

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF SOUTH CAROLINA**

In re:

CAFE HOLDINGS CORP. *et al.*,¹

Debtors.

Chapter 11

Case No. 18-05837 (hb)

(Joint Administration Requested)

**DECLARATION OF VINEET (“VIN”) BATRA IN SUPPORT OF THE DEBTORS’
MOTION REQUESTING ENTRY OF INTERIM AND FINAL ORDERS
(I) AUTHORIZING THE DEBTORS TO OBTAIN POSTPETITION FINANCING,
(II) AUTHORIZING THE DEBTORS TO USE CASH COLLATERAL,
(III) GRANTING LIENS AND PROVIDING SUPERPRIORITY ADMINISTRATIVE
EXPENSE STATUS, (IV) GRANTING ADEQUATE PROTECTION TO THE
PREPETITION LENDERS, (V) MODIFYING THE AUTOMATIC STAY,
(VI) SCHEDULING A FINAL HEARING, AND (VII) GRANTING RELATED RELIEF**

I, Vin Batra, declare under penalty of perjury that the following is true and correct to the best of my knowledge, information, and belief:

1. I submit this Declaration (the “**Declaration**”) in support of the *Debtors’ Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief* (the “**DIP Motion**”),² which seeks approval, among other things, of a \$3.2

¹ The Debtors in these cases, along with the last four digits of each Debtor’s federal tax identification number, are: Cafe Holdings Corp. (7910); Cafe Enterprises, Inc. (4946); CE Sportz LLC (2009); and CES Gastonia LLC (0863). The location of the Debtors’ corporate headquarters is 4324 Wade Hampton Blvd., Suite B, Taylors, South Carolina 29687.

² Capitalized terms used but not defined herein shall have the meaning given to such terms in the DIP Motion.

million superpriority senior secured priming term loan facility and the postpetition use of the Cash Collateral.³

2. I am over the age 18 and am authorized to submit this Declaration on the Debtors' behalf, and, if called upon to testify, I could and would testify competently to the facts set forth herein. This Declaration is being made pursuant to Rule 1007 of the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**").

3. I have held the position of a Managing Director of Duff & Phelps Securities, LLC ("**Duff & Phelps**") since June 20, 2016. Prior to Duff & Phelps, I was a Managing Director at Deloitte Corporate Finance, LLC and Alvarez & Marsal Securities, LLC and have been providing investment banking and financial advisory services to companies pursuing restructuring activities, special situation financings and debtor-in-possession loans. Companies where I provided these services include, among others, Gordmans, Pacific Crane Maintenance Co., Arrow Group Industries, NextMedia, Lehman Brothers India Operations, Virgin Islands Daily News, Lund International, and Quaker Fabric.

4. I have experience in a wide range of corporate finance transactions, including restructurings and reorganizations, mergers and acquisitions, spin-offs and split-offs, debt and equity financings, joint ventures, opinions to Board of Directors and other matters. I have advised numerous clients through the restructuring process across a range of industries, including: LifeCare Holdings, Inc, Claire's, True Temper Sports, Canwest LP, International Garden Products, Elipda Memory, Inc., Takefuji Corp., Southwest Airlines Pilots Association, Regatta USA LLC, Instinet Group, Yankee Group, Tower Group, American Express Business Finance, Reuters, amongst others. Prior to Alvarez & Marsal Securities, LLC, I worked in the Investment Banking Division

³ The material terms of the proposed DIP Facility and the use of Cash Collateral are summarized in the DIP Motion.

at Lehman Brothers and the Audit & Business Advisory Division at Arthur Andersen. In addition, I worked with Professor Edward Altman at New York University's Stern School of Business from 1999 to 2000 conducting bankruptcy research activities.

5. Duff & Phelps was founded in 1932 to provide high quality investment research. Over the next six decades, the firm diversified by adding investment banking, credit rating and investment management services. In 2005, Duff & Phelps strengthened its core valuation capabilities with the acquisition of Standard & Poor's Corporate Value Consulting (CVC) business. Since then, Duff & Phelps has continued to expand and develop. In 2006, Duff & Phelps acquired specialty investment bank Chanin Capital Partners, LLC and has subsequently completed acquisitions of over ten specialty valuation and corporate finance practices.

6. Duff & Phelps has expanded to become a leading independent investment banking firm. Duff & Phelps's corporate finance practice provides financial advice on mergers and acquisitions, divestitures, capital raising, recapitalizations, restructurings, and other strategic transactions. Duff & Phelps and its affiliates serve a diverse set of clients around the world as the firm has nearly 3,500 professionals in 28 countries around the world. Duff & Phelps's restructuring advisory group has advised on over \$850 billion of transactions. Its restructuring professionals provide investment banking services in financially distressed situations, including advising debtors, creditors, and other constituents in chapter 11 proceedings and out-of-court restructurings.

