

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re

HALT MEDICAL, INC.,¹

Debtor.

Chapter 11

Case No. 17-10810 (LSS)

Ref. Docket No. 8

**DECLARATION OF GEOFFREY A. RICHARDS IN SUPPORT OF
DEBTOR'S MOTION FOR INTERIM AND FINAL ORDERS UNDER BANKRUPTCY
CODE SECTIONS 105, 361, 362, 363, 364, AND 507 AND BANKRUPTCY
RULES 2002, 4001 AND 9014 (I) AUTHORIZING POSTPETITION FINANCING,
(II) AUTHORIZING USE OF CASH COLLATERAL, (III) GRANTING LIENS AND
SUPER-PRIORITY CLAIMS, (IV) GRANTING ADEQUATE PROTECTION TO
PREPETITION SECURED LENDERS, (V) MODIFYING THE AUTOMATIC STAY,
(VI) SCHEDULING A FINAL HEARING, AND (VII) GRANTING RELATED RELIEF**

I, Geoffrey A. Richards, declare as follows:

1. I am a Managing Director and Head of North America Debt Finance and Restructuring at Canaccord Genuity Inc. ("CGI"), the proposed investment banker to the above-captioned debtor and debtor in possession (the "Debtor"). I am authorized to execute this declaration (the "Declaration") on behalf of CGI. I am an individual over the age of 18.

2. I submit this Declaration in support of the *Debtor's Motion Interim and Final Orders Under Bankruptcy Code Sections 105, 361, 362, 363, 364 and 507 and Bankruptcy Rules 2002, 4001 and 9014 (I) Authorizing Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Super-Priority Claims, (IV) Granting Adequate Protection to Prepetition Secured Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final*

¹ The Debtor's last four digits of its federal taxpayer identification number are 8422. The Debtor's address is 131 Sand Creek Road, Suite B, Brentwood, CA 94513.

Hearing, and (VII) Granting Related Relief (the “DIP Financing Motion”). Capitalized terms not defined herein shall be given the meanings ascribed to them in the DIP Financing Motion.

3. CGI has served as investment banker to the Debtor since November 3, 2016. In that capacity, I have become familiar with the Debtor’s day-to-day operations, financial affairs, business affairs and books and records. Except as otherwise indicated, all facts set forth in this Declaration are based upon: (i) my personal knowledge; (ii) my review of relevant documents; (iii) information supplied to me by members of the Debtor’s management team or professionals retained by the Debtor; (iv) information supplied to me by members of the CGI team; or (v) my opinion based on my experience and knowledge of the Debtor’s operations and financial condition.

4. In forming the views set forth herein, I have relied upon and/or considered, among other things, the following: (i) my experiences in chapter 11 cases, including with debtor-in-possession (“DIP”) financing facilities; (ii) the DIP Financing Motion; (iii) *Declaration of Kimberley Bridges-Rodriguez in Support of Halt Medical Inc.’s First-Day Motions* (the “First Day Declaration”); (iv) certain of the Debtor’s financial statements and reports; (v) documents related to the proposed DIP financing; (vi) CGI’s analyses regarding the proposed DIP financing and DIP financings in other chapter 11 cases; (vii) discussions with the Debtor’s management concerning the Debtor’s business and finances; (viii) discussions with prospective sources of DIP financing, including with regard to the proposed DIP financing; and (ix) discussions with certain other professionals at CGI and other advisors to the Debtor.

Professional Background and Qualifications

5. CGI is an independent and full-service global investment banking firm offering investment banking, equity research, wealth management, institutional and private brokerage and private capital solutions to individual and institutional clients. CGI employs over 2,000

individuals and has 20 locations in 10 countries worldwide, including Chicago, New York, Boston, San Francisco, London, Toronto, Vancouver, Paris, Sydney, Hong Kong and Singapore. In calendar year 2015, CGI executed 267 public and private financing transactions, raising approximately \$30.1 billion. During the same period, CGI advised on 39 M&A assignments with an aggregate value of over \$8.1 billion.

