Docket #0015 Date Filed: 1/30/2017

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

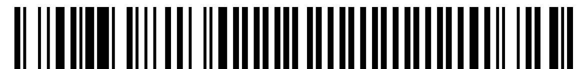
In re:	§	**Chapter 11**
	§	
AZURE MIDSTREAM PARTNERS, LP, *et al.*,	§	**Case No. 17-[________] (___)**
	§	**Joint Administration Requested**
Debtors.[1]	§	

DECLARATION OF ED MOSLEY IN SUPPORT OF
THE DEBTORS' CHAPTER 11 PETITIONS AND RELATED REQUESTS FOR RELIEF

I, Ed Mosley, pursuant to section 1746 of title 28 of the United States Code, hereby declare that the following is true to the best of my knowledge, information, and belief:

1. I am a Managing Director at Alvarez & Marsal North America, LLC ("**A&M**"). Since November 2016, I have been advising Debtor Azure Midstream Partners GP, LLC (f/k/a Marlin Midstream GP, LLC) ("**Azure General Partner**"), the limited partnership it manages, Debtor Azure Midstream Partners, LP (f/k/a Marlin Midstream Partners, LP) ("**Azure**," and, together with Azure General Partner, the "**Partnership**"), and Azure's subsidiaries that are debtors and debtors in possession in the above-captioned chapter 11 cases (collectively with the Partnership, the "**Debtors**" or the "**Company**"). I have over 16 years of experience in corporate restructuring and distressed investing, including extensive experience in the energy sector.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number are: Azure Midstream Partners, LP (7595), Azure ETG, LLC (3388), Azure Holdings GP, LLC (0537), Azure Midstream Partners GP, LLC (8089), Azure TGG, LLC (6233), Marlin G&P I, LLC (6073), Marlin Logistics, LLC (8460), Marlin Midstream Finance Corp. (0130), Marlin Midstream, LLC (2587), Murvaul Gas Gathering, LLC (0826), Talco Midstream Assets, Ltd. (7004), and Turkey Creek Pipeline, LLC (1161).



2. I am generally familiar with the Debtors' day-to-day operations, business and financial affairs, and books and records. I submit this declaration (this "**Declaration**") to assist the Court and parties-in-interest in understanding the circumstances that compelled the commencement of these chapter 11 cases (the "**Chapter 11 Cases**") and in support of: (a) the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**") filed on the date hereof (the "**Petition Date**"); and (b) the emergency relief that the Debtors have requested from the Court pursuant to the motions and applications described herein (collectively, the "**First Day Motions**").

3. Except as otherwise indicated, the facts set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, my discussion with the members of the Debtors' senior management, information provided to me by the A&M team working under my supervision or the Debtors' professional advisors, Weil, Gotshal & Manges LLP ("**Weil**"), as legal restructuring counsel, and Evercore Group L.L.C. ("**Evercore**"), as investment banker, or my opinion based upon my experience and knowledge. If called upon to testify, I would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of the Debtors.

I.

Overview[2]

4. As described below in more detail, the Debtors are a midstream services provider to oil and gas production companies. When the Partnership began operating on or

[2] Capitalized terms used but not defined in this section shall have the meaning subsequently ascribed to them in this Declaration.

around July 2013, crude oil traded at $105.47 per barrel, natural gas traded at $3.68 per MMBtu,[3] and production volumes of oil and gas were increasing at historical rates. Buoyed by the increase in natural gas volumes, between January 2015 and August 2015, the Debtors expanded their natural gas gathering business by acquiring over 900 miles of natural gas pipeline. The Debtors financed the acquisitions by drawing a total amount of $242 million under their senior secured revolving Credit Facility.

5. As this Court is all too aware, by February 2016 oil prices had sunk to $26 per barrel and natural gas prices had sunk to $1.62 per MMBtu. Because of the prevalence of long-term, multi-year contracts with minimum volume commitments in the industry, midstream service providers such as the Debtors traditionally have been better-insulated than upstream producers from fluctuations in commodity prices. However, as commodity prices tumbled and subsequently stayed well below where they were two years ago, many industry producers, marketers, and retailers have significantly cut capital and operating expenditures while others have simply liquidated, in either case leading to a drastic industrywide reduction in production volumes. As such, top line revenues and EBITDA of midstream service providers like the Debtors are suffering from the industrywide decreased spending and decreased volumes. Indeed, as a direct result of the downturn, in early 2016, one of the Debtors' largest customers terminated its contracts with the Debtors while another large customer allowed its contract to lapse. These agreements generated approximately 45% of the Debtors' total revenue for 2015.