7. Duff & Phelps and its professionals have extensive experience working with financially troubled companies from a variety of industries in complex financial restructurings, both out-of-court and in chapter 11 cases. Duff & Phelps professionals have actively been retained as professionals in numerous cases, including, among others: In re Relativity Media, Case No. 18-

11358 (MEW) (Bankr. S.D.N.Y. July 30, 2018); In re Cenveo, Inc., Case No.18-22178 (Bankr. S.D.N.Y. July 6, 2018); In re RM HoldCo LLC, Case. No. 18-11795 (MFW) (Bankr. D. Del. Sept. 7, 2018) (approving the retention of Duff & Phelps to provide valuation services); In re Avaya Inc., Case No. 17-10089 (SMB) (Bankr. S.D.N.Y. Oct. 24, 2017) (same); In re Mac Acquisition LLC, Case No. 17-2224 (MFW) (Bankr. D. Del. Oct. 17, 2017) (same); In re Arch Coal, Inc., Case No. 16-40120-705 (Bankr. E.D. Mo. Aug. 11, 2016) (same); In re Cengage Learning, Inc., Case No. 13-44106 (Bankr. E.D.N.Y. March 31, 2014) (same); In re The Reader's Digest Ass'n, Case No. 09-23529 (Bankr. S.D.N.Y. Jan. 19, 2010) (same); In re Chemtura Corp., Case No. 09 -11233 (Bankr. S.D.N.Y. Oct. 9, 2009) (same); In re American Airlines, (AMR Corp.), Case No. 11-15463 (SHL) (Bankr. S.D.N.Y. Nov. 29, 2011); In re Friendly's Ice Cream Corp., Case No. 11-131167 (KG) (Bankr. D. Del. Oct 5, 2011); In re Citadel Broadcasting Corp., Case No. 09-17442 (CGM) (Bankr. D. Del. Dec. 20, 2009); and In re DBSD North America Inc., Case No. 09-13061 (REG) (Bankr. S.D.N.Y. May 15, 2009).

8. Duff & Phelps was engaged by the Debtors on April 9, 2018 to assist them in evaluating various strategic alternatives for right-sizing their balance sheet and improving their liquidity and overall financial condition. Subsequently, I worked closely with the Debtors' management and other professionals retained by the Debtors with respect to the Debtors' restructuring efforts. As a result, I have become well-acquainted with the Debtors' capital structure, liquidity needs, and business operations.

9. On November 15, 2018 (the "**Petition Date**"), each of the Debtors filed a voluntary petition under chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the District of South Carolina (the "**Court**"). The Debtors are

operating their businesses as debtors-in-possession under sections 1107(a) and 1108 of the Bankruptcy Code.

10. Further facts relating to the Debtors, their background, capital structure, and the circumstances relating to the Debtors' chapter 11 cases are set forth in the *Declaration of Eric Easton in Support of Chapter 11 Petitions and Certain First Day Motions* (the "**First Day Declaration**"), filed contemporaneously herewith.

11. Part I of this Declaration provides a general background of the Debtors' prepetition capital structure; Part II describes the Debtors' need for the DIP Facility and access to Cash Collateral; and Part III sets forth certain facts in support of the DIP Motion.

I. The Debtors' Prepetition Funded Indebtedness

12. As described in the First Day Declaration, as of the Petition Date, the Debtors' capital structure consisted of outstanding funded-debt obligations in the aggregate principal amount of approximately \$31.1 million, consisting of approximately (a) \$9.7 million outstanding under the secured first-priority loan facility (the "**First Lien Facility**"), (b) \$2.0 million outstanding under the secured second-priority loan facility (the "**Second Lien Facility**"), (c) \$17.5 million outstanding under the mezzanine unsecured loan facility (the "**Mezzanine Facility**"), and (d) approximately \$1.9 million outstanding under that certain unsecured subordinated note (as further defined below, the "**Subordinated Note**"). The principal amounts outstanding under these facilities as of the Petition Date are summarized below:

Debt Facility	Balance Outstanding (millions)⁴
First Lien Facility	\$9.7
Second Lien Facility	\$2.0
Mezzanine Facility	\$17.5
Subordinated Note	\$1.9
Total	\$31.1

13. I understand that the Debtors have no unencumbered assets because the First Lien Facility and the Second Lien Facility are secured by liens in substantially all of the Debtors' assets and proceeds thereof (the "**Prepetition Collateral**").

II. The Debtors' Need for DIP Financing and Access to Cash Collateral

14. As detailed in the First Day Declaration, the Debtors have struggled recently due to, among other things, adverse macro trends and operational shortfalls. Like a number of its peers, the Company had experienced declining sales and negative trending same-store performance. While the Company made a number of attempts and implemented different measures to improve its operations and business, none of these measures produced any material increases in revenue. The Company continues to experience sales declines, resulting in further liquidity pressures. The Company's revenue and profitability remains insufficient to support its debt service, working capital, and capital expenditures requirements.

15. As such, to position itself for sustained improvements and growth, the Company determined that it requires a more comprehensive balance sheet restructuring through a chapter 11 proceeding, which would also help the Company rationalize its lease footprint and renegotiate its current leases to more reasonable terms.

