IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
VYAIRE MEDICAL, INC., *et al.*,[1]	)	Case No. 24-11217 (BLS)
Debtors.	)	(Joint Administration Requested)

DECLARATION OF MICHAEL SCHLAPPIG IN SUPPORT OF THE MOTION OF DEBTORS FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING THE DEBTORS TO (A) OBTAIN POSTPETITION FINANCING AND (B) UTILIZE CASH COLLATERAL, (II) GRANTING LIENS AND SUPERPRIORITY ADMINISTRATIVE EXPENSE CLAIMS, (III) GRANTING ADEQUATE PROTECTION TO PREPETITION SECURED PARTIES, (IV) MODIFYING THE AUTOMATIC STAY, (V) SCHEDULING A FINAL HEARING, AND (VI) GRANTING RELATED RELIEF

I, Michael Schlappig, pursuant to 28 U.S.C. § 1746, declare as follows:

1. I am a Managing Director in the Restructuring and Special Situations Group at PJT Partners LP ("PJT"), a leading investment banking firm listed on the New York Stock Exchange with its principal offices at 280 Park Avenue, New York, New York 10017. The above-captioned debtors and debtors in possession (collectively, the "Debtors") intend to file an application seeking to retain PJT as their investment banker in these chapter 11 cases.

2. I submit this declaration (this "Declaration") in support of the *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Obtain Postpetition Financing and (B) Utilize Cash Collateral, (II) Granting Liens and Superpriority Administrative Expense Claims, (III) Granting Adequate Protection to Prepetition Secured Parties,*

[1] The last four digits of Debtor Vyaire Medical, Inc.'s federal tax identification number are 6495. A complete list of each of the Debtors in these chapter 11 cases and each such Debtor's federal tax identification number may be obtained on the website of the Debtors' proposed claims and noticing agent at https://omniagentsolutions.com/Vyaire. The location of Debtor Vyaire Medical, Inc.'s principal place of business and the Debtors' service address in these chapter 11 cases is 26125 North Riverwoods Boulevard, Mettawa, Illinois, USA 60045.

(IV) Modifying the Automatic Stay, (V) Scheduling a Final Hearing, and (VI) Granting Related Relief (the "DIP Motion"), filed contemporaneously herewith.[2] As noted in the DIP Motion, the Debtors seek approval of a debtor-in-possession financing facility in an aggregate principal amount of $180 million (the "DIP Facility"). As further described in the DIP Motion, the DIP Facility consists of a senior secured, superpriority term loan credit facility including a (i) new money term loan facility in an aggregate principal amount of $45 million (the "New Money Commitments") and (ii) roll-up term loans in an aggregate principal amount of $135 million (the "Roll-Up"). Upon entry of the Interim Order, the Debtors would receive immediate access to $25 million in New Money Commitments under the DIP Facility and an additional $20 million upon entry of the Final Order. The Roll-Up would be incurred under the DIP Facility at a three-to-one (3:1) ratio to New Money Commitments upon each draw by the Debtors.

3. Except as otherwise indicated, all statements set forth in this Declaration are based upon my personal knowledge, my discussions with other members of the PJT team, the Debtors' management team, and/or the Debtors' other advisors, my review of relevant documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives, or my opinions based upon my experience and knowledge. If called as a witness, I could and would testify competently to the statements set forth in this Declaration. I am not being specifically compensated for this testimony other than through payments received by PJT as a professional

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[2] A detailed description of the Debtors and their business, including the facts and circumstances giving rise to the Debtors' chapter 11 cases, is set forth in the *Declaration of John Bibb, Group Chief Executive Officer of Vyaire Medical, Inc., in Support of Chapter 11 Filing and First Day Motions* (the "First Day Declaration"), filed contemporaneously herewith on June 10, 2024 (the "Petition Date"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the First Day Declaration or the DIP Motion, as applicable.

proposed to be retained by the Debtors, subject to approval by this Court.[3] I am over the age of 18 years and authorized to submit this Declaration on behalf of the Debtors.

Background and Qualifications

4. PJT is a leading global financial advisory firm with more than 1,000 employees in eleven offices in the U.S., Europe, and Asia. The firm offers integrated advisory services for mergers and acquisitions, restructuring and special situations, and fund placement. PJT is an industry leader and has advised companies and creditors in all aspects of complex restructurings and bankruptcies. The firm has extensive experience providing financial advisory and investment banking services to financially distressed companies, including the representation of both debtors and lenders in the procurement and provision of postpetition financing. PJT is a registered broker-dealer with the United States Securities and Exchange Commission, is a member of the Securities Investor Protection Corporation, and is regulated by the Financial Industry Regulatory Authority.