6. The Debtor selected CGI because CGI's professionals have considerable expertise and experience in providing investment banking services to financially distressed companies and to creditors, purchasers, bondholders and other constituencies in chapter 11 as well as out-of-court proceedings. Representative clients which investment bankers at CGI have advised in prior chapter 11 engagements include AbitibiBowater; American Eagle Energy Corporation; American IronHorse Motorcycles, Inc.; BI-LO, LLC; Dakota Plains Holdings, Inc.; Diamond Glass Companies, Inc.; Gateway Ethanol, LLC; Giordano's Enterprises, Inc.; Gulf Fleet Holdings, Inc.; Hipcricket, Inc.; HMX Acquisitions Corp.; International Garden Products, Inc.; KeyLime Cove Waterpark, Inc.; Loehmann's Holdings, Inc.; Max & Erma's, Inc.; National Envelope Corporation; OptiCanada, Inc.; Renew Energy, Inc.; Response Genetics, Inc.; Robbins Bros. Corporation; Santa Fe Gold Corporation; SynCardia Systems, Inc.; TimberWest; Waterworks, Inc.; and Yellow Media, Inc.

Retention of Canaccord and the Debtor's Case

7. As set forth more fully in the First Day Declaration, American Capital, the Debtor's senior secured lender (until January 2017) and majority stockholder, acted as the Debtor's primary capital provider since American Capital's initial investment in 2007. In May 2016, Ares Capital Ltd. ("Ares") entered into an agreement to acquire American Capital and

consummated its transaction with American Capital in January 2017. Shortly thereafter, Ares informed the Debtor that it would not provide the Debtor with long-term financing.

8. To preserve going concern value and enable the Debtor to execute its business plan, starting in August 2016, the Debtor's management made extensive efforts to identify potential investors. The Debtor contacted approximately 40 venture capital and other investors with investments in the medical device industry and related fields that might have had an interest in investing in the Debtor. As part of that process, I understand that the Debtor spoke directly with many of these potential investors, both at in-person meetings and by telephone.

9. In addition, on November 3, 2016, the Debtor engaged CGI to, among other things, solicit interest from third parties with respect to either (a) a recapitalization that would provide the requisite financing for the Debtor to execute its business plan or (b) an acquisition of all or substantially all of the Debtor's assets. To that end, CGI drafted marketing materials and contacted potentially interested parties as detailed below (the "Prepetition Marketing Process"). CGI drafted a two-page "teaser" summarizing the investment opportunity, including key Debtor highlights, to be distributed to potential investors and buyers, and worked closely with management to draft a confidential information memorandum ("CIM") detailing the Debtor's history, product offering, technology and business plan, to be distributed to potential investors and buyers who execute non-disclosure agreements. CGI also assisted the Debtor in the development of a weekly rolling 13-week cash flow forecast to better assess the Debtor's Company's liquidity and guide the marketing process timeline.

10. Based on prior industry relationships and its proprietary databases, CGI compiled a list of potential strategic parties, healthcare-focused financial parties and "special situation" investors who might be interested in investing in or acquiring the Debtor, and built a

comprehensive online data room to facilitate due diligence requests from potential investors or buyers.

11. CGI contacted and distributed the “teaser” to 87 potential investors or purchasers, and 13 parties that executed non-disclosure agreements were given the CIM. Of those 13 parties, nine were provided access to a confidential data room established by CGI, and five were given access to and conducted interviews with management (collectively, the “Diligence Information”). The Diligence Information provided prospective investors or buyers with detailed information on, among other topics, the Debtor’s business, strategy, growth opportunities, technology, legal and regulatory matters, and historical and projected financial performance.

12. As the Prepetition Marketing Process continued, a bid deadline was established for the submission of proposals outlining the terms pursuant to which interested parties would pursue a potential transaction with the Debtor. Two parties timely submitted preliminary proposals to infuse capital into the Debtor. Following the bid deadline, two additional parties expressed interest in the Debtor, though neither provided sufficiently detailed terms nor a proposed structure and otherwise failed to respond to requests for diligence information regarding their expressions of interest.

13. Following careful review and consideration by the Debtor, the Debtor executed an indication of interest and term sheet with Murray Enterprises, LLC (through its affiliate Acessa AssetCo LLC, the “Stalking Horse Purchaser”), on February 9, 2017. The Stalking Horse Purchaser subsequently commenced confirmatory due diligence and good faith and arm’s length negotiations over formal documentation. Though the executed term sheet from the Stalking Horse Purchaser had contemplated an out-of-court transaction, the parties determined that an asset sale in a chapter 11 bankruptcy case was required following continuing discussions.

14. The parties negotiated the terms of an asset purchase agreement, completing that process just prior to the Petition Date. On April 12, 2017, the parties executed an asset purchase agreement (the “Stalking Horse Agreement”). In the Stalking Horse Agreement, the Stalking Horse Purchaser has committed to acquire substantially all of the Debtor’s assets in a sale (the “Sale”) pursuant to section 363 of the Bankruptcy Code. The transaction is conditioned upon approval by this Court, and is subject to higher or otherwise better competing offers.

Proposed DIP Financing and Projections

15. In addition to entering into the Stalking Horse Agreement, the Debtor and the Stalking Horse Purchaser entered into the DIP Facility, pursuant to which, among other things, the Stalking Horse Purchaser has agreed to provide the Debtor with much-needed liquidity in the form of a senior secured term loan of up to \$4.16 million.

16. With the assistance of counsel, I have assisted in the Debtor’s negotiations with the DIP lender and believe that the terms of the DIP Facility and the agreements related thereto were negotiated in good faith and at arm’s length between the Debtor and the Stalking Horse Purchaser, resulting in agreements designed to permit the Debtor to maximize the value of its assets. Hard bargaining occurred on both sides. I believe that the proposed terms are appropriate under the circumstances.

17. During the Prepetition Marketing Process, CGI solicited several lenders that regularly provide third party DIP financing to explore the prospect of providing a postpetition facility to the Debtor. None of these parties offered terms that were equal to or better than those set forth in the DIP Facility, nor did they provide an offer to acquire substantially all of the Debtor’s assets as a going concern.

18. In connection with entry into the DIP Facility, the Debtor, with input and assistance from CGI, prepared the cash flow and operating projections (the “Projections”) set forth as Exhibit C to the DIP Financing Motion. The Projections represent the Debtor’s estimate of their near-term financial performance, recognizing that any financial projection is just an estimate of future performance, and actual performance may differ. The Projections are expressly premised on approval of the DIP Facility on an interim and final basis. The Projections assume no new debt incurrence beyond the DIP Facility (other than the incurrence of trade debt in the ordinary course) or equity financing, capital or other liquidity infusion (other than collection of accounts in the ordinary course), and further assume that the Debtor has access to its existing cash and future cash collections during the period covered by the Projections, subject to the terms of the DIP Facility.

19. As reflected in the Projections, the Debtor has an immediate need to access the DIP Facility during the first 30 days of its bankruptcy case (the “Case”). The Projections demonstrate that without access to this financing, the Debtor would have insufficient cash and cash collections and, therefore, insufficient cash collateral (assuming all cash and cash collections constitute cash collateral) to operate its businesses, resulting in immediate and irreparable harm to the estate, creditors and stakeholders.

20. The DIP Facility will enable the Debtor to continue to access cash necessary to both operate its business and administer this Case. In my view, the DIP Facility will send a positive signal to the Debtor’s vendors, employees and other parties critical to providing an opportunity to maintain the Debtor’s operations as a going concern.

21. Having the support of a DIP lender is always critically important to a chapter 11 debtor, and particularly so where, as here, the Debtor has a chance to preserve its business as a

going concern. In my view, the DIP financing is a vital component to preserving the value of the Debtor's business and, as such, is in the best interests of the Debtor's estate and creditors.

Dated: April 12, 2017
Wilmington, Delaware

By: /s/Geoffrey A. Richards
Geoffrey A. Richards