

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

In re:)	
)	Chapter 11
PRONERVE HOLDINGS, LLC, <i>et al.</i> , ¹)	Case No. 15-____ (____)
)	
Debtors.)	(Joint Administration Requested)
)	

**DECLARATION OF GEORGE D. PILLARI IN SUPPORT OF
THE DEBTORS’ CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS**

I, George D. Pillari, hereby declare under penalty of perjury, pursuant to section 1746 of title 28 of the United States Code, that:

1. I have served as Chief Restructuring Officer of ProNerve Holdings, LLC (“Holdings” and, together with each of its wholly-owned direct and indirect subsidiaries, as debtors and debtors in possession, the “Debtors” or “ProNerve”) since January 2014, and as Chief Executive Officer since January 2015. In these capacities, I have become familiar with the Debtors’ day-to-day operations, business, and financial affairs.

2. I am a Managing Director with Alvarez & Marsal Healthcare Industry Group, LLC (“A&M”), a restructuring advisory services firm with numerous offices throughout the country. I submit this declaration on behalf of the Debtors in support of the Debtors’ chapter 11 petitions and the First Day Pleadings (as defined below) filed contemporaneously herewith.

¹ The Debtors, together with the last four digits of each Debtor’s federal tax identification number, are: ProNerve Holdings, LLC (1653); ProNerve, LLC (2155); Boulder Intraoperative Monitoring, LLC (9147); Colorado Intraoperative Monitoring, LLC (5837); Denver South Intraoperative Monitoring, LLC (3164); Eugene Intraoperative Monitoring, LLC (0718); ProNerve Technologies, LLC (1814); Riverside Intraoperative Monitoring, LLC (6963); and Topeka Intraoperative Monitoring, LLC (6151). The location of the Debtors’ corporate headquarters and the service address for all Debtors is 7600 E. Orchard Road, Suite 200 N, Greenwood Village, Colorado 80111.

3. On the date hereof (the "Petition Date"), the Debtors filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") and filed the motions described herein requesting certain relief (the "First Day Pleadings").

4. The Debtors are operating their business and managing their properties as debtors in possession pursuant to Bankruptcy Code sections 1107(a) and 1108. Contemporaneously with the filing of this declaration, the Debtors have requested procedural consolidation and joint administration of the above-captioned chapter 11 cases (these "Chapter 11 Cases").

5. The First Day Pleadings seek, among other things, to: (a) ensure the continuation of the Debtors' cash management systems and other business operations without interruption; (b) maintain employee morale and confidence; and (c) establish certain other administrative procedures to promote a smooth transition into these Chapter 11 Cases. Gaining and maintaining the support of the Debtors' employees, customers, vendors, and other key constituencies, as well as maintaining the day-to-day operations of the Debtors' business with minimal disruption, will be critical to a successful sale or restructuring in these Chapter 11 Cases.

6. Except as otherwise indicated herein, all of the facts set forth in this declaration are based upon my personal knowledge, information supplied to me by other members of ProNerve's management or professionals, information learned from my review of the relevant documents, or my experience and knowledge of the Debtors' operations and financial condition and the healthcare industry, generally. If called as a witness, I could and would testify to the facts set forth in this declaration. I am authorized to submit this declaration on behalf of the Debtors.

7. Parts I through III of this declaration describe ProNerve's business operations, organizational structure, and capital structure. Part IV of this declaration describes the events

leading to these Chapter 11 Cases. Part V of this declaration sets forth the relevant facts in support of the First Day Pleadings.

I. BACKGROUND AND BUSINESS OPERATIONS

8. Founded in 2008, ProNerve is headquartered in a suburb of Denver, Colorado. ProNerve and certain affiliated practice entities (the “Affiliated Practices”) provide intraoperative neurophysiologic monitoring (“IOM”) services to health systems, acute care hospitals, specialty hospitals, ambulatory surgical centers, surgeons, and physician groups in more than 25 states.

9. IOM services are typically used for patients undergoing operations related to the nervous system or that pose a risk to the nervous system’s integrity, such as spinal surgery, certain brain surgeries, carotid endarterectomy, ENT procedures such as acoustic neuroma, and nerve surgery.

10. During such surgeries, a trained technologist attaches a computer system to the patient using electrodes, and interactive software performs two primary tasks: (i) selective activation of stimulating electrodes; and (ii) processing and displaying the electrophysiologic signals from the electrodes. This allows a physician to observe and document the electrophysiologic signals in real-time in the operating area (or remotely) during the surgery, thereby providing an early warning to the surgeon and anesthesiologist of potential injury to a patient’s nervous system structures.

11. ProNerve’s trained technologists provide onsite technical support in the operating room, and physicians employed by the Affiliated Practices provide real-time professional IOM reading services and technologist oversight (delivered remotely).

12. ProNerve and each Affiliated Practice are party to a management service agreement (the “Management Service Agreements”), pursuant to which the Affiliated Practices

make certain payments to ProNerve in exchange for administrative, management, and back-office support services. In addition to the revenue collected by ProNerve under the Management Service Agreements, ProNerve collects revenue from healthcare providers and third party payors for the technical IOM services provided by ProNerve.

13. ProNerve employs over 200 full-time and part-time employees, including approximately 4 part-time technologists, 131 full-time technologists, 4 regional managers, 14 readers, and 72 corporate staff.

14. The IOM services offered by ProNerve and the Affiliated Practices were used for nearly 25,000 patient cases in 2014. In 2014, ProNerve had net revenue of approximately \$31 million and a net loss of approximately \$9 million.

15. In addition to its headquarters in Colorado, ProNerve also leases an office in Scottsdale, Arizona, where two readers are employed and some of the Debtors' assets are located.

II. ORGANIZATIONAL STRUCTURE

16. ProNerve, LLC is a Delaware LLC and wholly-owned subsidiary of Holdings. ProNerve, LLC has the following seven wholly-owned subsidiaries: (i) Boulder Intraoperative Monitoring, LLC, a Colorado LLC, (ii) Eugene Intraoperative Monitoring, LLC, a Delaware LLC, (iii) Denver South Intraoperative Monitoring, LLC, a Delaware LLC, (iv) Colorado Intraoperative Monitoring, LLC, a Delaware LLC, (v) Riverside Intraoperative Monitoring, LLC, a Delaware LLC, and (vi) Topeka Intraoperative Monitoring, a Delaware LLC (collectively, the "Inactive Subsidiaries"), and (vii) ProNerve Technologies, LLC. The Inactive Subsidiaries do not have any active business operations, and have only *de minimis* assets and liabilities. ProNerve Technologies, LLC does not have any active business operations, and its sole asset is intellectual property rights associated with propriety software developments.

17. The non-Debtor Affiliated Practices are each wholly-owned by licensed physicians. The Debtors do not hold any equity interests in the Affiliated Practices.

18. The organizational chart attached hereto as Exhibit A illustrates the foregoing.

III. CAPITAL STRUCTURE

19. In December 2012, ProNerve, LLC entered into that certain Credit Agreement (the "Credit Agreement"), dated December 20, 2012, between ProNerve, LLC, certain other credit parties thereto (including Holdings, the Inactive Subsidiaries, ProNerve Technologies, LLC, and the Affiliated Practices), General Electric Capital Corporation, as agent (the "Agent"), and General Electric Capital Corporation and Regions Capital Markets, as lenders (the "Lenders"), among other parties. Pursuant to the Credit Agreement, the Lenders agreed to extend to ProNerve (i) term loans in the aggregate principal amount of \$30 million, (ii) delayed draw term loans in an aggregate principal amount not to exceed \$10 million, and (iii) revolving loans in an aggregate principal amount not to exceed \$10 million (collectively, the "Loan Commitments").

20. The Loan Commitments are guaranteed by, and secured by substantially all of the assets of, the Debtors and the Affiliated Practices pursuant to that certain Guaranty and Security Agreement, dated December 20, 2012, between ProNerve, LLC, certain other credit parties thereto (including Holdings, the Inactive Subsidiaries, ProNerve Technologies, LLC, and the Affiliated Practices), and the Agent.

21. As of the Petition Date, the aggregate principal amount outstanding under the Loan Commitments is approximately \$43,176,850.17.

22. The Debtors estimate that, as of the Petition Date, they have approximately \$5.3 million of outstanding unsecured debt, which is comprised mostly of professional services, trade debt, employee severance, and acquisition earnouts.

IV. EVENTS LEADING TO THESE CHAPTER 11 CASES

23. Since 2012, in an effort to increase market share, ProNerve has acquired the assets of several IOM service providers, including (i) Northwest Neurodiagnostics, Inc. in February 2012, (ii) Intraoperative Monitoring Services, LLC in October 2012, (iii) PhysIOM Group, LLC and its affiliates in December 2012, and (iv) Broncor, Inc. in October 2013. Unfortunately, many of these strategic acquisitions have resulted in significant accrued liabilities on account of earnout obligations, which have affected ProNerve's balance sheet, including its ability to timely service the Loan Commitments.

24. Additionally, there has been a high rate of turnover among ProNerve's senior management, which has created operational difficulties. For example, over the past three years, ProNerve has had four different CEOs (including me) and four different CFOs.

25. For calendar years 2012, 2013, and 2014, ProNerve's net revenue was approximately \$14.2 million; \$32 million; and \$31 million, respectively, and its net loss was approximately \$5.8 million; \$3.7 million; and \$9 million, respectively. The number of patient cases utilizing the IOM services provided by ProNerve and its Affiliated Practices in 2012, 2013 and 2014 was approximately 11,000; 28,000; and 25,000, respectively.

26. Beginning in early 2014, ProNerve and its advisors, including ProNerve's private equity sponsor (the "Sponsor"), began exploring multiple restructuring alternatives as a result of ProNerve's ongoing financial struggles. In November 2013, ProNerve retained A&M to assist with general revenue cycle and cash collection items. During this time, ProNerve failed to make scheduled principal payments due under the Credit Agreement on January 2, 2014. Shortly thereafter, on January 6, 2014, ProNerve expanded A&M's retention to include my appointment as Chief Restructuring Officer.

27. In connection with negotiations between the parties to the Credit Agreement, the Agent and ProNerve, among others, executed that certain Short Term Forbearance Agreement, dated March 28, 2014, pursuant to which the Agent agreed to forbear from exercising its default remedies under the Credit Agreement through April 11, 2014. After further discussions, the Agent and ProNerve, among others, executed that certain Forbearance Agreement, dated April 11, 2014 (the "Forbearance Agreement"), pursuant to which the Agent agreed to forbear from exercising its default remedies under the Credit Agreement through October 2, 2014. In connection therewith, the Sponsor agreed to provide a cash equity investment to ProNerve in an amount equal to at least \$2.5 million. The Sponsor ultimately made a total cash equity infusion of \$5 million—\$2.5 million on April 17, 2014 and \$2.5 million on May 1, 2014.

28. Despite the Sponsor's cash equity infusion, ProNerve's liquidity continued to dwindle during the forbearance period, and its financial health became more desperate. And despite expiration of the Forbearance Agreement in October 2014, ProNerve failed to make certain scheduled principal payments due under the Credit Agreement on January 1, 2015.

29. Due to myriad regulatory and financial issues faced by ProNerve, none of the out-of-court restructuring alternatives pursued by ProNerve and its advisors proved viable. After consideration of all reasonably available alternatives, and in light of the Debtors' liquidity constraints and other related business challenges, the Debtors and their respective managers and officers determined, in an exercise of their business judgment, that it would be in the Debtors' best interest to commence these Chapter 11 Cases and pursue a sale of substantially all of the Debtors' assets pursuant to Bankruptcy Code section 363.

30. In January 2015, A&M and ProNerve's board of managers determined that, given the Debtors' limited liquidity, an acquirer needed to be identified and a sale of ProNerve needed

to occur within 30 to 40 days. ProNerve's board of managers determined that there was neither the time nor the available liquidity to interview and retain an investment banker to conduct a traditional investment banking process, and therefore instructed A&M to seek out qualified purchasers who satisfied the size criteria and risk profile to consummate the purchase of a distressed company like the Debtors and also had a familiarity with the Debtors from previous merger and acquisition discussions.

31. Since January 2015, A&M has contacted eight potential purchasers, comprised of three strategic companies, one individual, and four financial buyers. Of these potential purchasers, one indicated that it is not interested and seven indicated an interest. Of the seven potential purchasers that indicated an interest, six signed confidentiality agreements and obtained access to confidential information describing the Debtors' operations and historical and projected financial performance. Of these potential purchasers, four submitted a non-binding term sheet.

32. The Debtors ultimately agreed to a non-binding term sheet, under which the purchaser would acquire substantially all of the Debtors' assets for cash consideration through an auction in these Chapter 11 Cases pursuant to Bankruptcy Code section 363 and serve as the stalking horse bidder. However, several days after executing the term sheet, the purchaser stated its intent to withdraw from the sale process entirely.

33. Immediately thereafter, the Debtors and their advisors contacted certain affiliates and advisors of SpecialtyCare IOM Services, LLC (the "Buyer"), which had previously submitted a non-binding term sheet during the initial sale process. After negotiations between the parties, the Debtors ultimately agreed to a non-binding term sheet with the Buyer.

34. Prior to the Petition Date, the Buyer acquired all of the debt outstanding under the Loan Commitments from the Lenders. Contemporaneously therewith, the Debtors and the Buyer

executed the Asset Purchase Agreement, dated February 24, 2015, under which the Buyer agreed to acquire substantially all of the Debtors' assets with a credit bid through an auction in these Chapter 11 Cases pursuant to Bankruptcy Code section 363, and serve as the stalking horse bidder. As discussed in more detail in the pleadings filed contemporaneously herewith, the Buyer also agreed to provide a debtor in possession financing facility to fund the Debtors' operations during these Chapter 11 Cases.

35. The APA provides for a purchase price of \$35 million in the form of a credit bid, plus the assumption of certain liabilities. The proposed sale, auction, and bidding procedures, filed contemporaneously herewith, contemplate that (i) the auction (if necessary) will occur on March 27, 2015, and (ii) the Court will enter an order approving a sale (the "Sale Order") to the Buyer or the person presenting the highest or otherwise best bid at the auction no later than March 31, 2015 (or no later than March 24, 2015 if no auction is held). The Debtors and the Buyer anticipate that the sale will close as soon as possible after the Court enters the Sale Order.

V. FACTS RELEVANT TO FIRST DAY PLEADINGS²

36. Together with the filing of these Chapter 11 Cases, the Debtors filed certain First Day Pleadings that request various types of relief. Generally, the First Day Pleadings have been designed to meet the Debtors' goals of: (a) continuing their operations as debtors in possession with as little disruption and loss of productivity as possible; (b) maintaining the confidence and support of the Debtors' employees, customers, vendors, and other key constituencies during these Chapter 11 Cases; and (c) establishing procedures for the smooth and efficient administration of these Chapter 11 Cases.

² Capitalized terms used but not defined herein have the meanings ascribed to such terms in the relevant First Day Pleadings.

37. I have reviewed each of the First Day Pleadings filed contemporaneously herewith (including the exhibits thereto) and, to the best of my knowledge, information and belief, the facts recited therein with respect to the Debtors are true and correct and are hereby incorporated by reference. I believe that the relief sought in each First Day Pleading is essential to the Debtors' ability to achieve a successful reorganization.

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

38. In the Joint Administration Motion, the Debtors seek entry of an order directing the joint administration of these Chapter 11 Cases and the consolidation thereof for procedural purposes only. Many of the motions, applications, hearings, and orders that will arise in these Chapter 11 Cases will affect most, if not all, of the Debtors jointly.

39. The Debtors further seek entry of an order directing the Clerk of the Court to maintain one file and one docket for all of these Chapter 11 Cases under the case of ProNerve Holdings, LLC.

40. Joint administration of these Chapter 11 Cases will ease the administrative burden on this Court and all parties in interest. Joint administration of these Chapter 11 Cases will not prejudice creditors or other parties in interest because joint administration is purely procedural and will not impact the parties' substantive rights.

41. I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest.

- ii. *Debtors' Motion for Order (I) Authorizing the Debtors to Prepare a Consolidated List of the Debtors' Top Thirty Unsecured Creditors; and (II) Approving the Form and Manner of the Notice of Commencement (the "Consolidated Creditors Motion")*

42. In the Consolidated Creditors Motion, the Debtors seek an order (i) authorizing the Debtors to prepare a consolidated list of the Debtors' thirty largest unsecured creditors and (ii) approving the form and manner of notice of the commencement of these Chapter 11 Cases.

43. A single consolidated list of the Debtors combined thirty largest unsecured creditors in these Chapter 11 Cases would better reflect the body of unsecured creditors with the greatest stake in these Chapter 11 Cases than separate Top 30 Lists for each of the Debtors. The Debtors believe that such relief is not only appropriate under the circumstances, but necessary for the efficient and orderly administration of these cases.

44. The Debtors request that the Claims Agent, and not the Clerk, be directed to serve the Commencement Notice attached as Exhibit B to the Consolidated Creditors Motion in accordance with Bankruptcy Rule 2002(a). The Debtors further propose that the Commencement Notice be served by regular mail, postage prepaid, on those entities entitled to receive such notice pursuant to Bankruptcy Rule 2002(a) no later than five business days after the Debtors receive notice of the time and place of the Section 341 Meeting.

45. I believe that the relief requested in the Consolidated Creditors Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest.

- iii. *Application for an Order Appointing The Garden City Group LLC as Claims and Noticing Agent for the Debtors Pursuant to 28 U.S.C. § 156(c), 11 U.S.C. § 105(a) and Local Rule 2002-1(f), Nunc Pro Tunc to the Petition Date (the "GCG Retention Application")*

46. The GCG Retention Application is made pursuant to 28 U.S.C. § 156(c), section 105(a) of the Bankruptcy Code, and Local Rule 2002-1(f) for an order appointing The Garden

City Group LLC (“GCG”) as the claims and noticing agent in order to assume full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in the Debtors’ Chapter 11 Cases. The Debtors’ selection of GCG to act as the claims and noticing agent has satisfied the Court’s *Protocol for the Employment of Claims and Noticing Agents under 28 U.S.C. § 156(c)* in that the Debtors have obtained and reviewed engagement proposals from at least two (2) other court-approved claims and noticing agents to ensure selection through a competitive process. Moreover, the Debtors submit, based on all engagement proposals obtained and reviewed, that GCG’s rates are competitive and reasonable given GCG’s quality of services and expertise.

47. Although the Debtors have not yet filed their schedules of assets and liabilities, they anticipate that there will be in excess of 200 entities to be noticed. In view of the number of anticipated claimants and the complexity of the Debtors’ businesses, the Debtors submit that the appointment of a claims and noticing agent is both necessary and in the best interests of the Debtors’ estate and their creditors.

48. I believe that the relief requested in the GCG Retention Application is in the best interests of the Debtors’ estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business during the Chapter 11 Cases without disruption.

iv. *Debtors’ Motion for an Order Authorizing the Debtors to Continue Using Debtors’ Bank Accounts, Business Forms, and Cash Management System (the “Cash Management Motion”)*

49. The Debtors use a centralized cash management system to collect funds from and for, and to pay expenses incurred by, their operations (the “Cash Management System”). The Cash Management System is illustrated in overview form in the chart attached as Exhibit B to the Cash Management Motion. The Cash Management System includes 11 Debtor bank accounts

and lockboxes, a list of which is attached as Exhibit C to the Cash Management Motion (the “Bank Accounts”). The Debtors’ Bank Accounts are held at (i) Colorado Business Bank (“Cobiz”), (ii) Wells Fargo (“Wells Fargo”), and (iii) Regions Bank (“Regions” and, together with Cobiz and Wells Fargo, the “Banks”). The Debtors also maintain, on behalf of the Affiliated Practices pursuant to the Management Service Agreements, 10 non-Debtor bank accounts (the “Affiliated Practice Bank Accounts”).

50. The Cash Management System is integral to the operation and administration of the Debtors’ business. In this regard, the Cash Management System allows the Debtors to efficiently (a) collect outstanding receivables, (b) identify the Debtors’ cash requirements, and (c) transfer cash as needed to respond to these requirements.

51. The principal components of the Cash Management System and the flow of funds through that system are as follows:

- (i) Cash Collection and Concentration. The Debtors maintain a concentration account at Regions Bank (the “Concentration Account”). Virtually all the Debtors’ receipts ultimately flow into the Concentration Account, and the funds for almost all disbursements originate from the Concentration Account. The Debtors’ procedures for cash collections and concentration are described in further detail below.
 - (1) The Debtors’ collections in the form of checks are received in one of five lockbox accounts. These amounts are automatically deposited into either (A) a corresponding deposit account and thereafter transferred into the Concentration Account, or (B) the Concentration Account.
 - (2) The Debtors’ collections in the form of ACHs from hospital facilities and third party payors are either (A) deposited into one of two Wells Fargo deposit accounts or (B) deposited directly into the Concentration Account.
 - (3) All of the Debtors’ collections, other than as described above, are deposited directly into the Concentration Account.
 - (4) In most instances, the Affiliated Practices’ collections are deposited into the various Affiliated Practice Bank Accounts.

Pursuant to the Management Service Agreements, in certain instances collections on behalf of the Affiliated Practices are deposited into certain two of the Debtors' lockbox Bank Accounts and the Concentration Account.

- (ii) Disbursement Accounts. In order to fund operations using certain forms of payment (autodrafts and checks, including payroll), the Debtors transfer funds from their Concentration Account into their Regions disbursement account (the "Disbursement Account"). All other payments used to fund the Debtors' operations (including for payments made with debit cards, cashiers' checks, and bank wires) are paid directly from either (A) the Concentration Account, or (B) one of two CoBiz disbursement accounts.

Pursuant to the Management Service Agreements, expenses (including payroll for the Physicians) incurred by the Affiliated Practices are paid by the Debtors from the Bank Accounts, and a corresponding book-entry liability is entered on the books of the Affiliated Practices for such amounts.

52. As described above, the Debtors customarily receive funds from the Affiliated Practices in the ordinary course of business. No funds are transferred from the Debtors to the Affiliated Practices. However the Debtors pay certain expenses of the Affiliated Practices pursuant to the Management Service Agreements, which result in a corresponding book-entry liability on the books of the Affiliated Practices for such amounts.

53. The Debtors seek a waiver of the U.S. Trustee operating guidelines for debtors in possession to the extent they require that the Debtors close the Bank Accounts and open new postpetition bank accounts. If enforced in these Chapter 11 Cases, which are proceeding to a quick sale, such requirements would disrupt the Debtors' business, causing delays in payments to vendors, suppliers, subcontractors, administrative creditors, employees, and others, thereby impeding the Debtors' efforts to maximize the value of their estates.

54. The Debtors request the authority to continue to use the Bank Accounts with the same account numbers, styles, and business forms as the Debtors used prepetition. The Debtors also seek authority to open new accounts whenever needed, provided that the Debtors give the

U.S. Trustee and the Pre-Petition Secured Lender adequate notice of such newly-opened accounts. The Debtors represent that if the relief requested in this Motion is granted, they will not pay, and will direct each of the Banks not to pay, any debts incurred before the Petition Date, other than as authorized by this Court.

55. In connection with continuing the use of the Bank Accounts, the Debtors request the authority to pay prepetition account-related Bank fees and charges to the extent of the amount of the Debtors' cash held by such Bank. The Debtors seek authority to pay the prepetition account-related Bank fees and charges to the extent the Debtors determine, in their good faith business judgment, that the Banks have valid setoff claims pursuant to section 553 of the Bankruptcy Code (but only to the extent of such claims). This will save the Debtors the time and expense of responding to such lift stay requests and/or negotiating stipulated orders to allow the Banks to exercise setoff rights. The Debtors further submit that such relief requested would not prejudice the interests of any other creditors or other parties-in-interest.

56. The Debtors should be granted further relief from the U.S. Trustee operating guidelines to the extent that they require the Debtors to make all disbursements by check. Preventing the Debtors from conducting transactions by debit, wire, and other similar methods would unnecessarily disrupt the Debtors' business operations and create additional and unnecessary costs.

57. Compelling the Debtors to adopt a new cash management system would be expensive and create unnecessary administrative problems, impeding the Debtors' ability to reorganize. Consequently, the Debtors' ability to continue using its Cash Management System is essential and is in the best interests of all the Debtors, their estates, and their stakeholders.

58. To minimize expenses to their estates, the Debtors also request authorization to continue using all correspondence and business forms (including, but not limited to, letterheads, purchase orders, invoices, multi-copy checks, envelopes, promotional materials, and check stock (collectively, the "Business Forms")) existing immediately prior to the Petition Date without reference to the Debtors' status as debtors in possession.