⁴ Approximate principal balances as of the Petition Date.

16. As further detailed in the First Day Declaration, the Debtors engaged Duff & Phelps, as well as other restructuring professionals, to help them explore various strategic alternatives to right-size and recapitalize their operations and balance sheet. Unfortunately, after seven months of efforts by Duff & Phelps, which included them contacting over 200 potential strategic partners, including both potential financial and strategic purchasers, there were no bids for the Company's assets. Moreover, the Debtors' legacy prepetition first lien secured debt holder, Madison Capital Funding LLC ("**Madison**") informed the Debtors that it did not wish to serve as a stalking horse bidder in a chapter 11 sale process, and ultimately sold its rights and obligations under the First Lien Facility to Shrayne Capital, LLC ("**Shrayne**"). Subsequently, Shrayne, decided that it also did not wish to serve as a stalking horse bidder and sold its position to Atalaya Capital Management ("**Atalaya**"), who in turn, expressed both its interest in bidding on the Company through a section 363 sale process and its desire to work with, and to capitalize, the Company in its turnaround efforts. After extensive, good faith, and arm's-length negotiations between the Company and Atalaya (including their respective professionals), Atalaya agreed to provide debtor in possession financing and serve as a stalking horse for the Debtors' assets.

17. In light of its substantial interest in the success of the proposed sale, Atalaya agreed, in conjunction with its stalking horse bid, to provide a superpriority senior secured, priming term loan facility (the "**DIP Facility**") and to consent to the Debtors' use of cash collateral subject to Atalaya's prepetition first lien security interest.

18. During the three weeks leading up to the Petition Date, the Debtors and Atalaya engaged in arm's-length, good faith, and spirited negotiations over the terms of the DIP Facility, as well as those of the proposed sale transaction.

19. Also, as negotiations with Atalaya progressed Duff & Phelps reached out to six parties (including specialty lenders and those that routinely provide debtor-in-possession financing) to gauge their interest in providing postpetition financing either on unsecured basis or junior in priority to the senior, priming DIP Facility proposed by Atalaya, or willingness, under these circumstances, in providing a priming DIP at a lower price than that offered by Atalaya. These third parties were not willing to provide postpetition financing superior in price or structure to the one offered by Atalaya.

20. After evaluating their alternatives, it became clear to the Debtors that their best path to financing was to obtain the DIP Facility offered by Atalaya.

III. Facts in Support of the DIP Motion

21. The Debtors have filed the DIP Motion requesting that the Court approve the DIP Facility provided by Atalaya as well as the use of Cash Collateral. As noted above and outlined in the First Day Declaration, the Debtors lack sufficient resources and financial liquidity to continue to operate their businesses while in chapter 11 and adequately market their assets to effectuate a section 363 sale. The Debtors therefore urgently need the relief requested in the DIP Motion, including access to the DIP Facility and use of Cash Collateral, in order to: (a) continue their ordinary course, day-to-day operations, including satisfying payroll obligations; (b) meet their ongoing obligations under their major trade agreements; (c) satisfy the administrative expenses of their chapter 11 cases; and (d) market their business for sale as a going concern.

22. Based on the facts set forth above, it is my opinion that the DIP Facility is the only viable option available for postpetition financing, and that new capital cannot be obtained from another source on more favorable terms, particularly given the exigent circumstances leading up to this bankruptcy. The Debtors are unable to obtain financing on an unsecured basis pursuant to

sections 364(b) and 503(b)(1) of the Bankruptcy Code, or even a superpriority basis under section 364(c)(1) of the Bankruptcy Code, on terms more favorable than those of the DIP Facility. In addition, I believe that financing secured by liens on the Debtors unencumbered assets (which are virtually nonexistent) pursuant to section 364(c)(2) of the Bankruptcy Code, or junior liens on their encumbered assets pursuant to section 364(c)(3) of the Bankruptcy Code, is similarly unattainable.

23. Further, it is my opinion that the terms of the DIP Facility are fair and customary terms for this type of financing given the Debtors' circumstances.

CONCLUSION

24. In sum, based on the foregoing, I believe that (a) no postpetition financing sources are available on terms more favorable than those of the DIP Facility, (b) the terms of the DIP Facility and use of Cash Collateral are both fair and reasonable, (c) access to the DIP Facility and the consensual use of Cash Collateral is necessary to preserve the assets of the Debtors' estates, and (d) authorizing the DIP Facility and use of Cash Collateral is in the best interests of their creditors.

IV. Declaration

25. Pursuant to section 1746 of title 28 of the United States Code, I declare under penalty of perjury that the foregoing is true and correct.

I respectfully request that the Court grant all relief requested in the DIP Motion and such other and further relief as may be just and proper.

Dated: November 15, 2018
Morristown, New Jersey



Vin Batra
Managing Director
Duff & Phelps Securities, LLC
Proposed Investment Banker of the Debtors