

**UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF MINNESOTA**

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In re:

Gander Mountain Company,

Case No.: 17-30673

Chapter 11 Case

Debtor.

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In re:

Overton's, Inc.,

Case No.: 17-30675

Chapter 11 Case

Debtor.

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**DECLARATION OF TIMOTHY G. BECKER IN SUPPORT OF  
CHAPTER 11 PETITIONS AND INITIAL MOTIONS**

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I, Timothy G. Becker, hereby declare under penalty of perjury, pursuant to section 1746 of title 28 of the United States Code, as follows:

1. I am the Executive Vice President of Lighthouse Management Group, Inc. ("LMG"). Pursuant to resolutions duly adopted by the board of directors of Gander Mountain Company ("GMC" or the "Company"), LMG was appointed the Chief Restructuring Officer ("CRO") of GMC on January 9, 2017. LMG has served as the CRO of Debtor Gander Mountain Company since that time. Likewise, pursuant to resolutions duly adopted by the board of directors of Overton's Inc. ("Overton's"), LMG was appointed the CRO of Overton's on March 1, 2017 (together GMC and Overton's are the "Debtors").

2. I am a founding partner of LMG. Prior to founding LMG, I was a Senior Manager with Ernst & Young, where I led the efforts to establish the Restructuring and Reorganization practice in the Minneapolis office. I have more than twenty years of executive

level experience working with distressed organizations to develop and implement pragmatic solutions. I hold a Bachelor of Arts degree from the University of St. Thomas and a Masters of Business Administration degree from the University of Minnesota. I have served as both the CEO and CFO of distressed companies and have served as a court appointed receiver of numerous entities. In addition, I have served on and continue to serve on the board of directors of numerous public and private companies. I am a founding director of the Minnesota chapter of the Turnaround Management Association and a Certified Turnaround Professional as well as a CPA.

3. Since January 2017, LMG, in conjunction with the Debtors' management and other advisors, has engaged in a strategic review of the Debtors' options. Debtors have determined that it is in their best interests to commence these bankruptcy cases with a view towards selling a substantial portion of their assets on a going concern basis, and liquidating certain other assets through an orderly "store closing" process in order to maximize the value of its assets, and best protect the interests of its employees, secured and unsecured creditors.

4. Consequently, on March 10, 2017 (the "Filing Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Minnesota.

5. The Debtors continue to operate their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in the Debtors' chapter 11 cases. No creditors' or other official committee has yet been appointed pursuant to section 1102 of the Bankruptcy Code. Concurrently herewith, the Debtors have filed a motion seeking joint administration of the chapter 11 cases pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure.

6. The Debtors are one of the nation's largest specialty outdoor sporting goods retailers for hunting, fishing, camping, shooting, and outdoor lifestyle products. The Debtors have accumulated substantial operating losses over the past two fiscal years, primarily as a result of changing market trends, including shifting sales from traditional brick and mortar retailers to a host of online resellers. The Debtors have also faced significant competition from a combination of other sporting goods retailers and competition from certain of their own largest apparel and softlines vendors, who have launched strategies to open their own networks of brick and mortar retail stores that typically feature a more extensive and exclusive selection of the vendor's branded apparel at more attractive prices. Moreover, in response to these competitive pressures, many such retailers have adopted persistent and aggressive promotional selling strategies that deeply discount the prices for a wide range of products, forcing other retailers to match such promotional activity in order to retain customer traffic, thus further diluting the profitability of the Debtors' sales. The negative impact of these competitive forces – which in one shape or another are impacting nearly all brick and mortar retailers – can be seen in the unprecedented number of bankruptcy filings by retailers over the past 24 months.

7. To enable the Debtors to operate effectively and minimize potential adverse effects from the commencement of these Chapter 11 Cases, the Debtors have requested certain expedited relief in motions and applications for initial orders filed with the Court (collectively, the "Initial Motions") concurrently herewith. The Initial Day Motions seek, among other things, to (a) ensure the continuation of the Debtors' cash management system and other business operations without interruption, (b) allow the Debtors to continue using cash collateral and enter into a post-petition financing arrangement, (c) preserve the Debtors' valuable relationships with suppliers, customers, and other interested parties, (d) permit the Debtors to continue to sell their

goods in the ordinary course of business, (e) maintain employee morale and confidence, (f) implement an expedited sale and auction process in order to preserve and maximize value, (g) authorize the Debtors to engage a liquidating agent to assist in conducting store closing sales to liquidate the inventory at designated underperforming or unprofitable retail locations, and (h) implement certain administrative procedures that will promote an as seamless as possible transition into chapter 11. This relief is critical to the Debtors' efforts to preserve and maximize value for the benefit of their creditors.

8. While the facts relating specifically to each Initial Motion are contained in the specific motions, I am submitting this declaration (this "Initial Declaration") in support of the Initial Motions and to provide information about the Debtors, the events leading up to and precipitating the filings of these cases, and the Debtors' expected conduct of these cases. If called upon to testify, I could and would competently testify to the facts set forth in this Initial Declaration based upon my own personal knowledge, except as otherwise stated herein.

**I. ANTICIPATED DIRECTION OF THE CASES**

9. As mentioned above, the Debtors engaged in a strategic review of their options pre-petition. Faced with the challenging retail environment, the Debtors commenced these cases with the goal of selling a substantial portion of their assets on a going concern basis and liquidating other assets through a series of "store closing" sales on a very accelerated basis – approximately 60 days for the going concern sales. The Debtors, together with their advisors, must act quickly to preserve the value of a core portion of the Debtors' business that operates at a sufficient level to enable a successful sale process, preserve jobs, vendor and landlord relationships and emergence from bankruptcy. The Debtors must accomplish this in an environment of unprecedented volatility in retail, which has created an extremely challenging

operating environment, adversely affecting employee moral and the attractiveness of a career in retail generally, while at the same time maximizing proceeds from “store closing” sales to be conducted at a time when the market has seen unprecedented number of recently completed or planned liquidation sales of similar sporting goods, apparel, and footwear retailers.

10. Debtors engaged Houlihan Lokey effective in late January 2017 to provide investment banking and financial advisory services and, with Houlihan’s assistance, embarked on a process of soliciting offers for the purchase of its assets. While the Debtors do not have a stalking horse yet, they are negotiating and expect to have a stalking horse in the coming days. Simultaneously, Debtors identified a group of underperforming stores which should be closed following an orderly sale of their assets through a store closing sale process. By filing these cases and the corresponding Initial Motions and other motions that will be filed in the coming days, the Debtors seek permission from the Court to immediately close underperforming stores and conduct store closing sales, conduct an auction for some or all of their assets and if necessary liquidate their assets if an auction proves unsuccessful. In this case, speed is particularly important. The Debtors need to move quickly to preserve and maximize the value for the benefit of their creditors.

## **II. OVERVIEW AND BACKGROUND OF THE DEBTORS**

### **A. Nature of the Business**

11. As stated above, the Debtors are one of the nation’s largest specialty outdoor sporting goods retailers for hunting, fishing, camping, shooting and outdoor lifestyle products and services, with roots dating back to 1960. The Debtors currently operate 160 stores in 27 states, and a retail distribution center in Lebanon, IN. In addition, GMC is a leading internet retailer of hunting, fishing, camping, shooting and outdoor lifestyle products and services at

[www.GanderMountain.com](http://www.GanderMountain.com), and through its subsidiary Overtons', Inc. is a leading catalog and internet retailer of products for the recreational boater and other water sports enthusiasts at [www.Overtons.com](http://www.Overtons.com).

**B. Corporate Structure**

12. GMC is a privately held company incorporated in Minnesota and headquartered in St. Paul, Minnesota. GMC owns all of the equity in the following three direct subsidiaries, one of which is a Debtor: (a) Debtor Overton's, Inc., a North Carolina corporation ("OVT"), through which GMC conducts its Direct Segment business (defined below); (b) GMTN Tall Tales, LLC, a Florida limited liability company that holds certain assets relating to a former restaurant operation (now closed) conducted at the Debtors' retail store located in West Palm Beach, FL and which currently has no active business or employees; and (c) GMTN Real Estate Holdings, LLC, a Minnesota limited liability company, which has no active business or employees. A chart illustrating the Debtors' corporate structure is attached hereto as Exhibit A.

**C. The Debtors Business Segments and Types of Goods Sold**

13. The Debtors' business has two primary components – the retail store operations, called the "Retail Segment" and the internet and catalog operations, called the "Direct Segment." The Retail Segment is made up of the Gander Mountain retail stores. The Direct Segment is supported by a distribution center, customer contact center and certain corporate functions in Greenville, NC. The Debtors' Direct Segment also includes the operations of two small Overton's retail stores, one located in Greenville, NC and the other in Raleigh, NC.

14. The Debtors' primary merchandise categories for both the Retail and Direct Segments are as follows:

- **Hunting/Shooting.** Hunting/Shooting constitutes the Debtors' largest merchandise category, representing approximately 53.5% of its consolidated sales during fiscal 2016. The hunting/shooting merchandise assortment provides equipment, accessories and consumable supplies for virtually every type of hunting, sport shooting and self-defense. Gunsmith services and archery technicians support the Debtors' hunting assortments to service the complete needs of the hunter. The hunting/shooting assortment includes a wide variety of firearms, including rifles, shotguns, handguns, air guns and black powder muzzle loaders. The Debtors' also buy and sell used firearms. In addition to firearms, the Debtors' carry a wide selection of products in the ammunition, hunting equipment, optics, dog training, archery and food plots/feeding categories.

- **Fishing and Marine Accessories.** Fishing and marine accessories represented approximately 16.1 % of the Debtors' consolidated sales during fiscal 2016 and includes products for fresh-water fishing, salt-water fishing, fly-fishing, ice-fishing and recreational boating. The Debtors' broad assortment appeals to the beginning angler and the weekend angler, as well as avid and tournament anglers. In addition to lures, rods and reels, the Debtors' fishing assortment features a wide selection of products in the tackle supplies, electronics, fly-fishing, ice-fishing and marine accessories categories. The Debtors' marine accessory assortment includes products for boat care and maintenance, such as marine electronics, boat seats, boat covers, dock accessories and safety equipment, as well as products for fun on the water, such as wake boards and tubes.

- **Camping, Paddlesports and Backyard Equipment.** Camping, paddlesports and backyard equipment represented approximately 7.3% of the Debtors' consolidated sales during fiscal 2016. The Debtors' camping assortment primarily focuses on family camping, the

weekend hiker and tail-gating, and includes the paddle sports, backyard cooking and entertainment, and food processing product categories.

- **Apparel and Footwear.** The Debtors' apparel and footwear product categories include both technical gear and lifestyle apparel for the active outdoor enthusiast. Apparel and footwear represented approximately 16.6 % and 6.5%, respectively, of the Debtors' consolidated sales during fiscal 2016. The Debtors' assortments in these categories include fieldwear, outerwear, sportswear, tactical apparel and footwear, work wear and marine wear. The fieldwear apparel and related footwear offer technical performance capabilities for a variety of hunting and outdoor activities, including upland, waterfowl, archery, and big game hunting, turkey hunting, and shooting sports. The Debtors' fishing and marine apparel and footwear include waders, specialized boots and footwear, and purpose-designed outer wear. The Debtors complement the technical apparel and footwear with an assortment of casual apparel and footwear that fits its customers' lifestyles, as well as workwear and boots.

15. To support the two Segments, the Debtors employ approximately 6,500 employees on a full and part time basis and also use contract and temporary employees during particularly busy periods (e.g., the holidays). And in FY2016 the Debtors paid, in aggregate, approximately \$190.5 million in salaries and benefits to their employees, contractors, and temporary workers.

#### **D. Recent Challenges Facing the Debtors**

16. The Debtors have expanded rapidly over the past five years, adding approximately 50 new stores. However, as explained at the outset above, the Debtors have accumulated substantial losses for the past two fiscal years, primarily as a result of changing market trends adversely effecting brick and mortar retailers.

**E. Financial Performance**

17. In the face of these challenges, and according to preliminary results, the Debtors recorded consolidated sales of approximately \$1.323 billion during FY2016, which ended on January 28, 2017. More specifically, the Debtors' Retail Segment totaled approximately \$1.137 billion in sales, and the Direct Segment (online and catalog sales) totaled approximately \$185 million.

**F. Key Liabilities**

18. The Debtors' financial performance has been undermined by the financing burden the Debtors are carrying. What follows is a summary of the Debtors' key liabilities and key assets.

**1. Debtors' Prepetition Secured Debt Obligations**

19. As of the Petition Date, the Debtors owe a total of approximately \$424.5 million in principal plus accrued interest on the Prepetition Secured Obligations (defined below).

**(a) Prepetition ABL Obligations**

20. As of the Petition Date, the Debtors had outstanding secured debt to various lenders pursuant to that certain Credit Agreement dated as of April 11, 2011 (as amended, modified and supplemented from time to time, the "**Prepetition ABL Credit Agreement**" and together with all related documents, guaranties and agreements, the "**Prepetition ABL Credit Documents**"), by and among (a) the Lead Borrower, (b) the other Borrowers party thereto from time to time, (c) the Guarantors party thereto from time to time, (d) Wells Fargo Bank, National Association, as administrative agent and collateral agent (in such capacities herein, the "**Prepetition ABL Agent**") for its own benefit and the benefit of the other "Credit Parties" (as defined therein), and (e) the Lenders from time to time party thereto (the "**Prepetition ABL**

**Lenders**” and each a **“Prepetition ABL Lender”**; the Prepetition ABL Agent, the Prepetition ABL Lenders and the other “Credit Parties” under the Prepetition ABL Credit Documents are collectively referred to herein as the **“Prepetition ABL Creditors”**).