6. In early 2016, the Debtors' decreased revenue, in conjunction with their increased leverage profile from acquisition financing, placed a strain on the Debtors' liquidity and eventually caused the Debtors to breach certain leverage covenants in their prepetition Credit

[3] "MMBtu" means one million British thermal units, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Agreement. Over the last 15 months, the Debtors have taken a number of steps to attempt to bring themselves into compliance with their Credit Agreement, including selling key assets, reducing operating expenses, suspending dividend distributions to holders of their Common Units and IDR Units, soliciting new equity sponsors, and seeking to enter into new long-term service agreements. Unfortunately, none of these efforts offset the loss of revenue streams and increased leverage facing the Company, and the Debtors and their Lenders determined that the most prudent course of action was to conduct a sale of substantially all the Debtors' assets (the "**Assets**") in an orderly but expeditious manner under section 363 of the Bankruptcy Code. The Debtors' Lenders have been supportive of their efforts, granting the Debtors nine default waivers over the last 15 months.

7. In November 2015, the Debtors retained Evercore to serve as their investment banker for purposes of conducting the sale process. After an extensive marketing process pursuant to which the Debtors and their advisors have explored numerous restructuring frameworks, including asset sales, capital raises, and strategic mergers, while engaging with over 70 interested parties, the Debtors are in the process of finalizing a stalking horse agreement for the Assets. To ensure that value is maximized, shortly after the Petition Date, the Debtors intend to file a motion seeking approval of (a) overbid and auction procedures and (b) a sale of the Assets. The sale of the Assets through an auction (the "**Sale Transaction**") will maximize value for the Debtors' estates and their constituents. The Debtors anticipate that the Sale Transaction will provide a meaningful recovery to the Debtors' secured lenders and provide the liquidity necessary to confirm a liquidating chapter 11 plan that will ensure most or all of the Debtors' outstanding prepetition unsecured claims will be paid in full, including employee obligations, trade and vendor claims, and outstanding tax obligations that are not otherwise paid over the

course of the Chapter 11 Cases. The Debtors continue to work hand-in-hand with their Lenders throughout this process, and have filed with the Court a consensual cash collateral order and budget that allows for the successful consummation of a Sale Transaction and subsequent wind-down of the estate.

II.

Background

A. Key Assets and Operations

8. Azure is a publicly-traded Delaware master limited partnership formed in 2013 by its equity sponsor, NuDevco Partners, LLC and certain of its affiliates (collectively, "**NuDevco**"). A diagram that reflects the Debtors' current corporate structure is annexed hereto as **Exhibit A**.

9. The Debtors, which are headquartered in Dallas and maintain substantial business operations and office space in Katy, Texas,[4] are a "midstream" service business that provides natural gas gathering, compression, dehydration, treating, processing, and hydrocarbon dew-point control and transportation services to natural gas marketers and third-party pipeline companies, and transloading services to crude oil producers. As a midstream service provider, the Debtors are a critical link between companies that explore for and produce natural gas and industrial, commercial, and residential end-user markets. The midstream industry is generally characterized by regional competition based on the proximity of gathering systems and processing plants to natural gas and crude oil producing wells.

10. The Debtors generate substantially all their revenue through fee-based gas-gathering agreements (the "**Gas Gathering Agreements**"). In the case of a typical Gas

[4] The Debtors' Chief Financial Officer, Director of Human Resources, and certain employees supporting financial and commercial activities, are all based out of the Debtors' Katy office.