59. The Debtors seek the further authority to, as needed, re-order new Business Forms without such legends during these Chapter 11 Cases because changing Business Forms in the middle of these Chapter 11 Cases where a sale is likely to close shortly would be needlessly expensive and burdensome to the Debtors' estates and disruptive to their business operations. Parties doing business with the Debtors undoubtedly will be aware of the Debtors' status as debtors in possession due to the Debtors providing notice of the commencement of these Chapter 11 Cases and information circulating within the Debtors' industry. Further, the Debtors anticipate that they will consummate a sale of their business shortly, at which point Business Forms with "DIP" imprinted on them would need to be discarded. Accordingly, adding the required legend would have little practical effect and is inappropriate under the circumstances.

60. Requiring the Debtors to strictly comply with the requirements of section 345(b) of the Bankruptcy Code would be inconsistent with section 345(a), which permits a debtor in possession to make such investments of money of the estate "as will yield the maximum reasonable net return on such money." The Debtors believe that any funds held in the Bank Accounts in excess of the amounts insured by the FDIC are secure, and obtaining bonds to immediately secure these funds, as required by section 345(b), is unnecessary in light of the facts and circumstances of these Chapter 11 Cases. Only one of the Bank Accounts, held with

Regions, exceeds FDIC insurance limits, and Regions is highly rated and subject to supervision by banking regulators.

61. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business during the Chapter 11 Cases without disruption.

- v. *Debtors' Motion for Authority to (I) Pay Prepetition Personnel Wages, Salaries and Other Compensation; (II) Reimburse Prepetition Personnel Business Expenses; (III) Make Payments for Which Prepetition Payroll Deductions were Made; (IV) Contribute to Prepetition Personnel Benefit Programs and Continue Such Programs in the Ordinary Course of Business; (V) Pay Workers' Compensation Obligations; and (VI) Pay all Costs and Expenses Incident to the Foregoing Payments and Contributions (the "Wage Motion")*

62. To minimize the personal hardships the Debtors' personnel (the "Personnel") will suffer if prepetition employment-related obligations are not paid when due or as expected, as well as to maintain morale during this critical time, the Debtors seek entry of an order authorizing, but not directing, the Debtors to pay: (i) all prepetition wages, salaries, and other accrued compensation to personnel; (ii) all reimbursable prepetition personnel business expenses; (iii) all payments for which prepetition payroll deductions, withholdings or matching employer contributions were made; (iv) all contributions to prepetition personnel benefit programs (and authorization to continue such programs in the ordinary course of business); (v) all vacation and other paid leave benefits in the ordinary course of business; (vi) all workers' compensation program obligations; and (vii) all processing costs and administrative expenses relating to the foregoing payments and contributions, including any payments to third-party administrators or other administrative service providers.

63. In addition, the Debtors seek limited relief from the automatic stay under section 362 of the Bankruptcy Code solely to permit the Personnel who hold valid workers'

compensation claims to proceed under the Debtors' workers' compensation policies. To effect this limited relief, the Debtors request that the Court waive the stay of a judgment under Rules 7062 and 9014 of the Bankruptcy Rules.

64. To assist in implementing the relief requested, the Debtors further request that the Court authorize their banks and other financial institutions to receive, honor, process and pay, at the Debtors' request and to the extent of funds on deposit: (i) prepetition payroll checks or electronic transfers and (ii) all other checks or electronic transfers issued for payments approved by this Motion, regardless of whether such checks or electronic transfers were drawn or issued prior to the Petition Date. The Debtors also seek authorization to reissue prepetition checks or electronic transfers for payments approved by this Motion that are dishonored notwithstanding the foregoing direction.

Wages, Salaries, and Other Compensation

65. Of the Debtors' approximately 200 Personnel, approximately 41 are hourly Personnel and the balance are salaried Personnel. The Debtors' average aggregate monthly compensation to Personnel for wages and salaries ("Personnel Wages") is approximately \$1,147,587.44, exclusive of the deductions and exclusions detailed below. The Debtors' payroll is funded through direct deposit and paper check. The Debtors' hourly Personnel and salaried Personnel are paid on a bi-weekly schedule in arrears through Ceridian HCM, Inc. ("Ceridian").

66. Ceridian debits from certain Debtor accounts, held with Regions Bank, in the amount due to Personnel for the applicable pay period, which is funded one day before the Personnel are paid (two days if there is an intervening national holiday), and Ceridian debits such account for Personnel. Direct deposits are subsequently issued by Ceridian to the applicable Personnel on the date that such compensation is due.

67. Due to the timing of these Chapter 11 Cases, some Personnel have not received compensation for time worked prior to the Petition Date. Moreover, some payroll checks issued to Personnel prior to the Petition Date may not have been presented for payment or cleared the banking system prior to the Petition Date and, accordingly, may not have been honored and paid as of the Petition Date.

68. The Debtors estimate that the aggregate amount of accrued prepetition wages, salaries, overtime pay, and other cash compensation that remains unpaid to the Personnel as of the Petition Date is approximately \$1,073,798.10 (the "Unpaid Personnel Compensation"). The Debtors believe that no Personnel are individually owed more than the \$12,475 priority amount for prepetition compensation under Section 507(a) of the Bankruptcy Code (the "Prepetition Compensation Cap") and the Debtors are not seeking to pay amounts to any Personnel in excess thereof.

Reimbursement of Prepetition Personnel Business Expenses

69. The Debtors' frequently require Personnel and Physicians to travel to off-site locations in connection with the provision of IOM services as well as sales efforts. In the ordinary course of business, the Debtors reimburse Personnel for certain expenses incurred in the scope of their employment on the Debtors' behalf, for travel or other purposes (the "Reimbursable Expenses"). The Reimbursable Expenses are generally incurred using personal credit cards for which Personnel are solely liable. The Debtors estimate that, as of the Petition Date, approximately \$35,000 of Reimbursable Expenses will be unpaid.

70. In the Wage Motion, the Debtors seek authorization, but not direction, to honor and pay all Reimbursable Expenses as of the Petition Date, up to \$35,000, and to continue to pay all Reimbursable Expenses as they become due in the ordinary course of business.

Prepetition Deductions and Withholdings

71. During each applicable pay period, the Debtors routinely deduct certain amounts from the paychecks of Personnel and Physicians (collectively, the “Deductions”), including, without limitation: (i) garnishments for child support and similar deductions required by law; (ii) pre-tax contributions to flexible health spending accounts; (iii) pre-tax contributions to health, dental, and vision plans, and (iv) other pre-tax and after-tax deductions payable pursuant to certain benefit plans discussed herein and other miscellaneous deductions. The Deductions total approximately \$117,119.16 in the aggregate per month.

72. The Debtors also are required by law to (i) withhold from the wages of Personnel and Physicians amounts related to, among other things, federal, state, and local income taxes, social security, and Medicare taxes (collectively, the “Withheld Amounts”) for remittance to the appropriate taxing authorities and (ii) make correlated payments for social security and Medicare taxes and pay additional amounts, based upon a percentage of gross payroll, for state and federal unemployment insurance (together with the Withheld Amounts, the “Payroll Taxes”). In the aggregate, the Debtors withhold and pay approximately \$333,328.37 per month on account of Payroll Taxes.

73. The Debtors estimate that, as of the Petition Date, approximately \$255,253.60 in Deductions and Payroll Taxes (collectively, “Withholding Obligations”) are outstanding with respect to Unpaid Personnel Compensation.

74. In the Wage Motion, the Debtors seek authorization, but not direction, pursuant to the Order, to honor and pay all Withholding Obligations as they otherwise become due in the ordinary course of business during these Chapter 11 Cases.

Independent Contractors

75. The Debtors also retain the services of approximately 19 independent contractors (the “Independent Contractors”). The Independent Contractors generally perform consulting subcontracting work for the Debtors. The Debtors generally pay the Independent Contractors on a bi-weekly basis. The Debtors estimate that, as of the Petition Date, approximately \$115,712 attributable to prepetition services remains outstanding to the Independent Contractors (the “Unpaid Contractor Compensation”).

Physicians

76. The Affiliated Practices provide the professional services component of the IOM services, while the Debtors provide the technical component. Pursuant to the Management Service Agreements between the Debtors and the Affiliated Practices, the Affiliated Practices employ (or retain as independent contractors) approximately 11 physicians (the “Physicians”) to provide the professional IOM services. The amounts owed to the Physicians, as wages or otherwise, are paid by the Debtors, with a corresponding book-entry liability for such amount owed by the respective Affiliated Practice to the Debtors. The Debtors’ revenue stream is heavily dependent on the amounts they earn under the Management Service Agreements from the Affiliated Practices, and thus payment of the amounts owed to the Physicians is critical to the Debtors’ continued business operations.

The Debtors generally pay the Physicians on a bi-weekly basis. The Debtors estimate that, as of the Petition Date, approximately \$142,419.04 attributable to pre-petition services remains outstanding to the Physicians (the “Unpaid Physician Compensation” and, together with the Unpaid Personnel Compensation, the Deductions, the Payroll Taxes, and the Unpaid Contractor Compensation, the “Unpaid Compensation”).

Prepetition Personnel Benefits

77. The Debtors also offer or provide eligible Personnel and Physicians (and their dependents) with a variety of benefits. These benefits include, but are not limited to: (i) healthcare, dental, and other related coverage; (ii) certain leave benefits; (iii) a 401(k) plan in which eligible Personnel can participate; (iv) COBRA medical coverage; (v) a flexible spending plan; and (vi) other miscellaneous benefits described in greater detail below (all such benefits described in this Section B, collectively, the “Personnel Benefits”). The Debtors believe that as of the Petition Date, the total amount owed or accrued in connection with the Personnel Benefits due to Personnel and Physicians is approximately \$54,009.00, for an average of approximately \$255.97 per person.

Medical, Health, Dental, and Other Plans

78. The Debtors offer coverage to eligible Personnel and Physicians (and their dependents) for medical, dental, vision, prescription drug, emergency health services, outpatient surgery, hospice care, rehabilitation services, mental health, and other related benefits (collectively, the “Health Care Benefits”).

79. The Debtors’ medical plan (the “Medical Plan”) is provided by United HealthCare. There are approximately 176 Personnel and Physicians currently enrolled in the Medical Plans. Generally, for Personnel, Physicians, and their enrolled family members, the Debtors pay approximately 64% of the cost of the Medical Plan. The Debtors pay approximately \$83,181.77 per month on account of the Medical Plan, which includes monthly fees paid by the Debtors to United HealthCare for administration costs and to reinsure Personnel and Physicians whose cost of care exceeds specified limits. The Debtors estimate that the aggregate amount due and owing on account of the Medical Plan as of the Petition Date is approximately \$71,298.66.

80. The Debtors offer to eligible Personnel and Physicians the ability to contribute to a Health Savings Account (“HSA”). For eligible Personnel and Physicians, the Debtors contribute up to \$300 for individual HSAs, and up to \$700 for family HSAs. The Debtors’ HSA program is administered by Retirement Planning Services, Inc. (d/b/a 24HourFlex) (“24HourFlex”), to which the Debtors pay an administrative fee based on the number of Personnel and Physicians enrolled. As of the Petition Date, the Debtors estimate that they owe approximately \$4,336.51 on account of the HSA program.

81. The Debtors’ dental plan for Personnel and Physicians (the “Dental Plan”) is provided by Delta Dental (“Delta”). There are approximately 176 Personnel and Physicians currently enrolled in the Dental Plan. The Debtors fund approximately 50% of the Dental Plan, with the remainder funded by the Personnel and Physicians through payroll deductions. As of the Petition Date, the Debtors estimate that they owe approximately \$5,097.30 on account of the Dental Plan.

82. United HealthCare also administers the Debtors’ vision plan (the “Vision Plan”) on behalf of approximately 152 participating Personnel and Physicians. The Vision Plan is paid almost entirely by Personnel and Physicians. As of the Petition Date, the Debtors estimate the amount owing in connection with the Vision Plan is approximately \$538.77.

401(k) Plan

83. The Debtors’ 401(k) plan (the “401(k) Plan”) is maintained for the benefit of eligible Personnel and Physicians averaging at least 1,000 hours annually. As of the Petition Date, approximately 78 Personnel and Physicians participate in the 401(k) Plan. The 401(k) Plan is held in custody and administered by StanCorp Financial Group, Inc. (“The Standard”) on behalf of the Debtors. Deductions from each participating Personnel’s and Physician’s salary are transferred by wire to The Standard on a bi-weekly basis to be credited to individual Personnel

and Physicians 401(k) accounts. For eligible Personnel and Physicians, the Debtors match 25% of the first 4% of contributions made by Personnel and Physicians made to the 401(k) Plan. The Debtors estimate that the monthly Deduction wired to The Standard is approximately \$62,968.10. As of the Petition Date, the Debtors estimate that they owe approximately \$29,062.20 to The Standard in connection with the 401(k) Plan.

84. The Debtors estimate that quarterly administrative payments to The Standard will be approximately \$970 per quarter. As of the Petition Date, the Debtors do not have any outstanding obligations due and owing to The Standard in connection with quarterly administrative payments. As part of the 401(k) Plan, the Debtors have also contracted Mercer LLC to assist and advise the Debtors with the review of their 401(k) Plan and compliance therewith, and to assist Personnel and Physicians with their investment planning. Annual payments due to Mercer LLC total approximately \$2,500. As of the Petition Date, the Debtors do not have any outstanding obligations due and owing to Mercer LLC.

Flexible Spending Programs for Medical and Dependent Care

85. The Debtors offer health care and child care flexible spending accounts (the “Flexible Spending Programs”). There are currently approximately 25 Personnel, Physicians, former Personnel, and former Physicians of the Debtors (the “Former Personnel”) enrolled in the Flexible Spending Programs. The Debtors hold funds contributed by Personnel, Physicians, and Former Personnel, and former Physicians under the Flexible Spending Programs in trust for the benefit of such persons (the “FSA Contributed Funds”). As of the Petition Date, the FSA Contributed Funds total approximately \$9,609.90.

86. 24HourFlex administers the Flexible Spending Programs on the Debtors’ behalf and directly pays to Personnel and Physicians the FSA Contributed Funds related to eligible program expenses. The Debtors estimate that they will pay administrative fees (including for

COBRA Coverage, as discussed below) to 24HourFlex totaling approximately \$715 per month. As of the Petition Date, the Debtors do not have any outstanding obligations due and owing to 24HourFlex on account of the Flexible Spending Program.

COBRA Coverage

87. Former Personnel and former Physicians are entitled to continue to participate in the Debtors' Medical Benefits, Dental and Vision Benefits, and Flexible Spending Programs pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986 (as amended, "COBRA") for up to 18 months (such coverage, the "COBRA Coverage"). As of the Petition Date, the Debtors estimate that approximately 13 Former Personnel are either currently on or eligible to elect COBRA Coverage. 24HourFlex administers the Debtors' COBRA enrollment.

Life, Supplemental Life, Accidental Death and Dismemberment Insurance, and Travel Accident Insurance

88. The Debtors provide basic life insurance and accidental death and dismemberment coverage ("Life and AD&D Insurance Coverage") to all Personnel and Physicians through United HealthCare. The premiums paid by the Debtors to United HealthCare for the Life and AD&D Insurance Coverage are approximately \$1,338.39 per month as of February 2015.

89. Certain Personnel and Physicians may supplement the Life and AD&D Insurance Coverage ("Supplemental Insurance"). Participating Personnel and Physicians pay all premiums in connection with the Supplemental Insurance to United HealthCare. Accordingly, the Debtors believe that they do not owe any prepetition amounts in connection with the Supplemental Insurance.

Disability

90. The Debtors provide long term disability coverage (collectively, the "Disability Coverage") to eligible Personnel and Physicians through Sun Life Financial ("Sun Life"). The

Debtors cover the full cost of the Disability Coverage by making monthly premium payments to Sun Life in the amount of approximately \$2,803.55. As of the Petition Date, the Debtors do not owe any prepetition amounts to Sun Life on account of the Disability Coverage.

Severance Program

91. The Debtors maintain a practice of paying severance benefits to Personnel and Physicians (the “Severance Program”). In the Wage Motion, the Debtors are not seeking the authority to pay severance that was due and owing prior to the Petition Date – instead, the Debtors seek only authority to make payments under the Severance Program for Personnel and Physicians terminated after the Petition Date.