21. As of March 9, 2017, the aggregate outstanding principal amount owed by the Debtors under the Prepetition ABL Credit Documents was not less than \$389,570,717.99, consisting of Tranche A revolving credit loans in the outstanding principal amount of \$359,557,399.02, Tranche A-1 revolving credit loans in the outstanding principal amount of \$26,897,592.97 and issued and outstanding letters of credit in the amount of \$3,115,726.00 (collectively, together with any interest, fees (including, without limitation, any termination and prepayment fees), costs and other charges or amounts paid, incurred or accrued prior to the Petition Date in accordance with the Prepetition ABL Credit Documents, and further including all “Obligations” as described in the Prepetition ABL Credit Agreement, and all interest, fees, costs and other charges allowable under Section 506(b) of the Bankruptcy Code, the **“Prepetition ABL Obligations”**).

**(b) Prepetition Term Loan Obligations**

22. As of the Petition Date, the Debtors also had outstanding secured debt to various lenders pursuant to that certain Term Loan Credit Agreement dated as of June 17, 2015 (as amended, modified and supplemented from time to time, the **“Prepetition Term Loan Agreement”** and together with all related documents, guaranties and agreements, the **“Prepetition Term Loan Documents”**), by and among (a) the Lead Borrower, (b) the other Borrowers party thereto from time to time, (c) the Guarantors party thereto from time to time, (d) Pathlight Capital LLC, as administrative agent and collateral agent (in such capacity herein, the **“Prepetition Term Loan Agent”**) for its own benefit and the benefit of the other “Credit

Parties” (as defined therein), and (e) the Lenders from time to time party thereto (the “**Prepetition Term Loan Lenders**” and each a “**Prepetition Term Loan Lender**”; the Prepetition Term Loan Agent, the Prepetition Term Loan Lenders and the other “Credit Parties” under the Prepetition Term Loan Documents are collectively referred to herein as the “**Prepetition Term Loan Creditors**”). The Prepetition ABL Creditors and the Prepetition Term Loan Creditors are collectively referred to herein as the “**Prepetition Secured Creditors**” and the Prepetition ABL Credit Documents and the Prepetition Term Loan Documents are collectively referred to herein as the “**Prepetition Credit Documents**”.

23. As of the Petition Date, the aggregate outstanding principal amount owed by the Debtors under the Prepetition Term Loan Documents was not less than \$35,000,000 (together with any interest, fees (including, without limitation, prepayment fees), costs and other charges or amounts paid, incurred or accrued prior to the Petition Date in accordance with the Prepetition Term Loan Documents, and further including all “Obligations” as described in the Prepetition Term Loan Agreement, and all interest, fees, costs and other charges allowable under Section 506(b) of the Bankruptcy Code, the “**Prepetition Term Loan Obligations**”; the Prepetition ABL Obligations and the Prepetition Term Loan Obligations are collectively referred to herein as the “**Prepetition Secured Obligations**”).

**(c) Prepetition Senior Liens and Intercreditor Agreement**

24. As more fully set forth in the Prepetition Credit Documents, prior to the Petition Date, the Debtors granted security interests in and liens on substantially all personal property of the Debtors, including, without limitation, accounts, inventory, equipment, and general intangibles (collectively, the “**Prepetition Collateral**”), to the Prepetition ABL Agent and the Prepetition Term Loan Agent (collectively, the “**Prepetition Senior Liens**”) to secure repayment

of the Prepetition Secured Obligations. Pursuant to that certain Intercreditor Agreement dated as of June 17, 2015 (as amended, modified and supplemented from time to time, the “**Intercreditor Agreement**”), by and between the Prepetition ABL Agent and the Prepetition Term Loan Agent, the Prepetition ABL Agent and the Prepetition Term Loan Agent have agreed, among other things and as more specifically set forth therein, on the respective rights, interests, obligations, priority, and positions of the Prepetition Secured Creditors with respect to the Prepetition Collateral. Subject to certain limitations set forth therein, the Intercreditor Agreement, provides, among other things, that the liens securing the Prepetition Term Loan Obligations are subordinate and junior to the liens securing the Prepetition ABL Obligations.

**(d) Equipment/Fixture Financing Notes**

25. During fiscal 2013 and 2014, the Company also entered into a series of Equipment/Fixture Financing Notes (“**EFNs**”) under the terms of a Master Loan Agreement, dated as of July 26, 2013 (the “**EFN Master Agreement**”), with U.S. Bank Equipment Finance (“**UBEF**”), a division of U.S. Bank National Association. The proceeds of the EFNs were used to finance the purchase of equipment and fixtures in connection with the opening of new and/or remodeled stores. The EFNs are secured by a first priority security interest in equipment and fixtures at designated stores, which have an estimated market value of less than \$3 million. The EFNs generally carry fixed interest rates ranging from 2.6% to 3.84%, mature in 4 years from the date of issue, and require monthly payments of interest and principal. As of the Petition Date, the Company owed approximately \$17,746,631 in principal plus accrued and unpaid interest on the EFNs.

(e) **Acknowledgements Regarding the Prepetition Financing**

26. Other than the Prepetition ABL Facility, the Prepetition Term Loan Facility, and the EFN Master Agreement, the Debtors do not have any material secured debt.

27. The Prepetition Senior Liens on the Prepetition Collateral are valid, binding, enforceable, non-avoidable and properly perfected.

28. The Prepetition Senior Liens have priority over any and all other liens, if any, on the Prepetition Collateral, subject only to certain other liens otherwise permitted by the Prepetition Credit Documents (to the extent any such permitted liens were valid, binding, enforceable, properly perfected, non-avoidable and senior in priority to the Prepetition Senior Liens as of the Petition Date, the “**Prepetition Permitted Liens**”)<sup>1</sup> and otherwise had priority over any and all other liens on the Prepetition Collateral.

29. The Prepetition Secured Obligations constitute legal, valid, binding, and non-avoidable obligations of the Debtors and constitute “allowed claims” within the meaning of Section 502 of the Bankruptcy Code.

30. No offsets, challenges, objections, defenses, claims, impairment or counterclaims of any kind or nature to any of the Prepetition Senior Liens or the Prepetition Secured Obligations exist, and no portion of the Prepetition Senior Liens or the Prepetition Secured Obligations is subject to any challenge or defense including, without limitation, avoidance, disallowance, disgorgement, recharacterization, recoupment, reductions, setoff or subordination

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<sup>1</sup> The Debtors are not by the DIP Motion seeking a finding or ruling that any such Prepetition Permitted Liens are valid, senior, enforceable, perfected or non-avoidable. Moreover, nothing in the DIP Orders shall prejudice the rights of any party in interest, including, but not limited to, the Debtors, the DIP Agent, the Prepetition Secured Creditors and any Committee to challenge, consistent with the terms of the Interim Order, the validity, priority, enforceability, seniority, avoidability, perfection or extent of any such Prepetition Permitted Lien and/or security interest. The rights and remedies of any holder of a Prepetition Permitted Lien pursuant to the applicable documents and applicable law are reserved.

(whether equitable, contractual or otherwise) pursuant to the Bankruptcy Code or applicable non-bankruptcy law.

31. The Debtors and their estates have no claims, objections, challenges, causes of actions, counterclaims, and/or choses in action, including, without limitation, avoidance claims under Chapter 5 of the Bankruptcy Code, against any of the Prepetition Secured Creditors or any of their respective affiliates, agents, attorneys, advisors, professionals, officers, directors or employees arising out of, based upon or related to the Prepetition Credit Documents.

32. As of the Petition Date, the value of the Prepetition Collateral securing the Prepetition Secured Obligations exceeded the amount of those obligations, and accordingly the Prepetition Secured Obligations are allowed secured claims within the meaning of Section 506 of the Bankruptcy Code, together with accrued and unpaid and hereafter accruing interest, fees (including, without limitation, attorneys' fees and related expenses), costs and other charges, and further including the Prepetition ABL Indemnity Reserve and Prepetition Term Loan Indemnity Reserve (as defined in the Interim Order).

33. All of the Debtors' cash, including the cash in their deposit accounts, wherever located, whether as original collateral or proceeds of other Prepetition Collateral, constitute Cash Collateral and is Prepetition Collateral of the Prepetition Secured Creditors.

34. By virtue of filing petitions for relief under title 11, the Debtors are in default under each of the Prepetition ABL Documents and the Prepetition Term Loan Documents.

## **2. Trade Debt**

35. In the ordinary course of business, the Debtors source, order, and purchase inventory from their preferred suppliers on credit based on standard industry terms. As of the

Petition Date, the Debtors owe approximately \$115 million in trade debt. Some of the Debtors' trade creditors are beneficiaries of letters of credit issued pursuant to the ABL Credit Agreement.

**G. Key Assets**

**1. Cash**

36. While the particulars of the Debtors' cash management system and bank accounts are described in much more detail in the Initial Motion entitled Notice of Hearing and Joint Motion for Expedited Relief and for an Order Authorizing Maintenance of the Debtors' Existing Cash Management System, Bank Accounts and Check Stock, in summary the Debtors have approximately 180 bank accounts (collectively, the "Bank Accounts"). The daily ending cash balance in the Debtors' Bank Accounts is de minimis because excess funds are used daily to pay down the balance on the ABL Loan. However, the Debtors have cash in their stores, and deposits in transit and in depository accounts. As of February 25, 2017, the Debtors' balance sheet reflected \$2.0 million in cash.

**2. Owned and Leased Property**

37. The Debtors have current leases at 160 store locations and the two distribution facilities – the Lebanon IN location focused principally on the Retail Segment, and the Greenville NC location focused principally on the Direct Segment. Additionally, the Debtors lease their corporate office space, including the corporate offices at 180 Fifth St. E, Saint Paul, Minnesota 55101, and at 111 Red Bank Road, Greenville, NC 27858.

38. In order to maximize recoveries, the Debtors plan on identifying approximately thirty (30) underperforming or unprofitable stores for expedited closing and, with the assistance of a liquidating agent, conducting liquidating sales at all such locations on an expedited basis post-petition.

### **3. Inventory**

39. As of January 28, 2017, consolidated inventory was listed on the Debtors' balance sheet at a value of \$583 million.

### **4. Intellectual Property**

40. The Debtors own numerous trademarks and other intellectual property related to the Gander Mountain® and Overton's® brands and various private label products that provide a competitive advantage.

## **III. ACTIONS BY DEBTORS PRE-PETITION TO ADDRESS CHALLENGES**

### **A. Steps Were Taken to Enhance Liquidity**

41. Over the last two years, the Company undertook several actions to enhance its liquidity. In June 2015 the Company amended the ABL Credit Agreement to increase the Tranche A portion of the ABL to \$550 million completing the full utilization of the uncommitted accordion feature under the facility. Also in June 2015 the Company entered into the Term Loan Credit Agreement raising \$25 million in proceeds. Following continued operating losses, in April 2016 the Company amended the Term Loan Credit Agreement to add an additional \$10 million in financing. Also in April 2016 the Company raised \$10 million in proceeds from the sale of equity securities to the Company's lead shareholders. The Company has also taken several actions to further reduce its operating expenses, including centralizing purchasing activities, improving efficiencies at its distribution centers, and eliminating positions at its corporate headquarters through two reductions-in-force in December 2015 and 2016. And in order to reduce the cost of carrying slower moving inventory, in the summer of 2016 the Company utilized increased promotional activities in an effort to sell-through such inventory.

**B. Prepetition Strategic, Financing, and Marketing Efforts**

42. In the fall of 2016, the Company explored the potential sale of the customer facing portion of the Overton's web store and catalog business, comprised of proprietary web content and all digital and social media assets, all e-commerce designs, templates and transactional hierarchies, all trademarks and other intellectual property, customer lists and web performance data, and Overton's related inventory. The Company did not offer the related infrastructure comprised of IT platforms, customer call/contact center assets or distribution and fulfillment facilities as these assets were necessary for the operation of the GMC Direct Segment business. Of the offers received, none were deemed sufficient in the Company's judgment to justify completing a proposed transaction.

43. In January 2017, the Company's board of directors appointed Lighthouse Management Group, Inc. ("LMG") as Chief Restructuring Officer ("CRO") for the benefit of all of its stakeholders and specifically to take all actions necessary to (i) preserve and maximize the value of the Debtors' business and assets, (ii) comply with the provisions of the ABL Credit Agreement, the Term Loan Credit Agreement, and the EFN Master Agreement and to protect the interests of the lenders in their respective collateral, (iii) protect the interests of the Debtors' other secured and unsecured creditors, and (iv) protect the interests of the Company's shareholders and all other stakeholders.

44. In January 2017 the Company engaged Houlihan Lokey Capital, Inc. ("Houlihan Lokey") as its exclusive financial advisor to provide financial advisory and investment banking services, including exploring restructuring, financing and M&A alternatives. Upon its retention, Houlihan Lokey immediately began extensive due diligence on the Debtors' assets and operations, including frequent onsite meetings and an extensive dialogue with the Debtors'

senior management team. The Debtors and Houlihan Lokey began soliciting indications of interest in a potential acquisition from strategic and financial investors. Several strategic and financial investors have signed non-disclosure agreements, begun their due diligence review of the information provided in the virtual data room established by the Company and its advisors, and have participated in presentations by the Company's senior management. These due diligence reviews are on-going and the Debtors expect to have a stalking horse in the coming days.