Gathering Agreement, the Debtors contract with a third-party to deliver to such third-party an agreed-upon volume of compressed natural gas or liquid natural gas. The Debtors will purchase raw "dry" gas directly from an upstream producer at a "wellhead" that is connected to the one of the Debtors' gas gathering systems (discussed in greater detail below). After moving the raw gas into one of the Debtors' gas gathering systems, the Debtors will transfer the gas into one of the Debtors' processing facilities, where, in preparation for its ultimate commercial or industrial use, it will be processed to either remove impurities or to separate out natural gas liquids ("**LNG**s"). The processed gas will then move through the gas gathering system into another third-party pipeline or terminate at a trading hub where it is accessible by end-users. In some cases, the Debtors do not process raw gas, and simply move the raw gas from the wellhead to a trading hub or another pipeline system. Once the agreed-upon volume of gas reaches its final destination, the contract counterparty purchases it from the Debtors at a fixed premium to the spot price at which the Debtors purchased the raw gas. The premium varies based on the volume moved, the distance transported, and the type of processing required by the customer.

11. Since the formation of the Partnership, the Debtors have expanded and contracted through purchases and sales of midstream assets. As of the Petition Date, the Debtors' key assets consist of: (a) natural gas gathering systems that include (i) 963 miles of natural gas pipeline with a total gathering capacity of 1.9 Bcfe/d[5] and (ii) 12 miles of liquid natural gas pipeline with a total capacity of 20,000 Bbl/d,[6] (b) two standalone gas processing

[5] Bcfe/d" and "MMcf/d" mean billions or millions, respectively, of cubic feet equivalent per day, and refer to the equivalent amount of energy liberated by the burning natural gas versus crude oil, with every 6,000 cubic feet of natural gas being equal to one barrel of oil.

[6] One barrel or "Bbl" means one stock tank barrel, or 42 U.S. gallons liquid volume, and is used herein in reference to crude oil or other liquid hydrocarbons.

plants with a combined processing capacity of 205 MMcf/d, and (c) crude oil transloading assets with a capacity of 33,541 Bbl/d. These are described in greater detail below:

(i) ***Natural Gas Gathering Systems***

12. **ETG System**: The Debtors own approximately 256 miles of gathering pipelines spread across San Augustine, Nacogdoches, Sabine, Panola, and Shelby Counties in eastern Texas, as well as DeSoto Parish in Louisiana (the "**ETG System**"). The ETG System contains two treatment plants with a combined 350 MMcf/d of processing capacity and a LNG processing facility with a processing capacity of 5 MMcf/d. (the "**Fairway Plant**"). The ETG System contains four interconnections with major interstate pipelines providing 1.75 Bcfe/d of access to downstream markets. A total of 336,000 gross acres in the Haynesville Shale and Bossier Shale formations are dedicated to the ETG System. The ETG System is owned and operated by Debtor Azure ETG, LLC ("**ETG**").

13. **Legacy System**: The Debtors own approximately 666 miles of high- and low-pressure gathering lines with a total gathering capacity of 500 MMcf/d, serving approximately 100,000 dedicated acres within Harrison, Panola, and Rusk counties in Texas, and Caddo Parish in Louisiana (the "**Legacy System**"). The Legacy System connects to seven major downstream markets, three third-party processing plants, and the Tyler Facility (as defined below). Debtors Azure TGG, LLC and Talco Midstream Assets, Ltd. own and operate the Legacy System.

14. **Turkey Creek Pipeline**: The Debtors own (i) a 4-inch diameter LNG pipeline with a total capacity of 10,000 Bbls/d (expandable to 15,000 Bbls/d) extending approximately two miles from the Panola System (as defined below) and (ii) a 6-inch diameter LNG pipeline with a total capacity of 10,000 Bbls/d extending approximately 11 miles from the Tyler Facility, located in Panola and Tyler Counties, Texas (the "**Turkey Creek System**"). The

Turkey Creek System receives LNG processed at the Panola and Tyler Facilities and connects to a trading hub located in Mont Belvieu, Texas through a third-party pipeline. The Turkey Creek System is owned and operated by Debtor Turkey Creek Pipeline, LLC.

15. **Bethany Lateral and Stateline Facility**: The Debtors own approximately six miles of 6-inch natural gas pipeline (the "**Bethany Lateral**") and a natural gas treating facility (the "**Stateline Facility**") that are adjacent to each other and located southeast of the town of Bethany in Louisiana. The Stateline Treating Facility has an aggregate CO_2 treating capacity of approximately 20 MMcf/d. The Bethany Lateral and Stateline Facility are owned and operated by Debtor Marlin Midstream, LLC ("**Marlin Midstream**").