92. The Debtors to maintain workers’ compensation policies and programs in various states to provide their Personnel and Physicians with compensation for injuries arising from or related to their employment with the Debtors (such programs, the “Workers’ Compensation Programs”).

Third-Party Administrative Costs

93. In the ordinary course of business, the Debtors utilize the services of numerous third-party administrators to whom the Debtors outsource tasks associated with the payment of compensation and benefits to Personnel and Physicians, including (a) administering or assisting in the administration of the Debtors’ payroll processes, benefit plans, and workers’ compensation obligations; (b) facilitating the administration and maintenance of their books and records; (c) assisting with legal compliance issues; and (d) conducting special administrative and legal compliance projects in respect of Personnel and Physician benefit plans and programs (the costs associated therewith, the “Third-Party Administrative Costs” and, together with the Reimbursable Expenses, Unpaid Compensation, and the Personnel Benefits, the “Personnel Wages and Benefits”). The ordinary course services provided by these third-parties ensure that the Debtors’

obligations with respect to Personnel and Physicians continue to be administered in the most cost-efficient manner and comply with all applicable laws.

94. Keeping the Debtors' workforce intact is crucial to preserving the Debtors' going concern value. Without a compensated, intact, and motivated workforce, there would not likely be significant interest in the Debtors' assets in any sale or bidding process. Further, closing the sale to the stalking horse bidder, or any other successful bidder at auction, will be impossible without a workforce that is fully engaged through the closing and any transition period.

95. It is essential that the Debtors continue to honor their Personnel Wages and Benefits obligations to ensure the continued operation of the Debtors' business and to maintain the morale of the Personnel.

96. Further, should the Independent Contractors not be paid for their prepetition services, they may refuse to provide any future services for the Debtors. Any depletion of the Debtors' workforce would diminish the Debtors' prospects for a successful reorganization or sale.

97. The Deductions and Payroll Taxes principally represent Personnel and Physicians' earnings that governments (in the case of taxes), Personnel and Physicians (in the case of voluntarily withheld amounts), and judicial authorities (in the case of involuntarily withheld amounts) have designated for deduction from Personnel and Physicians' paychecks. If the Debtors do not remit those amounts, the Personnel and Physicians may face legal action and the Debtors may be burdened by inquiries and disputes concerning their failure to submit legally required payments. Most, if not all, of the unremitted Deductions and Payroll Taxes constitute moneys held in trust and are not property of the Debtors' bankruptcy estates.

98. Similarly, maintaining the Workers' Compensation Programs is justified because applicable state law mandates such coverage.

99. The Personnel Wages and Benefits represent a competitive but reasonably limited set of policies and are necessary to retain the skilled and motivated workforce necessary to operate the Debtors' business profitably.

100. The Debtors believe cause exists to lift the automatic stay for Personnel and Physicians holding valid claims for injuries arising from or related to their employment with the Debtors ("WCP Claims") to proceed under the Workers' Compensation Programs in the appropriate judicial or administrative forum. Staying the WCP Claims may have a detrimental effect on the financial well-being and morale of the Debtors' Personnel and the Debtors' ability to retain key Personnel. Any such departures could disrupt the Debtors' business to the detriment of all parties in interest.

101. Therefore, I believe that the relief requested in the Wage Motion is necessary and appropriate and is in the best interests of the Debtors' estates, creditors, and other parties in interest.

- vi. *Debtors' Motion for an Order (I) Authorizing, but Not Directing, the Debtors to (A) Continue Insurance Coverage Entered into Prepetition, (B) Renew or Purchase New Insurance Policies in the Ordinary Course of Business, (C) Pay all Prepetition Obligations Relating Thereto, and (D) Maintain the Installment Payment Policies; and (II) Authorizing and Directing the Debtors' Banks and Other Financial Institutions to Process and Honor Checks and Transfers Related to Such Obligations (the "Insurance Motion")*

102. In the Insurance Motion, the Debtors seek entry of the Order (i) authorizing, but not directing them to: (a) continue insurance coverage entered into prepetition (the "Insurance Policies"), (b) renew or purchase new insurance policies, including tail coverage for directors & officers liability and other insurance, (c) pay all prepetition obligations relating thereto, in an aggregate amount not to exceed the Prepetition Cap, (d) pay all Deductible Amounts; and (e) maintain the Installment Payment Policies; and (ii) authorizing and directing the Debtors' banks

and other financial institutions to process and honor checks and transfers related to such obligations.

The Debtors' Insurance Broker

103. In connection with the Insurance Policies, the Debtors are party to certain insurance brokerage agreements (collectively, the "Brokerage Agreements") under which the Debtors obtain services from a third-party insurance broker, Lockton Companies (the "Insurance Broker").

104. The Debtors maintain approximately 12 active Insurance Policies, which provide coverage for, among other things, crime, cyber, director and officer liability, foreign travel liability, personal property and automobile damage liability, and various other property-related and general liabilities, through their Insurers. The Debtors are required to pay insurance premiums (the "Premiums") under the Insurance Policies directly to the Insurance Broker, based on a rate established and billed by each insurance carrier (the "Insurers") to Lockton. The Premiums total approximately \$493,242.90 on an annual basis, including taxes, surcharges, and commissions earned by the Insurance Broker.

Installment Payment Policies

105. In the ordinary course of business, the Debtors pay some Premiums through monthly payments to the Insurance Broker. These installment arrangements benefit the Debtors by spreading out the cost of the Premiums over the terms of the respective coverage period.

106. As of the Petition Date, the Debtors pay the below 6 Insurance Policies (the "Installment Payment Policies") through installment payments:

- (i) General and professional liability insurance policy issued by National Fire and Marine Insurance, which covers the 2015 calendar year, for an annual Premium of \$204,056.90;

- (ii) Property insurance policy issued by American Casualty Co. of Reading, PA, which covers the 2015 calendar year, for an annual Premium of \$25,662;
- (iii) Automobile insurance policy issued by Transportation Insurance Company, which covers the 2015 calendar year, for an annual Premium of \$7,452;
- (iv) Workers' compensation insurance policy issued by Transportation Insurance Company, which covers the 2015 calendar year, for an annual Premium of \$110,935;
- (v) Workers' compensation insurance policy issued by Transportation Insurance Company, which covers the 2015 calendar year, for an annual Premium of \$25,156; and
- (vi) Umbrella insurance policy issued by National Fire and Marine Insurance, which covers the 2015 calendar year, for an annual Premium of \$3,605.

107. The Debtors were obligated to make a down payment in the amount of \$102,200.90 on account of the Installment Payment Policies, due on January 1, 2015, and were thereafter obligated to make eight or nine (depending on the Installment Payment Policy) subsequent payments ranging from \$14,017 to \$32,572, due on a monthly basis, through October 2015, including a payment of \$32,572 due on February 1, 2015.

108. As of the Petition Date, the total prepetition amount outstanding on account of the Installment Payment Policies is approximately \$34,435.

Non-Installment Payment Policies

109. The Debtors' 6 Insurance Policies that are not paid with installments (the "Non-Installment Payment Policies") are as follows:

- (i) Professional liability insurance policy issued by Medical Protective Co., which covers the 2015 calendar year, for an annual Premium of \$5,555;
- (ii) Crime liability insurance policy issued by Federal Insurance Company, effective for one year beginning on April 3, 2014, for an annual Premium of \$2,283;

- (iii) Director & officer and employment practices liability insurance policy issued by Great American Insurance Company, effective for one year beginning on April 3, 2014, for an annual Premium of \$25,050;
- (iv) Cyber threat insurance policy issued by XI Insurance, effective for one year beginning on May 14, 2014, for an annual Premium of \$19,899;
- (v) Tail coverage for two Physicians issued by National Fire & Marine Insurance Co., effective for one year beginning on February 1, 2015, for an annual Premium of \$62,988; and
- (vi) Professional liability policy issued by State of Kansas, effective for one year beginning January 1, 2015, for annual Premium of \$601.

110. As of the Petition Date, the total prepetition amounts outstanding on account of the Non-Installment Payment Policies is approximately \$79,869.91. Although the Debtors believe that the Total Prepetition Amount Outstanding is accurate, it is possible this figure may increase before the Court has granted the relief requested herein. Accordingly, out of an abundance of caution, the Debtors seek authority to pay the Total Prepetition Amount Outstanding, plus any increases, for an aggregate capped amount of \$125,000 (the "Prepetition Cap").

111. If the Debtors were forced to obtain replacement insurance on an expedited basis, it could come at a tremendous cost to their estates. Further, the Debtors' asset purchase agreement with the Buyer, described further herein, requires that the Debtors continue to maintain insurance coverage through closing on the assets to be acquired.

112. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business during the Chapter 11 Cases without disruption.

vii. *Debtors' Motion for Order Authorizing Payment of Prepetition Claims of Certain Critical Vendors* (the "Critical Vendors Motion")

113. In the Critical Vendors Motion, the Debtors seek entry of the Order authorizing the Debtors to make payments toward the prepetition fixed, liquidated and undisputed claims of certain critical vendors, subject to the conditions described therein.

114. The Debtors purchase a variety of goods and services from vendors who are unaffiliated with the Debtors (the "Critical Vendors"). The Debtors estimate that there are approximately 8 Critical Vendors and that the Critical Vendors are owed approximately \$140,286.43 as of the Petition Date. The Debtors wish to pay such Critical Vendors up to \$125,000 (the "Critical Vendors Cap"), to be allocated at the Debtors' discretion, subject to and in accordance with any order of this Court approving the Debtors' (a) entry into their postpetition financing and (b) use of cash collateral (each a "Financing Order") and any budget approved thereunder (the "Budget") and subject to an agreement for trade terms consistent with Customary Trade Terms by the Critical Vendors.

115. The Debtors believe that many of their vendors will continue to do business with the Debtors after commencement of these Chapter 11 Cases because doing so simply makes good business sense. The Debtors, however, anticipate that certain vendors that supply goods or services that are critical and necessary to their business, will: (a) refuse to deliver goods and services without payment of their prepetition claims; (b) refuse to deliver goods and services on reasonable credit terms absent payment of prepetition claims, thereby requiring the Debtors to use even greater liquidity and increase their operating costs; or (c) suffer significant financial hardship, such that the Debtors' non-payment of their prepetition claims could have a significant negative impact on a Critical Vendor's business and therefore its ability to supply the Debtors with needed goods and services. Accordingly, the Debtors request the Court's authority to pay a

portion of the prepetition Critical Vendor Claims because payment of such claims is necessary to maintain and maximize the value of the Debtors' operations.

116. Importantly, the Debtors do business with certain of their Critical Vendors without the benefit of contracts and, therefore, the Critical Vendors generally are not obligated to do business with the Debtors or to honor particular trade terms for future orders. Absent some payment of the prepetition Critical Vendor Claims, the Critical Vendors may cease doing business with the Debtors.

117. Certain of the Debtors' vendors are the sole source of goods necessary for the Debtors' operations. All of the Critical Vendors would cause future revenues or profits of the Debtors to suffer if they terminated their relationships with the Debtors. Thus, it is essential that the Debtors be permitted to pay selected Critical Vendor Claims in order to continue their business.

118. To ensure that the Debtors identified only those vendors/providers that are actually critical to the Debtors' business, employees and professionals of the Debtors analyzed and reviewed the Debtors' immediate trade/service needs and supplier base. The Debtors are confident that this process has appropriately identified only those vendors that meet some or all of the foregoing stringent guidelines and that, if the Debtors failed to pay for, at least a portion of, the vital goods and services they provided prepetition, such vendors would likely cease to provide the Debtors such goods and services in the future.

119. The Critical Vendor Cap represents approximately 2% of the Debtors' estimate of the aggregate prepetition unsecured claims of the Debtors, which total approximately \$5.3 million. To minimize the amount of payments required, the Debtors request authority in the

Critical Vendors Motion not to publicly identify the Critical Vendors, as identifying the Critical Vendors now would likely cause such vendors to demand payment in full.

120. To preserve liquidity during these Chapter 11 Cases and ensure that they continue to receive vital goods and services, the Debtors propose to condition any payment toward Critical Vendor Claims on entry into an agreement between the Debtors and the individual Critical Vendor, under which such Critical Vendor shall continue supplying goods and services to the Debtors on terms that are consistent with, or better than, the historical trade terms between the parties (including, but not limited to, credit limits, pricing, cash discounts, timing of payments, allowances, rebates, normal product mix and availability and other applicable terms and programs), which were most favorable to the Debtors (the "Customary Trade Terms").

121. Once agreed to and accepted by a Critical Vendor, such agreement shall govern the parties' postpetition trade relationship until a sale or other restructuring occurs in these Chapter 11 Cases, whether on Customary Trade Terms or on terms different from their Customary Trade Terms (the "Trade Agreement"). The Debtors hereby seek authority to enter into Trade Agreements with the Critical Vendors if the Debtors determine, in their discretion, that such an agreement is necessary to their postpetition operations.

122. In the aggregate, payments to Critical Vendors will not exceed the Critical Vendors Cap, unless otherwise authorized by the Court.

123. I believe that the relief requested in the Critical Vendors Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business during the Chapter 11 Cases without disruption.

viii. *Debtors' Motion for Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing; (II) Authorizing Use of Cash Collateral; (III) Granting Adequate Protection; and (IV) Scheduling a Final Hearing (the "DIP Motion")*

124. In the DIP Motion, the Debtors seek an order (a) authorizing the Debtors to obtain postpetition financing on a senior secured, priming, superpriority basis; (b) authorizing the Debtors to use Cash Collateral; (c) granting adequate protection to the Prepetition Lender for the priming of the Prepetition Liens and the Debtors' use of the Cash Collateral; and (d) scheduling a Final Hearing on the DIP Motion.

125. The Debtors' prepetition long-term secured debt obligations total approximately \$43,176,850.17 million (the "Prepetition Loan"), all of which represents obligations arising under that certain Credit Agreement (the "Prepetition Credit Agreement"), dated December 20, 2012, between the Debtors, the Affiliated Practices, General Electric Capital Corporation ("GECC"), as agent, and GECC and Regions Capital Markets, as lenders (the "Initial Lenders"), among others.

126. The Prepetition Loan is secured by liens on substantially all of the assets of the Debtors and the Affiliated Practices (the "Prepetition Liens") pursuant to that certain Guaranty and Security Agreement, dated December 20, 2012, between the Debtors, the Affiliated Practices, and GECC, as agent.

127. Shortly prior to the Petition Date, SpecialtyCare IOM Services, LLC (the "Prepetition Lender") acquired from the Initial Lenders all outstanding debt under the Prepetition Credit Agreement.

128. The Prepetition Loan is secured by liens on substantially all of the Debtors' assets, including the Debtors' "cash collateral" (as defined in section 363(a) of the Bankruptcy Code, the "Cash Collateral"). Without access to the Cash Collateral and the proposed secured debtor in possession financing facility (the "DIP Credit Facility") described herein and in the DIP Motion,

the Debtors will not have sufficient liquidity to operate their business during these Chapter 11 Cases. Indeed, without immediate access to the Cash Collateral and the DIP Credit Facility, the Debtors would face imminent shut-down and liquidation, which would destroy millions of dollars of the Debtors' value as a going concern and put the Debtors' employees out of work.

129. In the DIP Motion, the Debtors request entry of the DIP Orders authorizing the Debtors to borrow under the DIP Credit Facility—which consists of a term loan in an aggregate principal amount of up to \$2.5 million—pursuant to that certain Debtor In Possession Credit Agreement, in substantially the form attached as Exhibit B to the DIP Motion (the “DIP Credit Agreement” and, together with all related DIP Credit Facility documents, the “DIP Loan Documents”), between the Debtors and SpecialtyCare IOM Services, LLC (the “DIP Lender”), on the terms set forth in the Interim DIP Order or Final DIP Order, as applicable.

130. The following is a concise statement and summary of the proposed material terms of the DIP Loan Documents and DIP Orders. Each of these terms are justified by the absence of alternative financing on superior terms, and because the DIP Lender insisted upon the inclusion of such terms as a condition to extending the financing discussed herein.

- (i) Maturity: The DIP Credit Facility matures on the earliest to occur of:
 - (1) the Closing Date;
 - (2) the closing of an Alternative Transaction; and
 - (3) 60 days after the Petition Date.
- (ii) Interest Rate: Seven percent (7%) per annum.
- (iii) Commitments:
 - (1) Interim Borrowing Limit: The lesser of \$800,000 and the amount authorized to be lent by the DIP Lender to the Debtors under the Interim DIP Order.

- (2) Final Borrowing Limit: \$2.5 million (less the amount already drawn pursuant to the Interim Borrowing Limit).
- (iv) Events of Default: Along with customary events of default for a debtor in possession financing facility, the DIP Credit Agreement includes an event of default upon Debtors' failure to comply with certain obligations under the Asset Purchase Agreement, when such failure to comply is attributable to Debtors' willful misconduct or gross negligence.
- (v) Budget: The DIP Credit Agreement and the Interim DIP Order impose restrictions on the Debtors' operations by requiring the Debtors to comply with a detailed budget (the "Budget"), subject to certain permitted variances.
- (vi) DIP Liens and Superpriority Claims: As security for the obligations under the DIP Credit Agreement, the DIP Lender will receive the following liens and claims:
 - (1) Senior security interest in and lien upon or pledge of (subject to the Carve-Out) all pre- and postpetition encumbered property of the Debtors (the "DIP Superpriority Claims"); and
 - (2) First priority senior security interest and lien upon or pledge of all unencumbered property and assets of the Debtors, excluding claims and causes of actions ("Avoidance Actions") arising under sections 502(d), 544, 545, 547, 548, 549, 550, and 553 of the Bankruptcy Code (together with the DIP Superpriority Claims, the "DIP Liens").
- (vii) Adequate Protection for Prepetition Lender: As adequate protection for any diminution in value of the Prepetition Liens, the Prepetition Lender will receive replacement security interests in and Liens upon all pre- and postpetition encumbered property of the Debtors, excluding Avoidance Actions (the "Adequate Protection Liens"), which shall be junior only to the Carve-Out, the DIP Credit Facility, and the Permitted Liens.
- (viii) Carve-Out: The DIP Credit Facility, Prepetition Loan, the DIP Superpriority Claims, and Adequate Protection Liens are subject to a carve out (the "Carve-Out") for:
 - (1) the unpaid fees of the U.S. Trustee or the Clerk of the Bankruptcy Court pursuant to 28 U.S.C. § 1930(a) and (b); and
 - (2) all accrued and unpaid fees, disbursements, costs and expenses incurred by professionals or professional firms retained by the Debtors (including pursuant to section 363 of the Bankruptcy Code) and any statutory committees

appointed in the Chapter 11 Cases (each, a “Committee”) in an amount not to exceed \$300,000 in the aggregate.

- (ix) Stipulations: The Interim DIP Order contains stipulations related to the Prepetition Loan by the Debtors, on behalf of all parties and entities, including stipulations that:
- (1) As of the Petition Date, the Debtors were indebted and liable to the Prepetition Lender under the Prepetition Loan.
 - (2) The Debtors have represented that the Prepetition Loan (i) constitutes the legal, valid, and binding obligation of the Debtors, enforceable in accordance with its terms (other than in respect of the stay of enforcement arising from section 362 of the Bankruptcy Code), (ii) no portion of the Prepetition Loan is subject to avoidance, recharacterization, recovery, or subordination pursuant to the Bankruptcy Code or applicable nonbankruptcy law, and (iii) is secured by valid, binding, perfected, enforceable, first-priority liens and security interests over substantially all of the assets of the Debtors. The Debtors have waived any right to challenge the Prepetition Loan and the Prepetition Liens on any grounds, including those set forth above.
- (x) Relief from Automatic Stay: The automatic stay provisions of section 362 of the Bankruptcy Code are vacated and modified to the extent necessary to permit the DIP Lender to exercise, upon five (5) Business Days’ notice to the Debtors and counsel to any Committee formed of the occurrence of an Event of Default, all rights and remedies, including, without limitation, against the DIP Collateral, without the need for obtaining a further order of this Court. Notwithstanding the foregoing, the Debtors may continue to use cash in accordance with the DIP Budget until five (5) Business Days after notice of the occurrence of an Event of Default from the DIP Lender to the Debtors and counsel to any Committee formed.

131. The Debtors submit that this Court should approve their entry into the DIP Credit Facility and execution of the DIP Loan Documents as an exercise of their sound business judgment. Prior to the Petition Date, the Debtors and their advisors undertook an analysis of the Debtors’ projected financing needs during the pendency of these Chapter 11 Cases and determined that the Debtors would require postpetition financing to support their operational and restructuring activities while pursuing a sale of all or substantially all of the their assets (a “Sale”). Without the financing to be provided by the DIP Credit Facility, the Debtors would almost

immediately lack sufficient liquidity to continue operations, to the detriment of the Debtors, their employees, and other stakeholders.

132. Because the Prepetition Lender has liens on substantially all of the Debtors' assets, there is no possibility of the Debtors being able to secure DIP financing on an unsecured or junior basis. Also, the Debtors do not have sufficient unencumbered assets to serve as collateral for senior secured DIP financing.

133. The Prepetition Lender has consented to the use of Cash Collateral and the priming liens provided under the DIP Credit Facility in exchange for the various forms of adequate protection described herein and in the Interim DIP Order.

134. The DIP Credit Facility is the result of arm's-length and good faith negotiations between the Debtors and the DIP Lender. The Debtors submit that the terms and conditions of the DIP Loan Documents are fair and reasonable, and the proceeds of the DIP Credit Facility will be used only for purposes that are permissible under the Bankruptcy Code. Further, no consideration is being provided to any party to the DIP Loan Documents other than as described in the DIP Motion.

135. I believe that the relief requested in the DIP Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business during the Chapter 11 Cases without disruption.

ix. *Debtors' Motion for Order Expediting Consideration of, and Shortening the Notice Period Applicable to, the Bid Procedures and Bid Protections Component of Debtors' Sale Motion (the "Motion to Expedite")*

136. In the Motion to Expedite, the Debtors seek entry of the Order expediting consideration of, and shortening the notice period applicable to, the "bidding procedures" component of the Debtors' Motion for Entry of (A) a Bidding Procedures Order (I) Approving the

Bidding Procedures, (II) Ratifying the Sellers' Entry into the Stalking Horse Agreement, (III) Authorizing the Payment of Stalking Horse Protections, (IV) Setting the Dates for the Bid Deadline, Auction (if Needed) and Sale Approval Hearing, (V) Establishing Notice Procedures and Approving Forms of Notice, (VI) Approving Procedures Related to the Assumption and Assignment of Executory Contracts and Unexpired Leases and (VII) Authorizing the Sellers to File the Confidential Schedules Under Seal; and (B) a Sale Order (I) Approving the Sale of the Sellers' Assets Outside the Ordinary Course of Business, (II) Authorizing the Sale Free and Clear of all Liens, Claims and Interests, (III) Approving the Stalking Horse Agreement; (IV) Approving the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases; and (V) Granting Related Relief.

137. The Bidding Procedures describe, among other things, the assets available for sale, the manner in which bids become "qualified," the due diligence available to potential bidders, the receipt and negotiation of bids received, the conduct of any auction, and the selection and approval of the Qualified Bidder that the Sellers determine to have made the highest or otherwise best bid.

138. The Sellers have determined in their reasonable business judgment that an expedited sale is necessary to prevent the loss of substantial value given the nature of the Sellers' business and in light of the Sellers' liquidity constraints and the nature of the Sellers' business. The Bidding Procedures allow for an expedited sale while simultaneously allowing for an active bidding process for the Bid Assets. The Sellers submit that the proposed Bidding Procedures will provide for an orderly and fair Auction, if one is necessary, that will generate the highest or otherwise best bid for the Bid Assets.

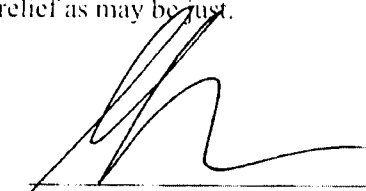
139. I believe that the relief requested in the Motion to Expedite is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business during the Chapter 11 Cases without disruption.

VI. CONCLUSION

I declare under penalty of perjury, pursuant to section 1746 of title 28 of the United States Code, that the foregoing is true and correct to the best of my knowledge, information, and belief. Accordingly, I respectfully request that the Court grant all relief requested in the First Day Pleadings and such other and further relief as may be just.

Dated: February 24, 2015

By:



George D. Pillari
Chief Executive Officer
ProNerve Holdings, LLC