45. On the Filing Date, the Debtors submitted an Application to Employ Real Estate Advisor (Hilco Real Estate, LLC), to assist the Company in analyzing its retail lease portfolio and develop an appropriate series of cost savings, lease restructuring and value maximization strategies on both a portfolio-wide and property-by-property basis.

46. While the Debtors took these actions, they now believe that the protections of chapter 11 are needed in order to take the steps needed (including to close underperforming stores and sell assets) to maximize the recovery for creditors, all of which precipitated the filing of these cases.

47. The Debtors filed these cases with the cooperation of their prepetition lender in order to run a sale process for the majority of its assets, and conduct a liquidation of the remaining portion in a way that will maximize value for their creditors.

#### **IV. DEBTORS' NEED FOR ONGOING FINANCING AND USE OF CASH COLLATERAL**

48. The Debtors need access to the cash collateral ("Cash Collateral") and debtor in possession financing ("DIP Financing") to, among other things, (a) purchase goods from and make payments to vendors on a current basis post-petition; (b) continue to pay employees; and

(c) pay ordinary operating expenses, such as rent, utilities, taxes and fees. The Debtors' cash needs are set forth on the Budget.

49. The Debtors have analyzed whether they could finance their operations during the case using only the Cash Collateral and have concluded that DIP financing is necessary. The Debtors considered such factors as the uncertainty inherent in estimating the timing of receipts and disbursements and the need for continued periodic incremental liquidity. In consideration of these factors, the Debtor concluded that the risks associated with attempting to finance the operations with cash collateral outweighed the benefits and certainty provided by the use of DIP Financing.

**A. Proposed Financing**

50. Recognizing the Debtors' need for DIP Financing, and in consultation with our advisors, the Debtors negotiated with the Prepetition ABL Lenders regarding the terms of potential DIP financing. As the result of good faith, arms-length negotiations, the Prepetition Lenders have agreed to extend up to \$425,000,000 of post-petition financing to roll up the Prepetition ABL Loan and provide the Debtors with operating capital. As more fully described in the Debtors' Motion for Interim and Final Orders (I) Granting Expedited Relief; (II) Approving Postpetition Financing, (III) Authorizing Use of Cash Collateral, (IV) Granting Liens, (V) Granting Adequate Protection, (VI) Modifying Automatic Stay, (VII) Granting Related Relief and (VIII) Scheduling a Final Hearing (the "DIP Motion"), the Debtors seek authority to enter into the DIP Credit Agreement, which is attached to the DIP Motion and more fully described therein.<sup>2</sup>

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<sup>2</sup> Capitalized terms in this section are defined in the DIP Motion.

51. As a condition to entry into the DIP Credit Agreement, the extensions of credit under the DIP Facility and the authorization to use Cash Collateral, the DIP Credit Parties require, and the Debtors have agreed, that proceeds of the DIP Facility shall be used (a) for the repayment in full in cash of all remaining Prepetition ABL Obligations (other than contingent indemnification obligations and obligations with respect to cash management services, bank products and letters of credit, each of which shall remain outstanding and be deemed to be bank products, cash management services and letters of credit under the DIP Facility) upon the entry of the Final Order (other than contingent indemnification obligations), and (b) in a manner consistent with the terms and conditions of the DIP Loan Documents and the Interim Order and in accordance with the Budget, solely for (i) post-petition capital expenditures, operating expenses and other working capital, (ii) certain transaction fees and expenses, (iii) permitted payment of costs of administration of the Cases, including professional fees, (iv) adequate protection payments to the Prepetition Secured Creditors as set forth herein, and (v) as otherwise permitted under the DIP Loan Documents, as applicable.

52. The repayment of the Prepetition ABL Obligations in accordance with the Interim Order is necessary, as the Prepetition ABL Creditors have not otherwise consented to the use of Cash Collateral or the subordination of the Prepetition ABL Agent's liens to the DIP Liens (as defined herein), and the DIP Credit Parties are not willing to provide the DIP Facility unless the Prepetition ABL Obligations (other than contingent indemnification obligations and obligations with respect to cash management services, bank products and letters of credit, each of which shall remain outstanding and be deemed to be bank products, cash management services and letters of credit under the DIP Facility) are paid in full upon the entry of the Final Order and as otherwise set forth herein. Such payments will not prejudice the Debtors or their estates, because

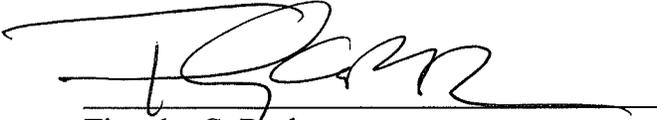
payment of such amounts is subject to the rights of parties in interest under paragraphs 35 and 36 of the Interim Order.

53. As a condition to entry into the DIP Loan Documents, the extension of credit under the DIP Facility, and the authorization to use Cash Collateral, the Debtors and the DIP Agent have agreed that the proceeds of DIP Collateral (as defined in the Interim Order) shall be applied in accordance with paragraph 18(a) of the Interim Order. The extension of the DIP Facility and the repayment of the Prepetition ABL Obligations are part of an integrated transaction. Such payments will not prejudice the Debtors or their estates, because payment of such amounts is subject to the rights of parties in interest under paragraphs 35 and 36 of the Interim Order.

54. Absent access to the DIP Financing, the Debtors will likely not have adequate liquidity to maintain uninterrupted operations. Any cessation in operations would, in turn, likely result in immediate liquidation, the loss of hundreds of jobs and severe losses for vendors, customers and creditors. Therefore, the Debtors' customers, their employees and all of the Debtors' other constituents depend on the Debtors' ability to access the DIP Financing so that the Debtors can continue operating while a sale process takes place that will maximize recoveries for their estates and creditors.

I declare under penalty of perjury that the foregoing is true and correct according to the best of my knowledge, information and belief.

Dated: 3/10/17

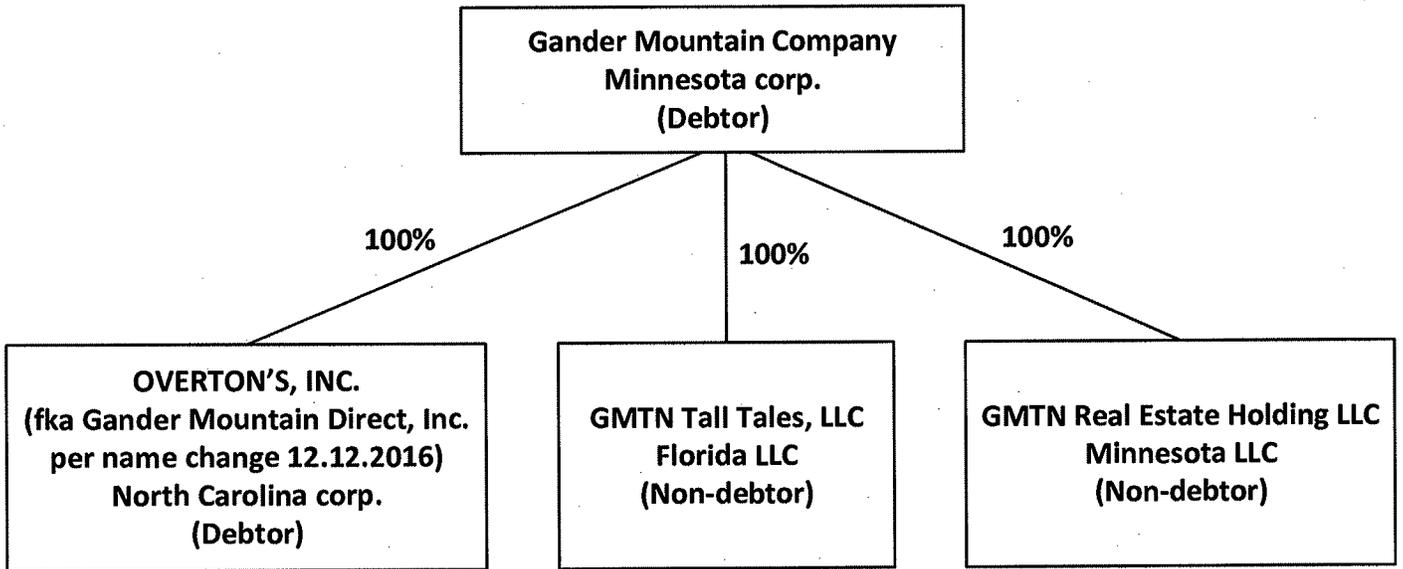
  
\_\_\_\_\_  
Timothy G. Becker

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**EXHIBIT A**

**Corporate Structure Chart**

**Debtors' Organizational Structure**



**EXHIBIT A**