(ii) ***Standalone Processing Plants***

16. **Panola System**: The Debtors own a natural gas treatment and cryogenic processing plant (the "**Panola II**"), northeast of the town of Carthage in East Texas, that connects to an 11-mile natural gas pipeline with a capacity of 100 MMcf/d (the "**Oak Hill Lateral**," and, together with the Panola facility, the "**Panola System**"). The Panola facility consists of six dedicated residue gas compression units, GPM amine treating equipment, and dehydration equipment with a capacity to process up to 125 MMcf/d of natural gas. The Oak Hill Lateral gathers natural gas through a connection to a gathering system owned by Anadarko Petroleum Company. In addition to the Oak Hill Lateral, Panola II includes interconnects to nine separate pipelines. The Panola System is owned and operated by Debtor Marlin Midstream.

17. **Tyler Facility**: The Debtors own a natural gas treatment and cryogenic processing facility in Tyler County, northeast of the town of Woodville in eastern Texas (the "**Tyler Facility**"). The Tyler Facility consists of three cryogenic processing trains, two

glycol dehydration units, two GPM amine units, and three natural gas compression units with a capacity to process up to 80 MMcf/d. Persistent low volumes have made it unprofitable to continue operating the Tyler Facility, and the Debtors idled it in the fourth quarter of 2015. The Tyler Facility is owned and operated by Debtor Marlin Midstream.

(iii) ***Logistics Assets***

18. Through mid-2016, Debtor Marlin Logistics, LLC (f/k/a FuelCo Energy, LLC) ("**Marlin Logistics**") owned and operated four crude oil transloading facilities with a combined transloading capacity of 33,542 Bbls/d. The transloading facilities, which included eight skid transloaders and eight ladder transloaders (the "**Logistics Assets**"), transferred crude oil from third-party tanker trucks to railcars using either a skid transloader or a ladder transloader. For the year ended December 31, 2015, Associated Energy Services, LP ("**AES**"), a subsidiary affiliate of NuDevco, accounted for all of the revenues generated by the Debtors' Logistics Assets. In early 2016, pursuant to the AES Settlement discussed in further detail below, all of the Debtors' contracts with AES relating to the Logistics Assets were terminated. The Debtors have been unsuccessful in procuring contracts to replace the revenue formerly generated by AES. In order to minimize operational costs, the Debtors shut down the transloading facilities and consolidated the Logistics Assets in a storage facility in Salt Lake City, Utah.

B. Corporate History and Structure

(i) ***Current Ownership and Interests***

19. As mentioned above, the Debtors are a publicly-traded master limited partnership ("**MLP**"). An MLP is a form of limited partnership where the limited partnership interests, or "common units" in the case of an MLP, are publicly traded on a national exchange. Holders of common units are entitled to certain distributions of profits. As is the case with

limited partnerships, MLPs function as "pass-through" entities and do not pay corporate or state income tax on their profits, rather, tax liabilities flow through to the holders of "common units" (or limited partnership interests) in connection with distributions from the MLP. To qualify for MLP status, a partnership must generate at least 90% of its income from activities related to the production, processing, and transportation of natural gas, oil, or coal.

20. As of the Petition Date, non-Debtor affiliate Azure Midstream Energy, LLC ("**AME**"), owns and controls all of Azure General Partner through its ownership of 429,365 general partner units (the "**General Partner Units**"), comprising all of the outstanding interests in Azure General Partner. Additionally, AME owns 255,319 of the limited partner interests in Azure (the "**Common Units**"), comprising approximately 2.3% of all outstanding Common Units and 100% of all outstanding incentive distribution rights (discussed in more detail below).[7] The remaining 11,029,022 Common Units, comprising approximately 97.7% of all outstanding limited partner interests in Azure, are publicly held. With the exception of Azure General Partner, all Debtors are wholly owned, either directly, or indirectly, by Azure.

(ii) ***Formation of the Partnership***

21. NuDevco created the Partnership in July 2013 through a series of coordinated transactions described in detail below.

22. **The NuDevco Contribution**: Before the formation of the Partnership, Debtors Marlin Midstream and Marlin Logistics were subsidiaries of NuDevco. NuDevco formed the Partnership in July 2013 and contributed to the Partnership Marlin Midstream and Marlin Logistics, whose primary midstream assets at that time consisted of: (a) the Panola System, (b) