remain in full force and effect regardless of whether the transactions contemplated by this Agreement are consummated. The Debtors hereby acknowledge and agree that the Noteholders have expended, and will continue to expend, considerable time, effort and expense in connection with this Agreement and the negotiation hereof, and that this Agreement provides substantial value to, is beneficial to, and is necessary to preserve, the Debtors' estates, and that the Noteholders have made a substantial contribution to the Debtors and their estates. The parties acknowledge that the agreements contained in this Section 13 are an integral part of the transactions contemplated by this Agreement, are actually necessary to preserve the value of the Debtors' estates and constitute liquidated damages and not a penalty, and that, without these agreements, the Noteholders would not have entered into this Agreement, the Restructuring Term Sheet and the DIP Term Sheet. If and to the extent not previously reimbursed or paid in connection with the foregoing, the Debtors shall reimburse or pay (as the case may be) all reasonable and documented Transaction Expenses pursuant to section 1129(a)(4) of the Bankruptcy Code or otherwise. The Debtors hereby acknowledge and agree that the Transaction Expenses shall be entitled to treatment as Administrative Expense Claims. The obligations set forth in this Section 13 are in addition to, and do not limit, the Debtors' other obligations hereunder.

14. GOVERNING LAW; JURISDICTION; WAIVER OF JURY TRIAL.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO ANY CONFLICTS OF LAW PROVISIONS WHICH WOULD REQUIRE THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION. BY ITS EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ANY LEGAL ACTION, SUIT, DISPUTE OR PROCEEDING ARISING UNDER, OUT OF OR IN CONNECTION WITH THIS AGREEMENT SHALL BE BROUGHT IN THE FEDERAL OR COURTS LOCATED IN THE STATE OF NORTH CAROLINA OR IN THE BANKRUPTCY COURT (FOR SO LONG AS THE DEBTORS ARE SUBJECT TO THE JURISDICTION OF THE BANKRUPTCY COURT) AND THE PARTIES HERETO IRREVOCABLY CONSENT TO THE JURISDICTION OF SUCH COURTS AND WAIVE ANY OBJECTIONS AS TO VENUE OR INCONVENIENT FORUM. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

15. Specific Performance.

It is understood and agreed by the Parties that money damages would not be a sufficient remedy for any breach of this Agreement by any Party and each non-breaching Party shall be entitled to seek specific performance and injunctive or other equitable relief (including attorneys fees and costs) as a remedy of any such breach, without the necessity of proving the inadequacy

of money damages as a remedy, including an order of the Bankruptcy Court requiring any Party to comply promptly with any of its obligations hereunder.

16. Survival.

Notwithstanding the termination of this Agreement pursuant to Section 5 hereof, the agreements and obligations of the Parties in this Section 16 and in 5(d), 10, 11, 14, 18, 20, 23, 24, and 25 hereof shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

17. Headings.

The headings of the sections, paragraphs and subsections of this Agreement are inserted for convenience only and shall not affect the interpretation hereof or, for any purpose, be deemed a part of this Agreement.

18. Successors and Assigns; Severability; Several Obligations.

This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors, assigns, heirs, executors, administrators and representatives; provided, however, that nothing contained in this Section 18 shall be deemed to permit sales, assignments or transfers of the Notes or other claims against or interests in the Debtors other than in accordance with Section 3(d) of this Agreement. If any provision of this Agreement, or the application of any such provision to any person or circumstance, shall be held invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision hereof or the Agreement shall continue in full force and effect so long as the economic or legal substance of the Restructuring Transaction contemplated hereby is not affected in any manner materially adverse to any Party. Upon any such determination of invalidity, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the Restructuring Transaction contemplated hereby is consummated as originally contemplated to the greatest extent possible.

19. No Third-Party Beneficiaries.

Unless expressly stated herein, this Agreement shall be solely for the benefit of the Parties and their respective successors, assigns, heirs, executors, administrators and representatives, and no other person or Entity shall be a third-party beneficiary hereof.

20. Prior Negotiations; Entire Agreement.

This Agreement, including the exhibits and schedules hereto (including the Restructuring Term Sheet), constitutes the entire agreement of the Parties, and supersedes all other prior negotiations, with respect to the subject matter hereof, except that the Parties acknowledge that any confidentiality agreements (if any) heretofore executed between any of the Debtors, and any of the Noteholders or their respective legal and financial advisors shall continue in full force and effect.

21. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same agreement. Execution copies of this Agreement may be delivered by facsimile or otherwise, which shall be deemed to be an original for the purposes of this Section 21.

22. Notices.

All notices hereunder (including Joinder Agreements) shall be deemed given if in writing and delivered, if sent by electronic mail, facsimile, courier or by registered or certified mail (return receipt requested) to the following addresses (or at such other addresses as shall be specified by like notice):

(1) If to the Debtors, to:

Portrait Innovation, Inc.
2016 Ayrnsley Town Boulevard, Suite 200,
Charlotte, NC 28273
Attention: John Grosso
President & CEO
E-mail: johngrosso@portraitinnovations.com

With a copy to:

Rayburn Cooper & Durham, P.A.
227 West Trade Street, Suite 1200
Charlotte, NC 28202-1672
Attention: C. Richard Rayburn, Jr.
E-mail: rrayburn@rcdlaw.net
- and -
Jack Miller
E-mail: jmiller@rcdlaw.net

(2) If to a Noteholder (or to a transferee thereof), to the addresses or facsimile numbers set forth below such Noteholder's signature (or as directed by any transferee thereof), as the case may be, with copies to:

K&L Gates LLP
Hearst Tower, 47th Floor
Charlotte, NC 28202
Fax: (704) 331-7598
Attention: Aaron S. Rothman
E-mail: aaron.rothman@klgates.com
- and -
Chad A. Dale III

E-mail: chad.dale@klgates.com

Any notice given by delivery, mail or courier shall be effective when received. Any notice given by facsimile shall be effective upon oral or machine confirmation of transmission. Any notice given by electronic mail shall be effective upon sending.

23. Reservation of Rights; No Admission.

Except as expressly provided in this Agreement and in any amendment among the Parties, nothing herein is intended to, or does, in any manner waive, limit, impair or restrict the ability of each of the Parties to protect and preserve its rights, remedies and interests, including without limitation, its claims against any of the other Parties (or their respective affiliates or subsidiaries) or its full participation in the Chapter 11 Cases. Except as expressly provided in this Agreement and in any amendment among the Parties, if the Restructuring Transaction is not consummated, or if this Agreement is terminated for any reason, the Parties fully reserve any and all of their rights. This Agreement and the Restructuring Term Sheet are part of a proposed settlement of matters that could otherwise be the subject of litigation among the parties hereto. Pursuant to Rule 408 of the Federal Rule of Evidence, any applicable state rules of evidence and any other applicable law, foreign or domestic, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce its terms. This Agreement shall in no event be construed as or be deemed to be evidence of an admission or concession on the part of any Party of any claim or fault or liability or damages whatsoever. Each of the Parties denies any and all wrongdoing or liability of any kind and does not concede any infirmity in the claims or defenses which it has asserted or could assert.

24. Indemnification.

The Debtors (in such capacity, the "Indemnifying Party") shall indemnify and hold harmless the Noteholders, the Noteholder Agent, any Entity that has executed a Joinder Agreement and become a Party under this Agreement, and each of their respective affiliates, members, partners, related funds, officers, directors, employees, agents, advisors and controlling persons (each an "Indemnified Person") from and against any and all losses, claims, damages, liabilities and reasonable expenses, joint or several, to which any such Indemnified Person may become subject arising out of or in connection with any claim, challenge, litigation, investigation or proceeding with respect to the Restructuring Transaction, or the transactions or any distributions contemplated by the Restructuring Term Sheet, the Plan, the other Plan Documents and this Agreement, regardless of whether any of such Indemnified Persons is a party thereto, and to reimburse such Indemnified Persons for any reasonable legal or other reasonable out-of-pocket expenses as they are incurred in connection with investigating, responding to or defending any of the foregoing, provided, that the foregoing indemnification will not, as to any Indemnified Person, apply to losses, claims, damages, liabilities or expenses to the extent that they are finally judicially determined to have resulted from gross negligence or willful misconduct on the part of such Indemnified Person. The Indemnifying Party also agrees that no Indemnified Person shall have any liability based on their exclusive or contributory negligence or otherwise to the Indemnifying Party, any person asserting claims on behalf of or in right of

any of the Indemnifying Party, or any other person in connection with or as a result of the Restructuring Transaction, the DIP Facility, the payment of Transaction Expenses, the Restructuring Term Sheet, the Plan, the other Plan Documents and this Agreement or the transactions or any distributions contemplated by the any of the foregoing documents. The indemnity and reimbursement obligations of the Indemnifying Party described in this Section 24 shall be in addition to any liability that the Indemnifying Party may otherwise have to an Indemnified Person and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Indemnifying Party and any Indemnified Person.

25. Relationship Among Parties.

It is understood and agreed that, except as expressly provided in this Agreement or the Restructuring Term Sheet, neither the Noteholders nor the Noteholder Agent: (a) have any duty of trust or confidence in any kind or form with the Debtors or each other; (b) have or owe any other duties (fiduciary or otherwise) whatsoever to the Debtors or each other; and (c) have commitments with the Debtors or among or between them. In this regard, it is understood and agreed that subject to the terms and conditions of this Agreement, the Noteholders may trade in the Notes or other debt or equity securities of the Debtors without the consent of the Debtors, subject to applicable securities laws and the terms of this Agreement. No prior history, pattern or practice of sharing confidences among or between the Parties shall in any way affect or negate this understanding and agreement. Additionally, this Agreement shall not cause the Noteholders to be construed as owing any duties (fiduciary or otherwise) to any other party, including, but not limited to, any holders of the Notes. Notwithstanding anything herein to the contrary, the duties and obligations of the Noteholders under this Agreement shall be several, not joint.

26. No Obligation to Finance.

The Parties agree that this Agreement does not constitute a commitment to, nor shall it obligate the Noteholders, the Noteholder Agent, the DIP Lenders, or the DIP Agent, or any of their respective Affiliates to provide any new financing or credit support to the Debtors.

27. Consideration.

Each Party hereby acknowledges that no consideration, other than that specifically described herein or in the Plan, shall be due or paid to any Party for its agreement to vote to accept the Plan in accordance with the terms and conditions of this Agreement, other than the Parties' representations, warranties, and agreements hereunder.

28. Time is of the Essence

Time is of the essence in the performance of each of the obligations of the Parties and with respect to all covenants and conditions to be satisfied by the Parties in this Agreement and all documents, acknowledgments and instruments delivered in connection herewith.

29. Acknowledgement.

THIS AGREEMENT, THE PLAN, AND THE TRANSACTIONS CONTEMPLATED HEREIN AND THEREIN, ARE THE PRODUCT OF NEGOTIATIONS BETWEEN THE

PARTIES AND THEIR RESPECTIVE REPRESENTATIVES. EACH PARTY HEREBY ACKNOWLEDGES THAT THIS AGREEMENT IS NOT AND SHALL NOT BE DEEMED TO BE A SOLICITATION OF VOTES FOR THE ACCEPTANCE OF A CHAPTER 11 PLAN FOR THE PURPOSES OF SECTIONS 1125 AND 1126 OF THE BANKRUPTCY CODE OR OTHERWISE. ACCEPTANCES OF THE PLAN FROM HOLDERS OF CLAIMS AND/OR EQUITY INTERESTS (OR ANY OTHER PERSON OR ENTITY) WILL NOT BE SOLICITED UNTIL SUCH HOLDERS (OR ANY OTHER PERSON OR ENTITY) HAVE BE PROVIDED WITH A COPY OF A DISCLOSURE STATEMENT APPROVED BY THE BANKRUPTCY COURT, WHICH APPROVAL WAS PROVIDED BY THE SOLICITATION PROCEDURES ORDER. EACH PARTY FURTHER ACKNOWLEDGES THAT NO SECURITIES OF ANY DEBTOR ARE BEING OFFERED OR SOLD HEREBY AND THAT THIS AGREEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OF ANY DEBTOR. NOTWITHSTANDING THE FOREGOING PROVISIONS, NOTHING IN THIS AGREEMENT SHALL REQUIRE ANY PARTY TO TAKE ANY ACTION PROHIBITED BY THE BANKRUPTCY CODE, THE SECURITIES ACT OF 1933 (AS AMENDED), THE SECURITIES EXCHANGE ACT OF 1934 (AS AMENDED), ANY RULE OR REGULATIONS PROMULGATED THEREUNDER, OR BY ANY OTHER APPLICABLE LAW OR REGULATION OR BY AN ORDER OR DIRECTION OF ANY COURT OR ANY STATE OR FEDERAL GOVERNMENTAL AUTHORITY.

30. Representation by Counsel.

Each Party acknowledges that it has been represented by, or provided a reasonable period of time to obtain access to and advice by, counsel with this Agreement and the Restructuring Transaction contemplated herein. Accordingly, any rule of law or any legal decision that would provide any Party with a defense to the enforcement of the terms of this Agreement against such Party based upon lack of legal counsel shall have no application and is expressly waived.

31. Independent Analysis.

Each of the Noteholders hereby confirms that it has made its own decision to execute this Agreement based upon its own independent assessment of documents and information available to it, as it deemed appropriate.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and delivered by their respective duly authorized officers, solely in their respective capacity as officers of the undersigned and not in any other capacity, as of the date first set forth above.

PORTRAIT INNOVATIONS, INC.

By: *John Grosso*
Name: *John Grosso*
Title: *President*

PORTRAIT INNOVATIONS HOLDING COMPANY

By: *John Grosso*
Name: *John Grosso*
Title: *President*

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.

By: CAPITALSOUTH PARTNERS F-III, LLC,
its general partner

By: Joe Alala III
Name: Joe ALALA III
Title: CEO

Principal Amount of Notes: \$ 8,100,000

Notice Address:

4201 Congress Street, Suite 360
Charlotte, NC 28209
Fax: (704) 376-5877
Attention: Joe Alala

With a copy to:

K&L Gates LLP
214 N. Tryon St., 47th Floor
Charlotte, NC 28202
Fax: (704) 353-3146
Attention: Charles A. Dale III, Esq.
Margaret R. Westbrook, Esq.
Aaron S. Rothman, Esq.

**CAPITALSOUTH PARTNERS FUND II
LIMITED PARTNERSHIP**

By: CAPITALSOUTH PARTNERS F-II, LLC,
its general partner

By: Joe Alala III

Name: Joe Alala III

Title: CEO

Principal Amount of Notes: \$ 900,000

Notice Address:

4201 Congress Street, Suite 360
Charlotte, NC 28209
Fax: (704) 376-5877
Attention: Joe Alala

With a copy to:

K&L Gates LLP
214 N. Tryon St., 47th Floor
Charlotte, NC 28202
Fax: (704) 353-3146
Attention: Charles A. Dale III, Esq.
Margaret R. Westbrook, Esq.
Aaron S. Rothman, Esq.

**CAPITALSOUTH PARTNERS FLORIDA SIDECAR
FUND II, L.P.**

By: CapitalSouth Florida Sidecar Fund II GP, LLC
General Partner

Name: Joe Alala III

Title: CEO

Principal Amount of Notes: \$6,000,000

Notice Address:

4201 Congress Street, Suite 360
Charlotte, NC 28209
Fax: (704) 376-5877
Attention: Joe Alala

With a copy to:

K&L Gates LLP
214 N. Tryon St., 47th Floor
Charlotte, NC 28202
Fax: (704) 353-3146
Attention: Charles A. Dale III, Esq.
Margaret R. Westbrook, Esq.
Aaron S. Rothman, Esq.

EXHIBIT A
RESTRUCTURING TERM SHEET

PORTRAIT INNOVATIONS, INC., ET AL.
TERM SHEET FOR CHAPTER 11 PLAN OF REORGANIZATION

THIS TERM SHEET (THIS "TERM SHEET") CONTAINS THE MATERIAL TERMS AND CONDITIONS OF A POTENTIAL RESTRUCTURING TRANSACTION AMONG THE DEBTORS (DEFINED BELOW) AND CAPITALSOUTH PARTNERS SBIC FUND III L.P., AS COLLATERAL AGENT (THE "NOTEHOLDER AGENT") FOR THE HOLDERS ("NOTEHOLDERS") OF THE 12% SENIOR SUBORDINATED SECURED PROMISSORY NOTES (THE "NOTEHOLDER CLAIMS") TO BE IMPLEMENTED THROUGH A CHAPTER 11 PLAN OF REORGANIZATION CONTAINING THE TERMS AND CONDITIONS SET FORTH BELOW. THIS TERM SHEET IS INTENDED TO BE ATTACHED TO, AND INCORPORATED INTO, THE RSA (DEFINED BELOW) TO BE EXECUTED BY THE DEBTORS AND THE NOTEHOLDER AGENT.

THIS TERM SHEET IS NOT AN OFFER OR A SOLICITATION WITH RESPECT TO ANY SECURITIES OF THE DEBTORS, NOR IS IT A SOLICITATION OF THE ACCEPTANCE OR REJECTION OF A CHAPTER 11 PLAN FOR PURPOSES OF SECTIONS 1125 AND 1126 OF THE BANKRUPTCY CODE. ANY SUCH OFFER OR SOLICITATION SHALL COMPLY WITH ALL APPLICABLE SECURITIES LAWS AND/OR PROVISIONS OF THE BANKRUPTCY CODE. THIS TERM SHEET IS NON-BINDING AND SUBJECT TO FURTHER DISCUSSIONS AND DUE DILIGENCE. THIS TERM SHEET DOES NOT ADDRESS ALL MATERIAL TERMS THAT WOULD BE REQUIRED IN CONNECTION WITH ANY POTENTIAL RESTRUCTURING AND ENTRY INTO OR THE CREATION OF ANY BINDING AGREEMENT IS SUBJECT TO THE EXECUTION OF DEFINITIVE DOCUMENTATION IN FORM AND SUBSTANCE ACCEPTABLE TO THE DEBTORS AND THE NOTEHOLDER AGENT. THIS TERM SHEET HAS BEEN PRODUCED FOR DISCUSSION AND SETTLEMENT PURPOSES ONLY AND IS SUBJECT TO THE PROVISIONS OF RULE 408 OF THE FEDERAL RULES OF EVIDENCE AND OTHER SIMILAR APPLICABLE STATE AND FEDERAL RULES.

<u>RESTRUCTURING TRANSACTION OVERVIEW</u>	
Restructuring Transaction Summary¹	<p>On or prior to the Petition Date, the Debtors, the Noteholder Agent, and the Noteholders shall execute and deliver a restructuring support agreement (the “<u>RSA</u>”) pursuant to which each of the parties agree, subject to the terms thereof, that the Debtors shall commence the Chapter 11 Cases in the United States Bankruptcy Court for the Western District of North Carolina (the “<u>Bankruptcy Court</u>”) in order to implement the Restructuring Transaction (as defined in the RSA) through a chapter 11 plan of reorganization (the “<u>Plan</u>”), which shall be consistent in all material respects with the terms and conditions of this Term Sheet and otherwise acceptable to the Debtors, the Noteholder Agent, and the Noteholders.</p> <p>Subject to the outcome of the Auction (discussed below), on the Effective Date of the Plan, all of the Debtors’ assets (the “<u>Assets</u>”) shall be transferred free and clear of all liens, claims, encumbrances and other interests to a newly organized entity (the “<u>Reorganized Company</u>”). As sponsors of the Plan, the Noteholders will provide the following consideration, among other things, to the Debtors’ Estates (which shall be collectively referred to as the “<u>Plan Consideration</u>”): (i) acceptance of the New Notes in the original principal sum of \$12,000,000 on account of the Noteholder Claims; (ii) acceptance of new equity interests in the Reorganized Company (collectively, the “<u>New Shares</u>”) in exchange for the remaining portion of the Noteholder Claims, which New Shares shall consist of (a) preferred equity interests in the Reorganized Company with a notional amount of \$2,750,000 and an annual cash dividend of six percent (6%) and (b) 100% of the common equity interests of the Reorganized Company, (iii) a commitment for debtor in possession financing (the DIP Facility, defined herein) of up to \$5,000,000.00; (iv) a commitment for Exit Financing (defined herein) of up to \$5,000,000 which will be used to repay the DIP Facility, to fund the Professional Fee Reserve, Administrative Claims Reserve and up to \$250,000 (the “<u>GUC Fund</u>”) to be distributed to holders of Allowed General Unsecured Claims, as well as to fund the Reorganized Company’s working capital needs after the Effective Date, all subject to higher and better offers at the Auction.</p> <p>The Debtors, with the assistance of their financial advisors, shall undertake a marketing process and conduct an auction (the “<u>Auction</u>”) to solicit higher and better offers to purchase the New Shares, which sale transaction shall be implemented through the Plan (the “<u>Sale Transaction</u>”). In the event that the highest or otherwise best bid selected by the Debtors at the conclusion of the Auction (the “<u>Winning Bid</u>”) is not the offer from the Noteholder Agent and Noteholders embodied in the Plan (an “<u>Alternative Bid</u>”), then the Assets will be conveyed to the Reorganized Company and the New Shares will be issued to the Winning Bidder pursuant to such Alternative Bid.</p> <p>The Plan Consideration or the proceeds generated from the Sale Transaction shall be distributed pursuant to the Plan, as set forth below.</p>

¹ Each capitalized term that is not defined in this “Restructuring Term Sheet” shall have the meaning set forth in the RSA.

<u>DIP FACILITY / FIRST AND SECOND DAY MOTIONS</u>	
DIP Facility	<p>On the Petition Date, the Debtors shall file a motion seeking approval of debtor-in-possession financing (the “<u>DIP Facility</u>”) and the use of cash collateral (including such terms and conditions relating to adequate protection in connection therewith), in form and substance consistent in all respects with the term sheet attached to the Restructuring Support Agreement as <u>Exhibit B</u> (the “<u>DIP Term Sheet</u>”). The definitive documentation governing the DIP Facility, the motion, the interim and final orders entered by the Bankruptcy Court (the “<u>DIP Orders</u>”), and any other order entered by the Bankruptcy Court in respect of the DIP Facility, shall each be in form and substance satisfactory to the Noteholder Agent.</p> <p>The proceeds of the DIP Facility shall be used (in accordance with and subject to the DIP Budget and DIP Orders) to fund the administration of the Chapter 11 Cases and provide the Debtors with working capital and for general corporate purposes.</p>
First Day Motions and Approval of RSA	<p>The relief sought by the Debtors in all other “<u>First Day Motions</u>” and other motions relating to the Restructuring Transaction and the DIP Facility (including, without limitation, the amount of any payments sought to be made thereunder), shall be consistent with the DIP Budget and shall otherwise be satisfactory to the Noteholder Agent.</p> <p>On the Petition Date, the Debtors shall file a motion and proposed form of order, each of which shall be satisfactory to the Noteholder Agent, seeking approval of the assumption of the RSA pursuant to section 365 of the Bankruptcy Code and granting related relief.</p>

<u>SUMMARY OF PLAN TREATMENT</u>	
DIP Facility Claims	<p>On the Effective Date, each holder of an allowed claim arising under the DIP Facility shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for such claim, (i) payment in full from proceeds from the Exit Financing, or (ii) if the Plan results in consummation of the Sale Transaction pursuant to an Alternative Bid, the DIP Facility will be paid, in full, in cash with proceeds from the Sale Transaction.</p>
Administrative Claims Not entitled to vote	<p>Each holder of an allowed Administrative Claim, including, without limitation, a claim of the type described in section 503(b)(9) of the Bankruptcy Code, to the extent such claim has not already been paid during the Chapter 11 Case (each, an “<u>Allowed Administrative Claim</u>”), shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Administrative Claim, payment in full in cash of the due and unpaid portion of its Allowed Administrative Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date (i) such claim becomes due and allowed or as otherwise allowed by the Bankruptcy Court, or (ii) the amount of the claim is otherwise agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent), as applicable, and the holder of such Allowed Administrative Claim. Payments made by the Debtors or the Disbursing Agent</p>

	(as applicable) on account of an Allowed Administrative Claim shall be paid solely from the Administrative Claims Reserve (defined below); <u>provided, however</u> , any Professional Fee Claim (defined below) shall be paid from the Professional Fee Reserve (defined below), and not the Administrative Claims Reserve.
<p>Priority Tax Claims Not entitled to vote</p>	Pursuant to the Plan, each holder of an allowed claim described in section 507(a)(8) of the Bankruptcy Code, to the extent such claim has not already been paid during the Chapter 11 Cases (each, an “ <u>Allowed Priority Tax Claim</u> ”), shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Priority Tax Claim payment in full in cash of the due and unpaid portion of its Allowed Priority Tax Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes due and allowed or as otherwise allowed by the Bankruptcy Court or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent), as applicable, and the holder of such Allowed Priority Tax Claim. Any payments made by the Debtors or the Disbursing Agent (as applicable) on account of an Allowed Priority Tax Claim shall be paid solely from the Administrative Claims Reserve.
<p>Other Secured Claims Unimpaired — Deemed to Accept</p>	Pursuant to the Plan, each holder of an allowed prepetition secured claim (other than the Noteholder Claims), to the extent such claim has not already been paid during the Chapter 11 Cases, (each, an “ <u>Allowed Other Secured Claim</u> ”) shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Other Secured Claim (i) payment in full in cash of the due and unpaid portion of its Allowed Other Secured Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes due and allowed or as otherwise allowed by the Bankruptcy Court or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent), as applicable, and the holder of such Allowed Other Secured Claim, (ii) a return of the holder’s collateral securing the Allowed Other Secured Claim, (iii) such treatment required under section 1124(2) of the Bankruptcy Code for such Allowed Other Secured Claim to be rendered unimpaired or (iv) such other treatment as agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent), as applicable, and the holder of such Allowed Other Secured Claim. Any payments made by the Debtors or the Disbursing Agent (as applicable) on account of an Allowed Other Secured Claim shall be paid solely from the Administrative Claims Reserve.
<p>Other Priority Claims Unimpaired — Deemed to Accept</p>	Pursuant to the Plan, each holder of an allowed claim described in section 507(a) of the Bankruptcy Code (other than a Priority Tax Claim), to the extent such claim has not already been paid during the Chapter 11 Cases (each, an “ <u>Allowed Other Priority Claim</u> ”), shall receive, as agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent), as applicable, in full satisfaction, settlement, discharge and release of, and in exchange for, such claim, payment in full in cash of the due and unpaid portion of its Allowed Other Priority Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably

	<p>practicable) or (y) the date such claim becomes due and allowed or as otherwise allowed by the Bankruptcy Code or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent), as applicable, and the holder of such Allowed Other Priority Claim. Any payments made by the Disbursing Agent on account of Allowed Other Priority Claims shall be paid solely from the Administrative Claims Reserve.</p>
<p>Noteholder Claims Impaired — Entitled to Vote</p>	<p>Not later than the Effective Date, the Noteholder Claims shall be Allowed in the sum of \$15,000,000 plus any interest, fees or charges that may be allowable under Section 506 of the Bankruptcy Code.</p> <p>The Noteholder Claims shall be satisfied as follows:</p> <p>(A) in the event that the Auction does not result in an Alternative Bid, then the Noteholder Claims shall be satisfied by the Reorganized Company through the issuance of (1) new secured promissory notes in the original principal sum of \$12,000,000 containing the following terms containing the following terms (i) a five-year term and (ii) monthly cash interest payable at a per annum rate of twelve percent (12%) (the “<u>New Notes</u>”), which shall be secured by first priority security interests in and to all assets of the Reorganized Company (subject only to the liens securing the Exit Financing and other permitted liens as set forth in the documents governing the Exit Financing); (2) preferred equity interests in the Reorganized Company with a notional amount of \$2,750,000, and an annual cash dividend of six percent (6%) and (C) 100% of the common equity interests in the Reorganized Company; or</p> <p>(B) if the Auction results in consummation of the Sale Transaction pursuant to an Alternative Bid, then the cash proceeds from the Sale Transaction, net of amounts required to pay the DIP Facility Claim, shall be used to pay Allowed Noteholder Claims until such Claims are paid in full. For avoidance of doubt, no General Unsecured Creditor shall be entitled to a distribution until such time as Allowed Noteholder Claims are paid in full.</p>
<p>General Unsecured Claims Impaired — Entitled to Vote</p>	<p>Each holder of an allowed General Unsecured Claim (each, an “<u>Allowed General Unsecured Claim</u>”) shall receive, on the Effective Date (or as soon thereafter as reasonably practicable), in full satisfaction, settlement, discharge and release of, and in exchange for such claim:</p> <p>(A) in the event that the Auction does not result in consummation of the Sale Transaction pursuant to an Alternative Bid, the lesser of (i) five per cent (5%) of the total amount of such Allowed General Unsecured Claim; and (ii) such holder’s <i>pro rata</i> share of the GUC Fund; or</p> <p>(B) if the Auction results in consummation of the Sale Transaction pursuant to an Alternative Bid, then all proceeds from the Sale Transaction remaining after payment of the DIP Facility Claim, Allowed Noteholder Claims, Allowed Professional Fee Claims, Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Other Secured Claims (if applicable), and Allowed Other Priority Claims, shall be paid <i>pro rata</i> to the holders of Allowed General Unsecured Claims until such claims are paid, in full.</p>

<p>Intercompany Claims Impaired — Deemed to Reject</p>	<p>Holders of claims against the Debtors by any Affiliate shall not receive a distribution on account of such claim, and such claims shall be extinguished on the Effective Date.</p>
<p>Section 510(b) Claims Impaired — Deemed to Reject</p>	<p>Holders of claims against the Debtors that are described in section 510(b) of the Bankruptcy Code shall not receive a distribution on account of such claims, and such section 510(b) claims shall be extinguished.</p>
<p>Equity Interests in the Debtor Impaired — Deemed to Reject</p>	<p>On the Effective Date, all Equity Interests in Portrait Innovations Holding Company and Portrait Innovations, Inc. shall be extinguished and cancelled, and the holders of such Equity Interests shall not receive a distribution on account thereof.</p>
<p>Bar Date Motion</p>	<p>On the Petition Date, the Debtors shall file a bar date motion, satisfactory in form and substance to the Noteholder Agent, seeking to establish the bar date for filing claims.</p>

<u>MEANS OF IMPLEMENTATION</u>	
<p>Plan Funding</p>	<p>On or before the Effective Date, the Noteholders (or the Noteholder Agent) shall transfer to one or more accounts established and maintained by the Disbursing Agent, from proceeds of the Exit Financing, cash in the amount equal to (i) the Professional Fee Reserve, (ii) the Administrative Claims Reserve, and (iii) the GUC Fund, which cash shall be used by the Disbursing Agent exclusively to make the payments required to be made under the Plan. If and to the extent that Allowed Professional Fee Claims exceed the amount of funds available in the Professional Fee Reserve, such excess shall be satisfied first from the GUC Fund.</p> <p>After all Professional Fee Claims, Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Other Secured Claims, and Allowed Other Priority Claims are paid (or, in the case of Allowed Other Secured Claims, satisfied) by the Disbursing Agent, any remaining cash in the Professional Fee Reserve or Administrative Claims Reserve, as the case may be, shall be added to the GUC Fund. The Debtors or the Disbursing Agent (in either case, with the consent of the Noteholder Agent), as applicable shall establish and administer any other necessary reserves that may be required under the Plan, including any disputed claims reserve.</p> <p>If the Auction results in consummation of the Sale Transaction pursuant to an Alternative Bid, then all funding required to make payments under the Plan shall be derived <u>exclusively</u> from the purchase price paid by the Winning Bidder.</p>

<p>Issuance of New Shares</p>	<p>On the Effective Date, the New Shares shall be issued to the Noteholders or the Winning Bidder (if other than the Noteholders) as appropriate following the Auction, which New Shares shall be deemed fully paid and non-assessable upon issuance.</p> <p>The Plan and the order confirming the Plan shall each provide that the issuance of any debt or equity securities in connection therewith, including the New Shares and the New Notes will be exempt from securities laws in accordance with Section 1145 of the Bankruptcy Code.</p> <p>All corporate governance documents related the Reorganized Company, including, but not limited to, the charter, bylaws and/or other organizational documents (the “<u>New Governance Documents</u>”), shall be in form and substance acceptable to the Noteholder Agent or the Winning Bidder, as applicable. Substantially final forms of the New Governance Documents shall be filed as part of the Plan Supplement.</p>
<p>The Auction</p>	<p>The Debtors, with the assistance of their financial advisors, shall undertake a Marketing Process and conduct the Auction, soliciting higher and better offers to purchase the New Shares. The resulting Sale Transaction shall be implemented through the Plan. In the event that the highest or otherwise best bid selected by the Debtor at the conclusion of the Auction is an Alternative Bid, then the Assets will be conveyed to the Reorganized Company and the New Shares will be issued to the Winning Bidder pursuant to an Alternative Bid.</p> <p>The Auction shall be conducted pursuant to bidding procedures acceptable to the Noteholder Agent and approved by order of the Bankruptcy Court. Among other things, to qualify as a bidder at the Auction, interested parties must make an unconditional and binding written offer to purchase the New Shares (supported by a 5% cash deposit) for a cash price not less than the aggregate amount of the Professional Fee Reserve, the Administrative Claims Reserve, amounts outstanding under the DIP Facility, and the Noteholder Claims (the “<u>Minimum Qualified Bid Amount</u>”).</p> <p>In the event that (i) the Debtors, in the exercise of its fiduciary duty, determines that the highest or otherwise best offer to purchase the New Shares is an Alternative Bid, and (ii) the Bankruptcy Court enters a Confirmation Order approving an Alternative Bid, then the Noteholder Agent and Noteholders shall have an Allowed Administrative Claim and shall be entitled to reimbursement from the proceeds payable at closing of all reasonable and necessary documented expenses incurred in connection with the Debtors’ Chapter 11 Cases, including without limitation, amounts incurred or paid to third party legal and financial advisors.</p>
<p>Exit Financing</p>	<p>In the event that the Bankruptcy Court entered a Confirmation Order approving the Plan, on the Effective Date the Noteholders, or a subset thereof, shall provide the Reorganized Company with financing in an aggregate principal amount of \$5,000,000 sufficient to (1) repay all amounts outstanding under the DIP Facility, (2) fund the Professional Fee Reserve and the Administrative Claims Reserve; (3) fund the GUC Fund; and (4) fund working capital needs for the Reorganized Company (the “<u>Exit Financing</u>”). The Exit Financing shall be payable at an interest rate of nine percent (9%) per annum, shall continue for a term of five years, and shall be subject to other terms and covenants as agreed</p>

	<p>to by the Noteholders and the Reorganized Company.</p> <p>The Reorganized Company's obligations in connections with the Exit Financing will be secured by a first priority lien against all of the Reorganized Company's assets, which shall be senior in priority to the New Notes.</p>
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OTHER TERMS OF THE RESTRUCTURING TRANSACTION

Executory Contracts and Unexpired Leases	<p>On or before the date established by the Bankruptcy Court for the submission of Bids, the Debtors shall file with the Bankruptcy Court a schedule acceptable to the Noteholder Agent identifying all executory contracts and unexpired leases, including without limitation, any and all capital leases, store leases, consulting agreements and management agreements, to be rejected under the Plan (the "<u>Rejection Schedule</u>"). The Confirmation Order with respect to the Plan shall provide for the approval of the Rejection Schedule and shall provide that all other executory contracts and unexpired leases that are not identified on the Rejection Schedule shall be deemed assumed and assigned to the Reorganized Company under the Plan (the "<u>Assumed Contracts</u>").</p> <p>On or before the date established by the Bankruptcy Court for the submission of Bids, the Debtors shall file a notice and schedule of all cure costs arising under or with respect to all Assumed Contracts ("<u>Cure Costs</u>"), which schedule shall be satisfactory to the Noteholder Agent. The Debtors shall not seek to settle or allow any of the Cure Costs in an amount higher than the amounts set forth in such schedule without the consent of the Noteholder Agent. The Confirmation Order with respect to the Plan shall provide for the approval of the Cure Cost amounts.</p> <p>The Plan shall provide for a rejection claims bar date of no longer than 30 calendar days following the Effective Date.</p>
Causes of Action and Avoidance Actions	<p>Pursuant to the Plan, on the Effective Date, all claims and causes of action of the Debtors, including without limitation all claims and causes of action pursuant to or arising under chapter 5 of the Bankruptcy Code shall be assigned, conveyed, and vested in the Reorganized Company.</p>
Releases & Exculpation	<p>The Plan and all other Plan Documents shall contain exculpatory provisions in favor of the Noteholder Agent, the Noteholder, the DIP Agent, the DIP Lenders, the Debtor, the Disbursing Agent, the Committee, and their respective affiliates, subsidiaries and shareholders, and each of their respective current and former members, managers, professionals, attorneys and financial advisors, agents, directors and officers, and other persons and entities (collectively, the "<u>Exculpated Parties</u>"). Further, any Holder of a Claim that votes in favor of the Plan shall be deemed to release on the Effective Date any claim or cause of action arising prior to the Petition Date with respect to the Debtors, their officers, directors, employees and equity holders.</p>
Injunction / Discharge	<p>The Plan and all other Plan Documents shall contain injunction provisions (including in favor of the Exculpated Parties) and discharge provisions that are satisfactory to the Debtors and the Noteholder Agent.</p>
Cancellation of Instruments,	<p>On the Effective Date, except to the extent otherwise provided herein or in the Plan, all instruments, certificates, and other documents evidencing debt or</p>

Certificates, and Other Documents	Equity Interests in the Debtors shall be cancelled, and the obligations of the Debtors thereunder, or in any way related thereto, shall be discharged.
D&O Liability Insurance Policies, Tail Policies and Indemnification	<p>The Plan shall provide for the assumption of all insurance policies related to worker's compensation policies, and the cash collateralization, if necessary, of supporting letters of credit.</p> <p>To the extent the Debtors determine (with the consent of the Noteholder Agent) to extend existing insurance coverage or purchase new insurance coverage covering its current and former officers and directors from claims and causes of action of any third party (including without limitation any holder of a claim) that remain unreleased as of the Effective Date, such extended or newly purchased insurance shall be in such amounts, for such terms or periods of time, and placed with such insurers and subject to such other terms as are determined by the Debtors and the Noteholder Agent to be reasonable under the circumstances or as specified in the Confirmation Order.</p>
Conditions Precedent to the Occurrence of the Effective Date	<p>The Plan shall contain customary conditions precedent to confirmation of the Plan and the Effective Date, as well as such other conditions precedent satisfactory to the Noteholder Agent including, without limitation, the following:</p> <ul style="list-style-type: none"> (i) the Plan, the other Plan Documents and the Plan Supplement shall each be in form and substance consistent with this Term Sheet and otherwise acceptable to the Noteholder Agent, and shall be in full force and effect; (ii) the Bankruptcy Court shall have entered the Confirmation Order in form and substance consistent with this Term Sheet, and otherwise acceptable to the Noteholder Agent, and such order shall not have been stayed or modified or vacated on appeal; (iii) the RSA (unless terminated in accordance with the bidding procedures) shall be in full force and effect and shall not have been terminated, and all conditions precedent therein shall have been satisfied or waived in accordance with their respective terms; (iv) in the event that the Sale Transaction is effected pursuant to an Alternative Bid, all reasonable and documented fees, costs and expenses of the Noteholder Agent and the Noteholders (including, without limitation, all costs, fees and expenses of their professional advisors) shall have been paid in full in cash; (v) all governmental approvals and consents, including Bankruptcy Court approval, that are legally required for the consummation of the Plan, as applicable, shall have been obtained, not be subject to unfulfilled conditions and be in full force and effect; (vi) (A) the assets shall have been transferred to and vested in the Reorganized Company free and clear of all claims and liens, except as specifically provided in the Plan; (B) the Professional Fee Reserve, the Administrative Claims Reserve, and the GUC Fund shall have been funded in cash in full; (C) the Disbursing Agent shall have been appointed and assumed their rights and responsibilities under the Plan; (vii) the New Notes (including all documentation related thereto) shall be in form and substance satisfactory to the Noteholder Agent and shall be

	<p>executed and delivered to the Noteholder Agent and the Noteholders as applicable;</p> <p>(viii) the Noteholder Claims shall have been allowed in an amount not less than \$15,000,000 plus all accrued interest, fees or charges that may be allowable under Section 506 of the Bankruptcy Code;</p> <p>(ix) the Reorganized Company shall have entered into written employment agreements with certain of the Debtors' "key employees" identified by the Noteholder Agent, including without limitation John Grosso, Johnny Grosso, and John Davis, upon terms and conditions acceptable to the Noteholder Agent;</p> <p>(x) the Administrative Claims Estimate shall not exceed \$1,500,000;</p> <p>(xi) the Priority Claims Estimate shall not exceed \$50,000; and</p> <p>(xii) the Professional Fee Claims Estimate shall not exceed \$350,000;</p> <p>The conditions to effectiveness of the Plan may be waived in writing by the Noteholder Agent.</p>
<p>Milestones</p>	<p>Pursuant to sections 5 and 22 of the RSA, the Noteholders may elect to terminate the RSA in the event that the Debtors fail to achieve the following case milestones:</p> <p>(i) on or prior to September 1, 2017, the Chapter 11 Cases shall have been commenced with the Bankruptcy Court;</p> <p>(ii) on the Petition Date, the Debtors shall have filed with the Bankruptcy Court the following "<u>First Day Motions</u>" in form and substance satisfactory to the DIP Agent: (a) a motion to authorize the Debtors' assumption of the RSA (the "<u>RSA Assumption Motion</u>"), (b) a motion to approve the DIP Facility (the "<u>DIP Motion</u>"), (c) the a motion to reject certain executory contracts and unexpired leases (the "<u>Lease Rejection Motion</u>"), and (d) a motion seeking approval of the Bidding Procedures and commencement of the sale process contemplated therein (the "<u>Bidding Procedures Motion</u>";</p> <p>(iii) on or before September 8, 2017, (a) the Interim DIP Order shall have been entered by the Bankruptcy Court and (b) a motion (the "<u>Solicitation Procedures Motion</u>") seeking approval of the Disclosure Statement and procedures for soliciting the acceptance of the Plan (each as defined in the RSA), as well as a Plan and Disclosure Statement shall have been filed by the Debtors with the Bankruptcy Court, in each case, in form and substance satisfactory to the DIP Agent;</p> <p>(iv) on or before September 29, 2017, the Bankruptcy Court shall have entered orders granting the Lease Rejection Motion, RSA Motion, the Final DIP Order, and Bidding Procedures Motion, each in form and substance satisfactory to the DIP Agent;</p> <p>(v) on or before October 13, 2017, the Bankruptcy Court shall have entered an order granting the Solicitation Procedures Motion, in form and substance satisfactory to the DIP Agent;</p> <p>(vi) on or before November 21, 2017, the Bankruptcy Court shall have</p>

	<p>entered an order confirming the Plan (the "<u>Confirmation Order</u>"), in form and substance satisfactory to the DIP Agent;</p> <p>(vii) on or before December 8, 2017, the Confirmation Order shall have become a Final Order; and</p> <p>(viii) on or before December 8, 2017, the Effective Date of the Plan shall have occurred.</p>
Other Terms and Conditions	<p>The Plan, the Plan Supplement and each of the Plan Documents shall be consistent with this Term Sheet and shall otherwise contain such other terms and conditions satisfactory to the Noteholder Agent.</p>

EXHIBIT B
DIP TERM SHEET

**GENERAL TERM SHEET
FOR POST PETITION
DEBTOR-IN-POSSESSION FINANCING**

TO

**PORTRAIT INNOVATIONS HOLDING COMPANY and PORTRAIT INNOVATIONS, INC.
(“Borrowers” or “Debtors”)**

FROM

**CAPITALSOUTH PARTNERS SBIC FUND III, L.P.,
CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP,
and CAPITALSOUTH PARTNERS FLORIDA SIDECAR FUND II, L.P.
(the “DIP Lenders”) acting through
CAPITALSOUTH PARTNERS SBIC FUND III, L.P.
(the “DIP Agent”)**

September 1, 2017

**THIS TERM SHEET DOES NOT CONSTITUTE A COMMITMENT. ALL TERMS SET
FORTH HEREIN ARE SUBJECT TO THE FOLLOWING:**

- (1) THE SATISFACTION OF CERTAIN CONDITIONS PRECEDENT;**
- (2) THE NEGOTIATION AND EXECUTION OF DEFINITIVE DOCUMENTS,
INCLUDING INTERIM AND FINAL DIP ORDERS; AND**
- (3) THE APPROVAL BY THE REQUIRED LENDERS OF AN “APPROVED
DIP BUDGET” SHOWING PROJECTED WEEKLY CASH RECEIPTS, CASH
DISBURSEMENTS, AND OTHER FINANCIAL INFORMATION REQUIRED BY THE
DIP LENDERS FOR EACH WEEK FROM THE PETITION DATE, SEPTEMBER 1, 2017
THROUGH DECEMBER 15, 2017.**

**THIS TERM SHEET IS NON-BINDING AND SUBJECT TO FURTHER DISCUSSIONS
AND DUE DILIGENCE. THIS TERM SHEET DOES NOT ADDRESS ALL MATERIAL
TERMS THAT WOULD BE REQUIRED IN CONNECTION WITH ANY POTENTIAL
FINANCING AND ANY BINDING AGREEMENT IS SUBJECT TO THE EXECUTION OF
DEFINITIVE DOCUMENTATION (INCLUDING INTERIM AND FINAL ORDERS OF THE
BANKRUPTCY COURT, AND SUCH OTHER AGREEMENTS, EXHIBITS, SCHEDULES,
INSTRUMENTS, OR FILINGS AS DETERMINED BY THE DIP LENDERS IN THEIR SOLE
DISCRETION) IN FORM AND SUBSTANCE ACCEPTABLE TO THE DIP LENDERS.**

**THIS TERM SHEET HAS BEEN PRODUCED FOR DISCUSSION AND SETTLEMENT
PURPOSES ONLY AND IS SUBJECT TO THE PROVISIONS OF RULE 408 OF THE
FEDERAL RULES OF EVIDENCE AND OTHER SIMILAR APPLICABLE STATE AND
FEDERAL RULES**

**PORTRAIT INNOVATIONS, INC., et al.
SUPERPRIORITY SECURED DEBTOR-IN-POSSESSION CREDIT FACILITY**

**Summary of Terms and Conditions
September 1, 2017**

Borrowers:	Portrait Innovations Holding Company (" <u>Portrait Holding</u> ") and Portrait Innovations, Inc. (" <u>Portrait Innovations</u> ").
Debtors:	Portrait Innovations and Portrait Holding, which shall commence chapter 11 cases (the " <u>Chapter 11 Cases</u> ") in the United States Bankruptcy Court for the Western District of North Carolina (the " <u>Bankruptcy Court</u> ").
DIP Lenders:	<p>The parties listed on Schedule A attached hereto, including the holders of the 12% Senior Subordinated Secured Promissory Notes (the "<u>Notes</u>") issued by Portrait Innovations and Portrait Holding (collectively, the "<u>DIP Lenders</u>").</p> <p>"<u>Required DIP Lenders</u>" means DIP Lenders holding in the aggregate more than 50% of the DIP Commitment.</p>
DIP Agent:	CapitalSouth Partners SBIC Fund III, L.P.
DIP Facility:	<p>A superpriority secured post-petition credit facility (the "<u>DIP Facility</u>") in an aggregate principal amount not to exceed \$5,000,000.00 (the "<u>DIP Commitment</u>") as follows:</p> <p>The DIP Facility shall be delayed-draw, multiple draw term loan facility that will provide funding for the Debtors' ongoing operations and all administrative expenses, including professional fees, in an amount not to exceed the DIP Commitment <u>plus</u> an origination fee of \$100,000 and expenses of the DIP Lenders payable hereunder, with the following interest rate:</p> <ul style="list-style-type: none"> • Interest Rate: 9.0% per annum, paid-in-cash or as otherwise agreed to by the DIP Lenders on the Maturity Date • Default Interest Rate: contract rate plus an additional 4.0% per annum <p>Borrowings under the DIP Facility shall be incurred as follows: (i) following the entry of an order by the Bankruptcy Court (in form and substance satisfactory to the DIP Agent) approving the DIP Facility on an interim basis (the "<u>Interim DIP Order</u>") an initial drawing of the DIP Facility in an amount not to exceed \$2,800,000.00 in accordance with the Approved DIP Budget (defined below) (the "<u>Initial Availability</u>"); and (ii) the remaining portion of the DIP Commitment will be made available from time to time following the entry of an order (in form and substance satisfactory to the DIP Agent) by the Bankruptcy Court approving the DIP Facility on a final basis (the "<u>Final DIP Order</u>"), in bi-weekly draws in accordance with the Approved DIP Budget, in each case subject to the terms and conditions set forth herein. The DIP Lenders shall not be obligated to fund any borrowing requests more frequently than bi-weekly, or to the extent that such requests would exceed the DIP Commitment to the extent that such amounts would, when combined with all amounts funded under the DIP Facility, exceed the aggregate principal amount of the DIP Commitment.</p> <p>In the initial drawing of the DIP Facility, the amount of the borrowing request shall be the sum of the current week and the next succeeding week of expenditures under the Approved DIP Budget. After the initial drawing of the DIP Facility, the maximum amount of each borrowing request shall not exceed the sum of the</p>

	<p>following: (i) the aggregate amount of expenditures set forth in the Approved DIP Budget for the next succeeding two (2) weeks, plus (ii) the Carry-Over Amount, if any, minus (iii) the Debtors' cash balance as set forth in the Variance Report, plus (iv) \$100,000.</p> <p>Requests for borrowings under the DIP Facility shall be made concurrently with the delivery of the Variance Report. To the extent that all conditions for such borrowing have been satisfied, the DIP Lenders shall fund the requested amounts within three (3) business days of such request.</p>
DIP Documents	<p>This DIP Term Sheet, the motion and proposed form of order to be filed by the Debtors with the Bankruptcy Court seeking approval, on an interim and final basis, of the DIP Facility and, <i>inter alia</i>, the use of cash collateral (including such terms and conditions relating to adequate protection in connection therewith) consistent in all respects with this DIP Term Sheet, the orders approving the DIP Facility on an interim and final basis, and each other document or agreement prepared or executed in connection therewith.</p>
Closing Date:	<p>Immediately following the satisfaction of the conditions precedent to the Initial Availability, expected to be on or about September 6, 2017 (the "<u>Closing Date</u>").</p>
Maturity Date:	<p>The maturity date of the DIP Facility (the "<u>Maturity Date</u>") shall be the earliest of (i) December 15, 2017, (ii) the effective date of a Chapter 11 plan, (iii) the date of consummation of any sale of all or substantially all of the assets of the Debtors pursuant to Sections 363 or 1141 of the Bankruptcy Code, (iv) if a final order with respect to the DIP Facility is not entered by September 29, 2017, and (v) the date of acceleration of the loan and the termination of the DIP Commitment following the occurrence of an Event of Default (defined herein).</p> <p>All DIP Obligations shall be due and payable on the Maturity Date.</p>
Use of Proceeds:	<p>Subject to the Approved DIP Budget, to pay, together with Debtors' existing cash on hand, (i) the operating expenses of the Debtors during the Chapter 11 Cases, (ii) the fees, costs and expenses of the Debtors' estate professionals incurred in connection with the administration of the Chapter 11 Cases, and (iii) fees, costs, and expenses incurred by the DIP Lenders in connection with the Chapter 11 Cases (the "<u>DIP Fees and Expenses</u>").</p> <p>Actual expenditures made by the Debtors may not exceed the amount set forth in the DIP Budget by (a) ten percent (10%) for any line item and (b) five percent (5%) in the aggregate for each week (the "<u>Permitted Variance</u>"); <u>provided</u>, that Permitted Variance with respect to the line item labeled "WMT Capital" on the Approved DIP Budget shall be tested on a cumulative basis for the entire 13-week period of the Approved DIP Budget, and the WMT Capital line item shall not be included for purposes of aggregate Permitted Variance testing. Unused amounts set forth in the Approved DIP Budget for any line item may be carried forward and used to fund such line item in the subsequent week during the Budget period (the amount of any such carry-over, the "<u>Carry-Over Amount</u>"); <u>provided</u>, that the Carry-Over Amount shall not include any Permitted Variance. Amounts for the WMT Capital line item shall not be subject to any limitations on carry over, but shall not be included in the Carry-Over Amount for any purpose. The Carry-Over Amount for any week may only be used in the next two (2) successive weeks, and all expenditures shall first be applied to the amounts budgeted in the Approved DIP Budget before being applied to the Carry-Over Amount.</p> <p>The fees, costs, and expenses incurred by the DIP Lenders (other than the</p>

	<p>\$100,000.00 origination fee) in connection with documenting and securing approval of the DIP Facility shall be paid in full at or immediately following the Closing Date. The \$100,000.00 origination fee will be earned on the Closing Date but will not be paid until the Termination Date. Thereafter, the Debtors shall pay DIP Fees and Expenses from time to time within fifteen (15) business days (if no written objection is received within ten (10) business days) after such professional has delivered a summary invoice providing reasonable detail with respect to the fees and expenses incurred to the Debtors (which invoice may be redacted to protect privileged, confidential or proprietary information), with a copy of such invoice delivered simultaneously to the Bankruptcy Administrator for the Western District of North Carolina and the Committee (if any). Written objections to the payment of DIP Fees and Expenses must contain a specific basis for the objection and quantification of the undisputed amount of the DIP Fees and Expenses invoiced. None of the DIP Fees and Expenses shall be subject to Court approval or required to be maintained in accordance with Guidelines of the Bankruptcy Administrator and no recipient of any such payment shall be required to file with respect thereto any interim or final fee application with the Court; <u>provided, however</u>, that the Debtors shall be required to pay (i) the undisputed amount of any invoice on or prior to the fifteenth (15th) business day following delivery of such invoice, notwithstanding any objection to other amounts on such invoice, and (ii) any disputed amounts within five (5) business days following resolution of the dispute with respect to such amounts.</p> <p>Except as specifically set forth in the Interim and/or Final DIP Order, no proceeds of the DIP Facility or any cash collateral shall be used to challenge, object to, contest or raise any defense to, the validity, security, perfection, priority, extent or enforceability of any amount due under the Notes documents, or the liens or claims granted under the Notes documents.</p> <p>Amounts funded with respect to Professional Fees shall be considered used by the Debtors at such time as they are deposited into an escrow account with The Finley Group for distribution to professionals in accordance with the orders of the Bankruptcy Court, and shall not be considered in the Debtors' cash balance for the purposes of limitations on borrowing and mandatory prepayments. Any amounts remaining in such account on the Effective Date shall be applied and funded to the Professional Fee Reserve.</p>
DIP Budget:	<p>The Debtors will prepare and deliver on or prior to the Closing Date a budget, in form and substance satisfactory to the DIP Agent (the "<u>DIP Budget</u>"), that shall reflect line item projected receipts and expenditures on a weekly basis, for the 13-week period following the Closing Date. The DIP Budget as approved by the Bankruptcy Court pursuant to the Interim and Final DIP Orders shall be known as the "<u>Approved DIP Budget</u>").</p>
Mandatory Prepayments:	<p>Each week where no borrowing is permitted or where the maximum permitted borrowing would be \$0 or less, concurrently with the delivery of the Variance Report the Debtors shall repay the outstanding amounts under the DIP Facility in an amount equal to (i) the Debtors' cash balance as set forth in the Variance Report, <u>less</u> (ii) expenditures set forth in the Approved DIP Budget for the next week, <u>less</u> (iii) the Carry-Over Amount <u>less</u> (iv) \$300,000. Amounts repaid may be reborrowed. Such payments shall be applied first to accrued and unpaid interest on the DIP Facility and then to the outstanding principal amount of the DIP Facility.</p>
Security:	<p>All obligations of the Debtors under the DIP Facility (the "<u>DIP Obligations</u>") shall</p>

	<p>(A) be secured by</p> <ol style="list-style-type: none"> (1) first priority perfected liens and security interests in all of the Debtors' unencumbered assets pursuant to Section 364(c)(2) of the Bankruptcy Code, (2) second priority perfected liens and security interests in all of the Debtors' assets that are subject to Permitted Existing Liens pursuant to Section 364(c)(3), and (3) priming first-priority perfected liens and security interests in all of the Debtors' assets that constitute collateral securing the Notes pursuant to Sections 364(c)(2) and (d)(1) ("<u>DIP Collateral</u>"), and <p>(B) constitute allowed administrative expense claims, pursuant to Section 364(c)(1), senior to any pre- or post-petition claims, with priority over all other costs and expenses of administration of any kind, with recourse to all of the Debtors' assets (including, subject to entry of the Final Order, proceeds of Avoidance Actions (defined below)), subject, in each case, only to the Carve-Out (defined below) and such other provisions of the Interim Order;</p> <p><u>provided, however</u>, that the DIP Collateral shall not include claims or causes of action arising under chapter 5 of the Bankruptcy Code (the "<u>Avoidance Actions</u>"), but shall include all proceeds of such Avoidance Actions subject to entry of the Final DIP Order.</p>
<p>Closing Conditions, Draw Conditions</p>	<p>The DIP Lenders' obligation to fund the DIP Facility with the DIP Commitment shall be conditioned on the following conditions precedent.</p> <p>With respect to draws of the Initial Availability:</p> <ol style="list-style-type: none"> (i) entry of the Interim DIP Order, in form and substance satisfactory to the DIP Agent, which order shall remain in full force and effect, unstayed and unmodified except as expressly agreed to by the DIP Agent in writing; (ii) the DIP Lenders shall have received such financial and other information regarding the Debtors as the DIP Lenders may request; (iii) the Required DIP Lenders shall have approved the initial DIP Budget; (iv) the book balance of the Debtors' operating and disbursement accounts, other than Fifth Third account numbers [REDACTED] 7478 and [REDACTED] 7460, is not higher than \$10,000.00; and (v) no Event of Default shall then be existing. <p>Conditions precedent to each subsequent borrowing shall be as follows:</p> <ol style="list-style-type: none"> (i) the DIP Agent shall have received a notice from the Debtors setting forth amount of the draw (the "<u>Borrowing Notice</u>"); (ii) the amount requested in the Borrowing Notice does not exceed the total amount of expenditures as set forth in the Approved DIP

	<p>Budget then in effect for the next succeeding two (2) weeks by more than five percent (5%);</p> <ul style="list-style-type: none"> (iii) after giving effect to the amount requested in the Borrowing Notice, the total amount of borrowings outstanding under the DIP Facility will not exceed the DIP Commitment; (iv) the RSA shall be in full force and effect; (v) the Final DIP Order, in form and substance satisfactory to the DIP Agent, shall have been entered by the Bankruptcy Court, which order shall be in full force and effect, unstayed, and unmodified except as expressly agreed to by the DIP Agent in writing; (vi) control agreements shall have been executed and implemented with respect to each of the Debtors' deposit and operating accounts; (vii) no Event of Default shall have occurred and be continuing on the applicable borrowing date or would occur as a result of the requested borrowing. <p>The Required DIP Lenders reserve the right, in their sole and absolute discretion to waive any of the above conditions, which waiver shall be in writing and signed by the Required DIP Lenders.</p>
<p>Milestones:</p>	<p>The DIP Lenders' obligations under the DIP Facility shall be subject to the Debtors' compliance with the following case milestones (the "<u>Milestones</u>"): </p> <ul style="list-style-type: none"> (i) on or prior to September 1, 2017, the Chapter 11 Cases shall have been commenced with the Bankruptcy Court (the "<u>Petition Date</u>"); (ii) on the Petition Date, the Debtors shall have filed with the Bankruptcy Court the following "<u>First Day Motions</u>" in form and substance satisfactory to the DIP Agent: (a) a motion to authorize the Debtors' assumption of the RSA (the "<u>RSA Assumption Motion</u>"), (b) a motion to approve the DIP Facility (the "<u>DIP Motion</u>"), (c) the a motion to reject certain executory contracts and unexpired leases (the "<u>Lease Rejection Motion</u>"), and (d) a motion seeking approval of the Bidding Procedures and commencement of the sale process contemplated therein (the "<u>Bidding Procedures Motion</u>"); (iii) on or before September 8, 2017, a motion (the "<u>Solicitation Procedures Motion</u>") shall have been filed seeking approval of the Disclosure Statement and procedures for soliciting the acceptance of the Plan (each as defined in the RSA); (iv) on or before September 8, 2017, the Interim DIP Order shall have been entered by the Bankruptcy Court, in form and substance satisfactory to the DIP Agent; (v) on or before September 29, 2017, the Bankruptcy Court shall have entered orders granting the Lease Rejection Motion, RSA Motion, the Final DIP Order, and Bidding Procedures Motion, each in form and substance satisfactory to the DIP Agent; (vi) on or before October 13, 2017, the Bankruptcy Court shall have entered an order granting the Solicitation Procedures Motion, in

	<p>form and substance satisfactory to the DIP Agent;</p> <p>(vii) on or before November 21, 2017, the Bankruptcy Court shall have entered an order confirming the Plan (the “<u>Confirmation Order</u>”), in form and substance satisfactory to the DIP Agent;</p> <p>(viii) on or before December 8, 2017, the Confirmation Order shall have become a Final Order; and</p> <p>(ix) on or before December 8, 2017, the Effective Date of the Plan shall have occurred.</p>
Cash Management:	<p>The Debtors shall enter into cash management arrangements acceptable to the DIP Lenders. During the term of the DIP Facility, all cash of the Debtors shall be deposited directly into accounts [REDACTED] 8795, [REDACTED] 7478 and/or [REDACTED] 7460 at Fifth Third Bank.</p>
Financial Reporting:	<p>On or before 6:00 pm (ET) on each business day of each week, the Debtors shall provide in a form and substance acceptable to the DIP Agent, a report setting forth the daily cash receipts and disbursements of the prior day. On or before 6:00 p.m. (ET) on Wednesday of each week, the Debtors shall provide the DIP Lenders with a report in form and substance acceptable to the DIP Agent (the “<u>Variance Report</u>”) setting forth, with respect to the immediately preceding week (through Saturday of such week), a detailed analysis of receipts and expenditures, comparing actual receipts and disbursements for such weekly period (and on a cumulative basis for the 13-week period of the Approved DIP Budget then in effect) to the projected receipts and disbursements set forth in the Approved DIP Budget for such weekly or 13-week period, as applicable, including without limitation, all variances in actual expenditures from those projected in the Approved DIP Budget, by line item, together with an explanation of all material variances.</p>
Events of Default, termination	<p>Availability under the DIP Facility shall terminate immediately upon the earliest to occur of any of the following (the “<u>Termination Date</u>”): (i) the Maturity Date; (ii) the termination of the RSA; (iii) the Final DIP Order is not entered by September 29, 2017; (iv) the date that any chapter 11 plan that is not the Plan, or is otherwise inconsistent with the RSA, is filed by the Debtors with the Bankruptcy Court without the express written consent of the Requisite Lenders; (v) the date that one or both of the Chapter 11 Cases are converted to a case under chapter 7 of the Bankruptcy Code or dismissed; (vi) the filing of a motion to appoint, or the appointment of, a trustee or examiner in the Chapter 11 Cases; (vii) failure to meet any of the Milestones; (viii) the filing of a motion or other pleading by the Debtors that seeks to grant a lien on the DIP Collateral that is equal or senior to the liens granted to the DIP Agent on behalf of the DIP Lenders hereunder and under the order approving the DIP Facility or the liens securing the Notes; (ix) the filing of a motion or other pleading by the Debtors that seeks to sell any portion of the DIP Collateral without the express written consent of the DIP Lenders; (x) the filing of a motion or other pleading by the Debtors that seeks to deny or in any way limit the DIP Lenders’ right to credit bid all or a portion of the DIP Obligations or the Notes at a sale of any portion of the DIP Collateral; or (xi) entry of an order lifting or modifying the automatic stay of section 362(a) of the Bankruptcy Code to allow for foreclosure on any DIP Collateral with an aggregate book value in excess of \$50,000.</p> <p>Upon an Event of Default, the DIP Commitment shall terminate and all amounts due under the DIP Facility shall become immediately due and payable, in full, in cash, without any further notice or the need for any action by the DIP Lenders,</p>

	<p>without defense or offset, and the Debtors shall immediately repay the aggregate principal amount outstanding under the DIP Facility, together with all interest accrued thereon and all fees related thereto. Effective immediately upon an Event of Default, all amounts then due under the DIP Facility shall accrue interest at the Default Interest Rate.</p> <p>Notwithstanding the termination of the DIP Commitment and any use of cash collateral, following the Termination Date the Debtors shall, to the extent set forth in the Approved DIP Budget, be permitted to pay all unpaid and accrued amounts payable to employees of the Debtors, including, but not limited to, unreimbursed expenses, payroll, all taxes related to such payroll and regularly scheduled contributions to the employee healthcare plan that were incurred prior to the Termination Date (the “<u>Trailing Employee Expenses</u>”).</p> <p>The Final Order approving the DIP Facility shall include relief from the automatic stay with respect to the exercise of rights and remedies upon the occurrence of an Event of Default, subject to a five Business Day notice period.</p>
<p>Amendments; Waivers</p>	<p>No provision of this DIP Term Sheet or any DIP Documents may be amended or waived without the prior written consent of the Required Lenders.</p>
<p>Credit Bidding:</p>	<p>The DIP Lenders shall have the right to credit bid all amounts outstanding under the DIP Facility, including without limitation all fees, interest, and default interest, in any sale of the Debtors’ assets.</p>
<p>Carve-Out:</p>	<p>A carve-out from the DIP Lenders’ and Pre-Petition Lenders’ (as defined in the motion to approve the DIP Facility) collateral, including, without limitation, all assets of the Debtors (the “<u>Carve-Out</u>”), for the following, and in the following priority: (i) first, all fees required to be paid to the Clerk of the Bankruptcy Court and to the Bankruptcy Administrator; (ii) second, to the extent not paid from cash on hand, the Trailing Employee Expenses; (iii) third, the amount of allowed and unpaid fees, costs, and expenses of the estate’s court-approved professionals in the Chapter 11 Cases incurred from and after the occurrence of an Event of Default in an aggregate amount not to exceed \$25,000.00; and (iv) fourth, the amount of allowed and unpaid fees, costs, and expenses of the estate’s court-approved professionals in the Chapter 11 Cases incurred prior to the occurrence of an Event of Default, not to exceed the amounts set forth in the Approved DIP Budget as of any applicable date of determination. The parties acknowledge that the limitation in clause (iii) shall be divided as follows: (a) up to \$10,000 for fees, costs and expenses incurred by Rayburn Cooper & Durham, P.A., (b) up to \$5,000 for fees, costs and expenses incurred by Troutman Sanders LLP, (c) up to \$5,000 for fees, costs and expenses incurred by The Finley Group, and (d) up to \$5,000 for fees, costs and expenses incurred by counsel to the official committee of unsecured creditors.</p>
<p>Adequate Protection to Noteholders:</p>	<p>As adequate protection to be provided to the Noteholders:</p> <ol style="list-style-type: none"> 1. Stipulation by the Debtors with respect to the validity, enforceability, priority, security, and perfection of the Notes and, following expiration of the relevant challenge periods, releases of all claims or causes of action with respect to the Notes or the holders of the Notes; 2. Monthly cash payment of \$120,000.00 on Noteholder Secured Claim; 3. To the extent of any post-petition diminution in the value of the collateral securing the Notes, (i) replacement liens (subject to the DIP liens) on all assets of the Debtors (including, subject only to entry of a final order approving the

	<p>DIP Facility, avoidance actions and proceeds thereof); and (ii) Section 507(b) claims (subject to the DIP claims) with recourse against all assets of the Debtors (including, subject to entry of a final order approving the DIP Facility, proceeds of Avoidance Actions);</p> <ol style="list-style-type: none">4. The same financial reporting as provided to the DIP Agent; and5. The absolute right to credit bid all amounts then-outstanding under the Notes in any sale of the Debtors' assets.
Miscellaneous:	<p>Among other customary miscellaneous provisions, the following:</p> <ul style="list-style-type: none">• Upon entry of the Final DIP Order, waiver of Section 506(c), marshalling, and Section 552(b) equities of the case exception.• Indemnification of DIP Lenders and each of their respective directors, officers, employees, agents, shareholders, affiliates, members and advisors.• Subject to definitive documentation (including, without limitation, motion, interim and final orders, and such other agreements, exhibits, schedules, instruments or filings as determined by the DIP Lenders in their sole discretion) in form and substance satisfactory in each and every respect to the DIP Lenders in their sole discretion.• Governing Law: North Carolina.

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.,

By: CAPITALSOUTH PARTNERS F-III, LLC,
its general partner

By: _____
Name:
Title:

PORTRAIT INNOVATIONS, INC.

By: John Grosso
Name: JOHN GROSSO
Title: President

PORTRAIT INNOVATIONS HOLDING COMPANY

By: John Grosso
Name: JOHN GROSSO
Title: President

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.,

By: CAPITALSOUTH PARTNERS F-III, LLC,
its general partner

By: _____
Name: _____
Title: _____

Michael J. III
CEO

PORTRAIT INNOVATIONS, INC.

By: _____
Name: _____
Title: _____

PORTRAIT INNOVATIONS HOLDING COMPANY

By: _____
Name: _____
Title: _____

DIP LENDERS

CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP

By: CAPITALSOUTH PARTNERS F-II, LLC,
its general partner

By: _____
Name: _____
Title: _____

Joe Alabert III
CEO

CAPITALSOUTH PARTNERS FLORIDA SIDECAR FUND II, L.P.,

By: CAPITALSOUTH FLORIDA SIDECAR FUND II GP, LLC
its general partner

By: _____
Name: _____
Title: _____

Joe Alabert III
CEO

Schedule 1

DIP LENDERS

DIP Lender	Commitment
CapitalSouth Partners SBIC Fund III, L.P.	
CapitalSouth Partners Fund II Limited Partnership	
CapitalSouth Partners Florida Sidecar Fund II, L.P.	

EXHIBIT C
BIDDING PROCEDURES

Exhibit B¹

BIDDING PROCEDURES

The following procedures (the "Bidding Procedures") will govern the competitive process run by Portrait Innovation Holding Company and Portrait Innovations, Inc. (the "Debtors") to solicit offers to purchase 100% of the Equity Interests in the Reorganized Company (the "New Shares"). Pursuant to these Bidding Procedures, the Debtors are inviting all parties with an interest in the New Shares to submit bids upon such terms and conditions as the Potential Bidders (defined below) may determine, subject in all respects to the Potential Bidder's compliance with the procedures outlined below.

Following completion of the competitive process, the Debtors will seek approval of the Sale Transaction through a plan of reorganization. These Bidding Procedures shall be the exclusive mechanism governing the sale of the New Shares.

A. The Existing Plan of Reorganization

On or immediately prior to the Petition Date, the Debtors, CapitalSouth Partners Fund II Limited Partnership ("CSP Fund II"), CapitalSouth Partners SBIC Fund III, L.P. ("CSP Fund III"), and CapitalSouth Partners Florida Sidecar Fund II, L.P. ("CSP Florida" and together with CSP Fund II and CSP Fund III, the "Noteholders"), and CSP Fund III as collateral agent on behalf of the Noteholders (the "Noteholder Agent") entered into a Restructuring Support Agreement (the "RSA"), pursuant to which the Noteholders and the Noteholder Agent agreed to (i) provide debtor in possession financing to the Debtors (the "DIP Financing") in an amount up to **\$5,000,000.00** (ii) sponsor a plan of reorganization for the Debtors and (iii) purchase the New Shares in exchange for the Plan Consideration (defined below), on terms agreed to by the Debtors, the Noteholders, and the Noteholder Agent.

In accordance with the terms of the RSA, on the Petition Date the Debtors filed a plan of reorganization under chapter 11 of the Bankruptcy Code (the "Existing Plan") and accompanying disclosure statement. The Existing Plan is supported by the Noteholders.

Pursuant to the Existing Plan, on the Effective Date, all of the Debtors' assets (collectively, the "Assets") shall be transferred to a newly organized entity (the "Reorganized Company"), free and clear of all liens, claims, encumbrances and other interests. The Reorganized Company shall issue the New Shares to the Noteholders in exchange for the Plan Consideration. The "Plan Consideration" consists of: (i) acceptance of the New Notes on account of \$12,000,000 the Noteholder Claims; (ii) acceptance of new equity interests in the Reorganized Company (collectively, the "New Shares") in exchange for the remaining portion of the Noteholder Claims, which shall consist of (a) new preferred equity interests in the Reorganized Company with a notional amount of \$2,750,000 and an annual cash dividend of six percent (6%) and (b) 100% of the common equity interests of the Reorganized Company, (iii) a

¹ Each capitalized term that is not defined in these "Bidding Procedures" shall have the meaning set forth in the Restructuring Support Agreement which is attached as Exhibit B to the Debtors' Motion for Entry of an Order Authorizing the Debtors to Assume Restructuring Support Agreement filed contemporaneously herewith.

commitment for debtor in possession financing (the DIP Facility, defined herein) of up to \$5,000,000.00; (iv) the transfer to the Disbursing Agent, on the Effective Date, of cash sufficient to satisfy the Professional Fee Reserve, the Administrative Claims Reserve; (v) funding of up to \$250,000 (the “GUC Fund”) on the Effective Date to be distributed to holders of Allowed General Unsecured Claims other than the Noteholders (on account of any deficiency claims of the Noteholders) by the Disbursing Agent; and (vi) a commitment for Exit Financing (defined herein) of up to \$5,000,000.00 which will be used to repay the DIP Facility and fund the Professional Fee Reserve, Administrative Claims Reserve and the GUC Fund on the Effective Date, as well as funding the Reorganized Company’s working capital needs after the Effective Date of the Existing Plan.

The RSA contemplates the commencement of a marketing and auction process (the “Sale Process”) pursuant to which the Debtors would solicit higher and better offers to purchase the New Shares (the “Sale Transaction”), which Sale Transaction shall be implemented through the Existing Plan or an Alternative Plan (defined below). In the event that the highest or otherwise best bid selected by the Debtors at the conclusion of the Auction is not the offer from the Noteholders embodied in the Existing Plan (an “Alternative Bid”), then the Assets will be conveyed to the Reorganized Company and the New Shares will be issued to the Winning Bidder or the Backup Bidder (defined below) through an amended plan encompassing the terms of the Alternative Bid (the amended Plan together with all exhibits, schedules, and forms of ancillary documents, an “Alternative Plan”).

B. Consultation Rights

As appropriate throughout this Sale Process, the Debtors shall consult generally and as more specifically set forth herein with respect to the sale of the New Shares with the Noteholder Agent, and each of its legal and financial advisors, and subject to the execution of an appropriate nondisclosure agreement, any official committee of unsecured creditors appointed in these chapter 11 cases (the “Committee”), and their respective legal and financial advisors (collectively, the “Consultation Parties”); provided, however, that to the extent any member or members of the Committee becomes and continues as a Potential Bidder, then the Committee and the Debtors shall work together to establish appropriate supplemental consultation procedures as applicable to ensure the continued efficacy of the bidding process.

C. Participation Requirements and Due Diligence

(a) In order to participate in the Sale Process, the Auction (as defined below), or otherwise be considered for any purpose hereunder, a person or entity interested in acquiring the New Shares (each, a “Potential Bidder”) must first deliver:

(i) An executed confidentiality agreement in form and substance satisfactory to the Debtors and the Noteholder Agent (the “Confidentiality Agreement”) to the Debtors and their advisors, unless the Potential Bidder has previously executed a Confidentiality Agreement in connection with solicitation of bids prior to the Petition Date. Without limiting the foregoing sentence, the Confidentiality Agreement will provide that all non-public information about the Debtors received by a Potential Bidder, will be kept strictly confidential in

accordance therewith and used only in connection with analyzing a proposed transaction for the restructuring of the Debtors and acquisition of the New Shares pursuant to a plan of reorganization.

(b) The Debtors shall post in the Debtors' electronic dataroom these Bidding Procedures, together with a WORD copy of the Existing Plan and the RSA. All Potential Bidders, whether deemed Qualified Bidders (as defined below) or not, consent to the jurisdiction of the Bankruptcy Court to determine matters concerning the Sale Transaction and their bids (each, a "Bid") (whether or not one is made), the Auction, or the Sale Process generally and waive any right to any other venue.

(c) Any Potential Bidder wishing to conduct due diligence concerning the Sale Transaction shall be granted (i) reasonable access to the Debtors' management during normal business hours and (ii) access to all relevant information regarding the business of the Debtors reasonably necessary to enable a Potential Bidder to evaluate the Sale Transaction. The Debtors shall make such document access available to Potential Bidders through the electronic dataroom as soon as reasonably practicable following execution of the Confidentiality Agreement. Potential Bidders interested in conducting due diligence should contact **Piper Jaffray & Co., Attn: Teri Stratton, Managing Director; 2321 Rosencrans Avenue, Suite 3200, El Segundo, CA 90245; phone: (310) 297-6030; e-mail Teri.L.Stratton@pjc.com.; phone: (310) 297-6030; e-mail Teri.L.Stratton@pjc.com.** Notwithstanding the foregoing, the Debtors are not required to provide confidential, business-sensitive or proprietary information to any person if the Debtors reasonably believe (in consultation with the Consultation Parties) that such disclosure would be detrimental to the interests of the Debtors' estates. All due diligence must be completed before the Bid Deadline (as defined below). No condition(s) allowing or regarding further due diligence will be accepted after the Bid Deadline. Potential Bidders are required to exercise their own discretion before relying on any information provided by the Debtors regarding the Sale Transaction. Neither the Debtors nor their representatives or advisors are responsible for, and will bear no liability with respect to, any information obtained by Potential Bidders pursuant hereto.

(d) The Debtors and their advisors, subject to the consultation obligations set forth in the Bidding Procedures Order, shall: (i) receive and evaluate any Bids from Potential Bidders; (ii) negotiate offers made to purchase the New Shares; (iii) request information from Potential Bidders, engage in discussions with Potential Bidders, and take such other actions to determine whether any Bid constitutes or could lead to a Qualified Bid (as defined below); and (iv) take any other actions contemplated under these Bidding Procedures.

D. Submission of Bids

(a) Any Potential Bidder, other than the Noteholders, must submit a written and duly executed offer (a "Bid") prior to **4:00 p.m.** prevailing Eastern Time on **October 26, 2017** (the "Bid Deadline"). In order for a Bid to be considered, it must be a "Qualified Bid" in compliance with the terms and conditions set forth in paragraph (b), below. A Potential Bidder will be deemed to be a "Qualified Bidder" if the Debtors and their advisors (in consultation with the Consultation Parties), in their sole discretion, determine that such Potential Bidder submitted a Qualified Bid. For the avoidance of doubt, the Noteholder Agent on behalf of the Noteholders

shall be automatically deemed a Qualified Bidder on account of the offer encompassed in the Existing Plan and be entitled to participate in the Auction (the Noteholders shall not be required to submit a Deposit (as defined below)). The Existing Plan shall be automatically deemed a Qualified Bid.

(b) A Bid will be considered a “Qualified Bid” only if (1) the Bid offers to purchase the New Shares and fund a plan of reorganization upon the terms and conditions no less favorable to the Debtors’ estates than the Existing Plan, as determined by the Debtors (in consultation with the Consultation Parties), and (2) fulfills each and everyone of the following requirements prior to the Bid Deadline (capitalized terms used in this section are defined later in the Bidding Procedures):

(i) provides written evidence that enables the Debtors and their advisors to reasonably determine whether a Potential Bidder has the financial, operational, and other ability to close the Sale Transaction and provide adequate assurance of future performance under all contracts and leases to be assumed in connection therewith;

(ii) provides that the Bid shall remain irrevocable until the earlier of (x) the Effective Date of the Alternative Plan implementing the Winning Bid (as defined below) or (z) **December 31, 2017** (the “Bid Expiration Date”); provided, however, that if such bid is selected as the highest or otherwise best Qualified Bid or the Backup Bid (defined below), it shall remain irrevocable until the closing of the Sale to the Winning Bidder or the Backup Bidder, as the case may be;

(iii) states that the Bid is not subject to any further due diligence and that such Qualified Bidder has obtained all necessary financing and approvals, which financing and approvals are not subject to any conditions;

(iv) contains evidence of the source(s) of equity and/or debt financing for the Bid, including the parties to provide financing, their contact information, and a description of each sponsor and any additional party or parties funding the Alternative Plan and such party’s financial position;

(v) provides written evidence that the Qualified Bidder has obtained authorization and approval from its board of directors (or comparable governing body) with respect to the submission of its Bid and the execution of the agreements associated therewith, or a representation that no such authorization or approval is required;

(vi) provides that the total cash consideration (whether through equity contributions or the incurrence of indebtedness) payable by the Qualified Bidder will not be less than the aggregate amount of the Professional Fee Reserve, Administrative Claims Reserve, amounts outstanding under the DIP Facility, and the Noteholder Claims (the “Minimum Qualified Bid Amount”);

(vii) provides that the entire purchase price will be paid in cash (whether through equity contributions or the incurrence of indebtedness);

(viii) provides by wire transfer of immediately available funds, in the form of cash or a letter of credit, to an escrow agent designated by the Debtors before the Bid Deadline of an earnest money cash deposit of not less than five percent (5%) of the purchase price payable under such competing Qualified Bid, but in no event less than ten percent (10%) of the Minimum Qualified Bid Amount (the "Deposit");

(ix) provides evidence reasonably satisfactory to the Debtors (in consultation with the Consultation Parties) that the Qualified Bidder is reasonably likely to obtain prompt regulatory approval, if any is required, to consummate the Sale Transaction;

(x) is submitted in the form of an Alternative Plan and RSA in a clean copy and marked to show the proposed changes to the Existing Plan and RSA in a redlined copy that further:

(1) identifies the Qualified Bidder and any members of its investor group, if applicable;

(2) contains a detailed overview of the terms of the Qualified Bidder's sponsorship of the Alternative Plan;

(3) contains a description of the financial assumptions and any other assumptions utilized in the Alternative Plan, including estimated transaction costs, and any major financial or operational assumption(s) upon which the Qualified Bidder may have based the Alternative Plan, including working capital, capital expenditure requirements, and impact of proposed structure;

(4) is not subject to any conditions, representations, or terms that the Debtor determines to be unacceptable;

(5) describes with specificity the total consideration proposed to be paid for the New Shares;

(6) is not conditioned upon the Bankruptcy Court's approval of any Bid protections, such as a break-up fee, termination fee, expense reimbursement, working fee or similar type of payment, including payment of fees based on substantial contribution to the Debtors' chapter 11 cases if the Potential Bidder is not the Winning Bidder;

(7) does not contain any condition to closing of the Sale Transaction relating to the receipt of any third party approvals (excluding required Bankruptcy Court approval and any required governmental

and/or regulatory approval or third party consents required under the Existing Plan);

(8) identifies each and every executory contract and unexpired lease that the Qualified Bidder desires the Debtors to assume or reject under the Alternative Plan and provides evidence of such Qualified Bidder's ability to provide adequate assurance of future performance of such contracts or leases to be assumed (as required by section 365(b)(1)(C) of the Bankruptcy Code, the "Adequate Assurance Information") along with the Bid; and

(9) contains other information reasonably requested by the Debtors (in consultation with the Consultation Parties) and their advisors.

(c) A Qualified Bidder that desires to make a Bid must deliver written electronic copies of its Bid prior to the Bid Deadline to [Portrait Innovations, Inc. c/o John Grosso, 2016 Ayrley Town Boulevard, Suite 200, Charlotte, NC 28273 (john.grosso@portraitinnovations.com) and the following representatives of the Debtors, Rayburn Cooper & Durham, P.A., Attn: Jack Miller, 227 West Trade Street, Suite 1200, Charlotte, NC 28202 (jmiller@rcdlaw.net) and Piper Jaffray & Co., Attn: Teri Stratton, Managing Director; 2321 Rosencrans Avenue, Suite 3200, El Segundo, CA 90245; (Teri.L.Stratton@pjc.com). The Debtors shall deliver copies of any such Bids to the Office of Bankruptcy Administrator, counsel to the Noteholder Agent, and the counsel to the Committee.

(d) Each Potential Bidder providing a Bid shall be deemed to acknowledge and represent that it has had an opportunity to conduct due diligence on the Debtors prior to making its Bid; that it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Assets in making its Bid; and that it did not rely upon any written or oral statement, representations, promises, warranties or guaranties whatsoever, whether express, implied, by operation of law or otherwise, regarding the Debtors, or the completeness of any information provided in connection therewith.

E. Evaluation of Bids

(a) After the Bid Deadline, the Debtors (in consultation with the Consultation Parties) will review those Bids timely submitted and engage in negotiations with those Potential Bidders that submitted Bids complying with the proceeding paragraphs and as they deem appropriate in the exercise of their business judgment, based upon the Debtors' evaluation of the content of each Bid as well as other commercial and competitive considerations.

(b) Each Potential Bidder shall comply with all reasonable requests for additional information by the Debtors or their advisors regarding such Potential Bidder's financial wherewithal to consummate and perform obligations in connection with the Sale Transaction. Failure by a Potential Bidder to comply with requests for additional information may be a basis for the Debtors and their advisors (in consultation with the Consultation Parties) to determine that a Potential Bidder is not a Qualified Bidder. Similarly, each Qualified Bidder

shall comply with all reasonable requests for additional information by the Debtors or their advisors regarding such Qualified Bidder's financial wherewithal to consummate and perform obligations in connection with the Sale Transaction as the Auction progresses. Failure by a Qualified Bidder to comply with requests for additional information may be a basis for the Debtors and their advisors (in consultation with the Consultation Parties) to determine that the Qualified Bidder may no longer participate in the Auction. The Debtors (in consultation with the Consultation Parties) may disqualify any Qualified Bidder and Qualified Bid from participation in the Auction in the Debtors' discretion.

(c) The Debtors (in consultation with the Consultation Parties) shall determine which Qualified Bid (if any) represents the then-highest or otherwise best bid (the "Initial Highest Bid") and the entity submitting such Bid, the "Initial Highest Bidder"). At least **one business day** prior to the Auction, each Qualified Bidder that timely submitted a Qualified Bid will be advised of such Initial Highest Bid and the Debtors shall distribute copies of such Initial Highest Bid to other Qualified Bidders.

(d) Notwithstanding anything in these Bidding Procedures, the Noteholders are deemed Qualified Bidders, and the Existing Plan shall be deemed a Qualified Bid for all applicable purposes under these Bidding Procedures with respect to the Auction or otherwise.

F. "As Is, Where Is". The Assets shall be conveyed to the Reorganized Company without representations or warranties of any kind, nature or description by the Debtors, their advisors, agents or estate or any other party. Except as otherwise provided in the Alternative Plan, the Assets shall be transferred to the Reorganized Company free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests therein (collectively, the "Claims") pursuant to section 1141 of the Bankruptcy Code, such Claims to attach to the net proceeds of the sale, with the same validity and priority as existed immediately prior to such sale.

G. The Auction

(a) If one or more Qualified Bids (in addition to the Noteholder Bid) has been submitted for the New Shares in accordance with these Bidding Procedures, the Debtors will conduct an Auction on **November 2, 2017 at 10:00 a.m.** prevailing Eastern time, with respect to such Qualified Bids in order to determine (in consultation with the Consultation Parties) the Winning Bid and the Backup Bid (defined below) to submit for approval by the Bankruptcy Court at the Confirmation Hearing (as defined below). The Auction shall be organized and conducted by the Debtors at the offices of their counsel, Rayburn Cooper & Durham, P.A., or such other location as may be announced prior to the Auction to the Auction Participants (defined below). The Auction will be recorded by stenographic means by an authorized court reporter.

(b) The Debtors shall provide each Qualified Bidder with the following: (1) written notice that the Auction is proceeding in accordance with the Notice of Auction previously published by the Debtors, and (2) a copy of the Qualified Bid the Debtors have determined constitutes Initial Highest Bid.

(c) The only persons or entities who will be permitted to Bid at the Auction are the authorized representatives of each Qualified Bidder (the "Auction Participants"), at least one of whom must appear in person. While only the Auction Participants may make Qualified Bids at the Auction, the Auction may be attended and viewed also by the Debtors and/or the Consultation Parties. Any other person wishing to attend the Auction may request to be permitted to do so by contacting, no later than three (3) days prior to the start of the Auction, the Debtors' counsel, Rayburn Cooper & Durham, P.A., 227 West Trade Street, Suite 1200, Charlotte, NC 28202-162, Attn: Rick Rayburn, Esq. and Jack Miller, Esq.

(d) Each Qualified Bidder shall be required to represent that it has not engaged in any collusion with respect to the Sale Process or the Sale Transaction.

(e) On or before **October 30, 2017**, each Qualified Bidder must inform the Debtors whether it intends to attend the Auction; provided that in the event a Qualified Bidder does not attend the Auction, such Qualified Bidder's Qualified Bid shall nevertheless remain fully enforceable against such Qualified Bidder until the date of the selection of the Winning Bid and Backup Bid at the conclusion of the Auction.

(f) The Auction shall be conducted by the Debtors in an "open cry" format and in accordance with such procedures and requirements as may be established at the discretion of the Debtors and their advisors (in consultation with the Consultation Parties) to result in the highest and best offer for the New Shares, which rules shall be announced prior to commencement of the Auction and may include the determination of the amount of time between Qualified Bids, the conducting of multiple rounds of open bidding, and to declare that the Auction has ended when no further Bids are timely made or otherwise. The Debtors (in consultation with the Consultation Parties) may waive and/or employ and announce at the Auction additional rules that are reasonable under the circumstances for conducting the Auction provided that such rules are (i) not inconsistent with the Bidding Procedures Order, the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules of the Bankruptcy Court, or any order of the Bankruptcy Court entered in connection with the Chapter 11 Cases and (ii) disclosed to each Qualified Bidder.

(g) The first Qualified Bid at the Auction shall be deemed to have been made by the Initial Highest Bidder in the amount of the Initial Highest Bid. Thereafter, the Auction will continue in the manner determined by the Debtors above; provided, however, (i) additional Bids must be Qualified Bids (except that subsequent Qualified Bids made at the Auction, although received from a Qualified Bidder prior to the Bid Deadline, need not be received by the Bid Deadline); (ii) additional Qualified Bids must be made in higher increments of at least **\$250,000** (the "Minimum Bid Increment"); and (iii) except as provided in section G(i), below, additional Qualified Bids must offer consideration in cash to be paid on or prior to the Effective Date of the Plan.

(h) The Debtors shall determine (in consultation with the Consultation Parties) and subject to final determination by the Bankruptcy Court, whether a Qualified Bid by a Qualified Bidder at the Auction meets the Minimum Bid Increment and matches or is higher and better than the prior Qualified Bid, which will be determined by considering, among other things: (i) the number, type, and nature of any modifications to the Existing Plan, and the extent to

which such modifications (A) increase the certainty of closing without delay, and (B) may be viewed as improving the value of the bid; (ii) the extent to which any proposed modifications to the Existing Plan are likely to delay the closing, and the likely cost to the Debtors of any such modifications or delay; (iii) the total consideration to be received by the Debtors under the terms of the Qualified Bid; (iv) each Qualified Bidder's ability to timely close the transaction and make any deferred payments, if applicable; and (v) the net benefit to the Debtors' estates and the creditors of such estate and the likely timing and amount of distributions to the Debtors' creditors resulting from each proposal.

(i) In connection with any Qualified Bid made by the Noteholders or Noteholder Agent at the Auction, the Noteholders shall be entitled to credit bid the entirety of the Noteholder Claims and all outstanding DIP Obligations.

(j) At the conclusion of the Auction, the Debtors shall (in consultation with the Consultation Parties): (i) select the highest and best Qualified Bid for the New Shares (the "Winning Bid") and announce that the Qualified Bidder provided such bid has been selected as the "Winning Bidder"; (ii) select the *next* highest or otherwise best Qualified Bid (the "Backup Bid") and announce that the bidder providing such bid has been selected as the "Backup Bidder"; (iii) notify the Winning Bidder and the Backup Bidder that their offers have been determined by the Debtors (in consultation with the Consultation Parties) to be the Winning Bid and Backup Bid, respectively, subject only to Bankruptcy Court approval; and (iv) file a notice with the Bankruptcy Court announcing the Winning Bidder and the Backup Bidder and conduct a hearing for approval of same contemporaneously with the hearing on the Alternative Plan (the "Confirmation Hearing"), or at an intervening hearing scheduled by the Bankruptcy Court. Prior to the commencement of the Confirmation Hearing, the Winning Bidder and the Backup Bidder shall complete and sign all agreements and documents as necessary to bind the Winning Bidder to all of the terms and conditions contemplated by the Winning Bid, including a [restructuring support agreement/investment agreement].

(k) Each Winning Bid and any Backup Bid will be subject to approval by the Bankruptcy Court at the Confirmation Hearing to be held on _____, 2017 at _____ .m. (prevailing Eastern Time) before the Honorable _____, United States Bankruptcy Judge, **401 West Trade Street, Charlotte, North Carolina, Courtroom 1[]**. The Confirmation Hearing may be adjourned by the Debtors from time to time without further notice to creditors or other parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Confirmation Hearing, or by filing a notice stating the adjournment, on the docket of the Chapter 11 Cases.

(l) If a Backup Bidder is identified in accordance with the Bidding Procedures, then the Backup Bid shall remain open until the closure of the Sale Transaction to the Winning Bidder.

(m) If no Qualified Bids other than the Noteholder offer embodied in the Existing Plan are received by the Debtors by the Bid Deadline, the Debtors shall not hold an Auction and the Noteholder offer shall be the Winning Bid.

(n) All Deposits shall be retained by the Debtors. If a Qualified Bidder becomes the Winning Bidder, the Deposit paid by the Winning Bidder whose bid is approved at the Confirmation Hearing shall be applied to the purchase price to be paid by the Winning Bidder upon closing of the Sale Transaction. The Deposit paid by the Backup Bidder, if there is a Backup Bidder, shall be retained until the closing of the Sale Transaction or, if the Backup Bidder becomes the ultimate purchaser pursuant to the Bidding Procedures, shall be applied to the purchase price to be paid by the Backup Bidder upon closing of the Sale Transaction. The Deposits of all bidders not selected as the Winning Bidder or the Backup Bidder at the Auction shall be returned to such Qualified Bidders within five (5) business days of the earlier of (i) the determination of the Winning Bidder by the Debtors, and (ii) thirty (30) days following the Auction. If the Bidding Procedures are terminated in accordance with the provisions thereof, all Deposits shall be returned to the bidders within five (5) business days of the date upon which the Bidding Procedures are terminated. The Deposit of the Backup Bidder shall be returned to such bidder within five (5) business days of the closing of the Sale Transaction with the Winning Bidder. If an entity selected as the Winning Bidder (including, if selected as the Winning Bidder, the Backup Bidder) breaches its obligations to close, it shall forfeit its Deposit to the Debtors; provided, however, that the forfeiture of such Deposit shall be in addition to, and not in lieu of, any other rights in law or equity that any of the Debtors has or have against such breaching entity.

(o) The Debtors shall not be deemed to have finally accepted any Qualified Bid unless and until such Qualified Bid and the Debtors' acceptance thereof have been authorized by order of the Bankruptcy Court following the conclusion of the Confirmation Hearing.

H. Deposits

No later than five (5) business days after the Auction, the Debtors (or escrow agent) shall return to each Qualified Bidder(s) other than the Winning Bidder or Backup Bidder their respective Deposit(s).

EXHIBIT D
JOINDER AGREEMENT

JOINDER AGREEMENT

This JOINDER AGREEMENT to the Restructuring Support Agreement, dated as of August __, 2017 (the "Agreement"), by and among (a) each of the Debtors named on the signature pages to this Agreement (each, individually a "Debtor" and, collectively, the "Company" or the "Debtors")¹ (b) CapitalSouth Partners SBIC Fund III L.P. (the "Noteholder Agent") and (c) each of the beneficial owners (or investment managers or advisors for the beneficial owners) of the Notes (as defined below) identified on the signature pages hereto (such persons and entities described in this clause (c), together with any of their respective successors and permitted assigns under this Agreement, each, a "Noteholder" and, collectively, the "Noteholders") is executed and delivered by _____ (the "Joining Party") as of [____], 2017. Each capitalized term used herein but not otherwise defined shall have the meaning set forth in the Agreement.

1. Agreement to be Bound. The Joining Party hereby agrees to be bound by all of the terms of the Agreement, a copy of which is attached to this Joinder Agreement as Annex I (as the same has been or may be hereafter amended, restated or otherwise modified from time to time in accordance with the provisions hereof). The Joining Party shall hereafter be deemed to be a "Party" or "Noteholder" as applicable, for all purposes under the Agreement.

2. Representations and Warranties. With respect to the aggregate principal amount of Notes set forth below, its name on the signature page hereof, the Joining Party hereby makes the representations and warranties of the Noteholders set forth in Section 9 of the Agreement to each other Party to the Agreement.

3. Governing Law. This Joinder Agreement shall be governed by and construed in accordance with the internal laws of the State of North Carolina, without regard to any conflicts of law provisions which would require the application of the law of any other jurisdiction.

* * * * *

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

¹The entities included in the definition of "Company" or "Debtors" are as follows: Portrait Innovations, Inc., Portrait Innovations Holding Company.

IN WITNESS WHEREOF, the Joining Party has caused this Joinder to be executed as of
the date first written above.

[NOTEHOLDER]

By: _____

Name: _____

Title: _____

Principal Amount Notes: \$ _____

Notice Address:

Fax: _____

Attention: _____

With a copy to:

Fax: _____

Attention: _____

Acknowledged:

PORTRAIT INNOVATIONS, INC.

By: _____

Name: _____

Title: _____

[PORTRAIT INNOVATION HOLDING COMPANY]

By: _____

Name: _____

Title: _____

EXHIBIT B

PROPOSED ORDER

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

In re:)	Chapter 11
)	
PORTRAIT INNOVATIONS, INC., et al.)	Case No. 17- _____
)	
Debtors. ⁵)	(Jointly Administered)
_____)	

**ORDER AUTHORIZING THE DEBTORS TO
ASSUME RESTRUCTURING SUPPORT AGREEMENT**

Upon the *Motion of the Debtors for Entry of Order Authorizing the Debtors to Assume Restructuring Support Agreement* (the “Motion”) for an order pursuant to sections 105 and 365 of the Bankruptcy Code, authorizing the Debtors to assume that certain Restructuring Support Agreement entered into by and among the Debtors and the Noteholders (inclusive of all exhibits thereto, the “RSA”);⁶ the Court having jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334; the Court having found that this matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2) for which the Court may enter an order consistent with Article III of the United States Constitution; the Court having found that venue of this proceeding and the Motion in this District is proper pursuant to 28 U.S.C. §§ 1408 and 1409; good and sufficient cause having been shown for the relief requested in the Motion; adequate notice having been given; and after due deliberation, the Court having determined that the relief requested by the Motion is in the best interests of the Debtors, their estates, their creditors, and other parties in interest; and sufficient cause appearing therefor;

IT IS HEREBY ORDERED THAT:

⁵ 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 Ayrley Town Center Boulevard, Suite 200, Charlotte North Carolina 28273.

⁶ Capitalized terms used but not defined herein shall have the meanings given to them in the Motion.

1. The Motion is GRANTED as set forth herein.
2. All objections filed, if any, to the Motion or the relief requested herein that have not been withdrawn, waived, settled, or specifically addressed in this Order, and all reservations of rights included in such objections, are specifically overruled in all respects on the merits.
3. The Debtors' assumption of the RSA, a copy of which is attached hereto as Annex 1, is approved, effective upon entry of this Order.
4. The RSA shall be binding and enforceable against the Debtors and the Noteholders in accordance with its terms.
5. The failure to describe specifically or include any particular provision of the RSA or related documents in the Motion or this Order shall not diminish or impair the effectiveness of such provision, it being the intent of this Court that the RSA be assumed by the Debtors in its entirety (including any exhibits or attachments thereto).
6. The RSA and any related agreements, documents, or other instruments may be modified, amended, or supplemented by the parties thereto, solely in accordance with the terms thereof, without further order of the Court.
7. The Noteholders and Noteholder Agent are granted all rights and remedies provided to them under the RSA, including, without limitation, the right to specifically enforce the RSA in accordance with its terms.
8. The Debtors are authorized and directed to pay the Transaction Expenses (as defined in the RSA) without the need of further court approval. The Transaction Expenses: (i) shall be paid in accordance with the RSA, and the amounts paid (ii) shall not be subject to any avoidance, reduction, setoff, recoupment, offset, recharacterization, subordination (whether contractual, equitable, or otherwise), counterclaims, crossclaims, defenses, disallowance,

impairment, or any other challenges under applicable law or regulation by any person or entity. The Court finds that the Transaction Expenses provided under the RSA: (i) are necessary to the preservation of the Debtors' estates, (ii) are approved and allowed as administrative expenses pursuant to sections 503(b) and 507(a) of the Bankruptcy Code, and (iii) shall be payable pursuant to the terms of the RSA. No interim or final application shall be required to be filed with the Bankruptcy Court as a condition precedent to the Debtors' obligation to pay such Transaction Expenses set forth in the RSA or any exhibits.

9. No default exists under the RSA, and, therefore, the Debtors are not required to satisfy the requirements of section 365(b)(1) of the Bankruptcy Code. Accordingly, the Debtors are not required to: (a) cure, or provide adequate assurance that the Debtors will promptly cure, any default under the RSA; (b) compensate, or provide adequate assurance that the Debtors will promptly compensate, the parties to the RSA for any actual pecuniary loss resulting from any default; or (c) provide adequate assurance of future performance of the RSA.

10. The Debtors are hereby authorized and empowered to take all actions necessary to implement the relief granted in this Order, and such actions shall not constitute a solicitation of acceptances or rejections of a plan pursuant to section 1125 of the Bankruptcy Code.

11. This Order shall be binding on all successors and assigns, including any trustee appointed in these Chapter 11 Cases.

12. The Court shall retain jurisdiction over any matter or disputes arising from or relating to the interpretation, implementation or enforcement of this Order.

This Order has been signed electronically. The judge's signature and court's seal appear at the top of the Order.

United States Bankruptcy Court

Annex 1

Restructuring Support Agreement