5. I received a Bachelor of Arts in Economics and a Minor in French Area Studies from Cornell University, and an MBA from Columbia Business School. I have approximately eighteen years of investment banking and restructuring experience. I have been employed by PJT since October 2015, when PJT was spun off from The Blackstone Group L.P. ("Blackstone"). Prior to PJT's spin-off from Blackstone in 2015, I was a Vice President in Blackstone's Restructuring & Reorganization Group. Prior to joining Blackstone in 2010, I worked as an investment banker at Lazard and at Banc of America Securities (now known as Bank of America Merrill Lynch).

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[3] Pursuant to PJT's engagement letter with the Debtors, subject to Court approval thereof, PJT will be entitled to receive certain fees in connection with the transactions described herein.

6. I have extensive experience advising companies and their stakeholders in chapter 11 restructurings, out-of-court workouts, and other distressed transactions, including the following representative publicly disclosed transactions, among others: BW Homecare Holdings, LLC; Cineworld Group PLC; Clearwire Corporation; Digicel Group Limited; Essar Steel Algoma Inc. (2014); Frontier Communications Corporation; GFG Alliance; GT Advanced Technologies Inc.; Ligado Networks LLC (2020); LightSquared Inc. (2015); Magnum Hunter Resources Corporation; NII Holdings, Inc.; Northpole Newco S.a.r.l; Pacific Drilling S.A.; Starry Group Holdings, Inc.; syncreon Group B.V.; TerreStar Corporation/TerreStar Networks Inc.; Theia Group, Inc.; and Windstream Holdings, Inc.

7. In April 2023, the Debtors retained PJT as their investment banker to pursue balance sheet alternatives. In April 2024, the Debtors expanded the scope of PJT's engagement to include investment banking services in connection with a potential capital raise, restructuring, and/or sale of Vyaire, in part or in full, through an in-court process, including assistance with the negotiation of the terms of the proposed DIP Facility and the restructuring support agreement (the "Restructuring Support Agreement") in these chapter 11 cases. PJT has led efforts, in concert with other professionals, to prepare for and formally launch a marketing process in early May 2024 in connection with a potential sale of the assets of the Debtors' businesses. To that end, PJT worked with the Debtors' management to draft marketing materials and position the Company for a successful sale process. Throughout this period of advising the Debtors, members of the PJT team and I have become familiar with the Debtors' capital structure, liquidity needs, and business operations.

The Debtors' Need for Postpetition Financing and Access to Cash Collateral

8. As further described in the First Day Declaration and the Braley Declaration,[4] it is my understanding that the Debtors require an immediate infusion of cash under the proposed DIP Facility and access to Cash Collateral to, among other things, fund operational expenses (including payroll), administer these chapter 11 cases, and avoid significant degradation of the Debtors' estates as the ongoing sale process progresses (as described below, the "Marketing and Sale Process").

9. The Debtors' advisors reviewed the Debtors' assessment of its operations and funding needs in the months leading up to the Petition Date. From this review, it became clear that the Debtors would require additional capital to continue operations while working with their advisors and key stakeholders to consummate the value-maximizing transactions described in the Restructuring Support Agreement.

Negotiations with the DIP Lenders

10. Over the past year, the Company, with the assistance of PJT and its advisors, negotiated an out-of-court restructuring transaction with the Prepetition Secured Parties (as defined in the Interim Order) to effectuate a balance sheet solution. When the Company was unable to consummate such an out-of-court restructuring transaction and liquidity became constrained, in April 2024, the Company sought bridge financing from certain Prepetition Secured Parties to facilitate a Marketing and Sale Process. Ultimately, the parties were unable to reach an agreement and close on the bridge financing.

[4] *Declaration of Charles N. Braley in Support of the Motion of the Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Obtain Postpetition Financing and (B) Utilize Cash Collateral, (II) Granting Liens and Superpriority Administrative Expense Claims, (III) Granting Adequate Protection to Prepetition Secured Parties, (IV) Modifying the Automatic Stay, (V) Scheduling a Final Hearing, and (VI) Granting Related Relief*, filed contemporaneously herewith.

11. As a result, the Company with the assistance of its advisors, pivoted to discussions with an ad hoc group of its First Lien Term Loan Lenders (the "1L Ad Hoc Group") regarding the terms of a comprehensive restructuring transaction, including the terms of potential postpetition financing that would fund these chapter 11 cases and allow the Debtors to complete their Marketing and Sale Process. Over the past several weeks, the Debtors and their advisors held numerous discussions and extensive negotiations with the 1L Ad Hoc Group and their advisors, exchanging several term sheets and mark-ups. Through these negotiations, the Debtors and their advisors sought, and ultimately received, a greater amount of postpetition financing and a commitment to provide funding for a potential wind-down, if necessary, in accordance with the agreed wind-down budget.

12. The DIP Facility and the use of Cash Collateral is the result of vigorous, hard-fought and arm's-length negotiations between the Debtors and the 1L Ad Hoc Group. Together, the Debtors' access to the DIP Facility and Cash Collateral should allow the Debtors to pursue a Marketing and Sale Process in an effort to maximize value. The DIP Facility will be secured by a superpriority priming lien on the collateral securing the prepetition secured obligations and first priority lien on unencumbered property, in each case subject to the Carve Out. It is my understanding that without access to the DIP Facility and use of Cash Collateral, the Debtors would be unable to meet their obligations in the ordinary course of business and would be unable to continue the Marketing and Sale Process.

The Debtors' Efforts to Secure Alternative Financing

13. The Debtors determined it would be particularly difficult to secure alternative financing, as the Debtors lacked unencumbered assets to serve as collateral which would secure any alternative financing, and the First Lien Lenders indicated that they would not consent to a "priming" DIP financing provided by a third party (or existing junior stakeholders). In light of

these facts, PJT understood that, to obtain third-party DIP financing, the Debtors would be required to engage in a protracted, costly, and disruptive priming fight or valuation dispute with their prepetition lenders at the very beginning of these chapter 11 cases. Alternatively, the Debtors would be limited to raising a junior or unsecured third-party DIP.

14. Further, the Debtors received two separate DIP financing proposals from certain existing stakeholders that contemplated priming the Debtors' senior secured creditors: (i) the Company's existing sponsor (certain funds advised by Apax Partners LP) (the "Sponsor") on March 29, 2024, and (ii) the Second Lien Lenders on April 17, 2024. The Debtors informed the Sponsor and the Second Lien Lenders that a priming DIP facility was not actionable without the support of the First Lien Lenders. Neither party was willing to provide DIP financing on a junior or unsecured basis.

15. Despite the challenges in raising an alternative DIP financing, in May 2024, the Debtors prepared to conduct a DIP marketing process designed to identify and engage with parties potentially interested in providing postpetition financing to the Debtors. Specifically, PJT contacted six sophisticated financial institutions to determine whether any of these parties would be interested and willing to provide postpetition financing to the Debtors. None of these parties wished to pursue a junior unsecured DIP.

16. With the lack of alternative proposals, the Debtors set to finalizing the financing with the 1L Ad Hoc Group that would allow the Debtors to most efficiently navigate the chapter 11 process. In connection with the DIP Financing, I understand that the First Lien Term Loan Lenders have consented to granting a priming lien on their collateral. The resulting DIP Facility and the Restructuring Support Agreement are complementary, and are all a result of extensive

negotiations between the Debtors and the Ad Hoc Groups. Together, these agreements provide a structure and the funding to conduct the accelerated Marketing and Sale Process.

The Proposed DIP Facility Economics,
Taken as a Whole, are Reasonable Under the Circumstances

17. As further described in the DIP Motion, the proposed DIP Facility is a $180 million senior secured, superpriority term loan credit facility for use during the pendency of the chapter 11 cases. The full amount of the New Money Commitments is $45 million, $25 million of which is expected to be made available following entry of the Interim Order, and $20 million of which is expected to be made available following entry of the Final Order (the loans under the DIP Facility, the "DIP Term Loans" and the lenders thereof, the "DIP Lenders").

18. The DIP financing negotiations centered around, among other things, amount of postpetition financing, payment of certain fees, including a backstop premium, commitment premium, and exit premium. Specifically, the Debtors have agreed to pay the following fees, as described in the Motion:

Interest Rate	DIP SOFR Term and Roll-Up Loans: SOFR + 7.00% (SOFR + 1.00% cash and 6.00% PIK)
Default Premium	2.00% payable in cash
Commitment Fee	2.00% of the aggregate amount of the new-money DIP Term Loans, payable in cash at closing
Backstop Fee	5.00% of the aggregate amount of the new-money DIP Term Loans, payable in cash at closing
Exit Fee	1.25% of the aggregate amount of new-money DIP Term Loans, payable in cash at maturity or prepayment

19. Importantly, other than the Backstop Fee, the DIP Facility is being offered to all First Lien Term Loan Lenders on a *pro rata* basis.

20. The DIP Facility also contemplates a roll-up of approximately $135 million of the First Lien Term Loan Lenders' prepetition debt contemplated by the proposed DIP Facility. The

Roll-Up is measured on a 3:1 basis (*i.e.*, three times the amount of new money provided via the DIP Facility).

21. These term, including the size of the postpetition financing, fees and the Roll-Up were the subject of hard fought, arm's-length, and good-faith negotiations between the Debtors and the 1L Ad Hoc Group, are integral components of the overall terms of the DIP Facility, and were required by the 1L Ad Hoc Group as consideration for the extension of postpetition financing. Notably, however, the terms of the DIP Financing expressly provide for a cap on all claims under the DIP Facility to the extent the claims exceed the net proceeds resulting from the Marketing and Sale Process.

<u>The DIP Milestones Are Reasonable Under the Circumstances</u>

22. The DIP Facility is also expressly linked to certain case milestones, which are consistent with the timeline set forth in the Restructuring Support Agreement and proposed bidding procedures. These milestones provide a foundation for the Debtors' anticipated chapter 11 process and allow the Debtors to continue pursuing the Marketing and Sale Process.

June 9, 2024 – Petition Date	File first day pleadings, DIP Motion, and Bidding Procedures Motion
June 12, 2024 – Petition Date + 3 Days	Entry of Interim Order
July 1, 2024 – Petition Date + 22 Days	Designate Stalking Horse Bidder Receive Indications of Interest in Satisfaction of Good Faith Estimate of Minimum Bid Requirement (as defined in the Restructuring Support Agreement)
July 8, 2024 Petition Date + 29 Days	Entry of Bidding Procedures Order
July 14, 2024 Petition Date + 35 Days	Entry of Final Order
July 22, 2024 Petition Date + 43 Days	Receipt of Bids in Satisfaction of Minimum Bid Requirement
July 25, 2024 Petition Date + 46 Days	Auction Held
July 29, 2024 Petition Date + 50 Days	Entry of Sale Orders

August 19, 2024 **Petition Date + 71 Days**	Consummation of Sale Transactions

23. These milestones were required by the 1L Ad Hoc Group as a condition to providing the DIP Facility and were a critical inducement for the 1L Ad Hoc Group to provide the Debtors with the liquidity necessary to operate their business and fund these chapter 11 cases.

24. In light of my understanding of the Debtors' urgent need for incremental liquidity, lack of unencumbered assets, and the fact that no other party has put forward an actionable financing proposal, among other reasons, I believe the DIP Facility fees, Roll-Up, and DIP milestones, taken as a whole, are reasonable given the facts and circumstances of these chapter 11 cases.

<u>The Proposed Adequate Protection is Fair and Appropriate</u>

25. In addition to accessing the new money DIP Financing, it is critical that the Debtors are able to continue to utilize the Prepetition Secured Parties' Prepetition Collateral, including Cash Collateral. As adequate protection for the Prepetition Secured Parties, the Debtors propose to provide, among other things:

- replacement liens in favor of the Prepetition Secured Parties on substantially all property of the Debtors on an interim basis;
- superpriority administrative expense claims junior to the DIP Superpriority Claim, subject to the Carve Out;
- payment of all reasonable and documented professional fees and expenses of DIP/first lien/agents; and
- customary protections of the DIP Collateral package and financial reporting and milestones requirements.

26. Based on my experience as a restructuring professional, these proposed adequate protection terms are reasonable given the facts and circumstances of these chapter 11 cases.

<u>The Proposed DIP Facility is the Best and Only Postpetition Financing Arrangement Currently Available to the Debtors</u>

27. Critically, it is my understanding that the proposed DIP Facility is anticipated to provide sufficient liquidity to fund the Debtors' continued operations while the in-court Marketing and Sale Process is conducted, all while avoiding a value-destructive "priming fight" or valuation dispute at the outset of these chapter 11 cases. I do not believe that any better alternative sources of financing are currently available given the facts and circumstances.

28. The DIP Facility is an essential component to funding the Debtors' operations and providing a path to exit from chapter 11, as well as being critical to reassuring the Debtors' vendors and business partners that the Debtors are adequately capitalized. As a result, based on my experience with DIP financing transactions, as well as my involvement in the negotiation of the DIP Facility and pursuit of alternative postpetition financing proposals, I believe the DIP Facility, including the interest rates, fees, and milestones included therein, taken as a whole, is appropriate and reasonable, is the only viable source of postpetition financing reasonably attainable at this time under the circumstances, is in the best interests of the Debtors and their estates, and is necessary to avoid irreparable harm to the Debtors and their estates.

[*Remainder of page intentionally left blank*]

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Dated: June 10, 2024
New York, New York

/s/ Michael Schlappig

Michael Schlappig
Managing Director
PJT Partners LP

Proposed Investment Banker to the Debtors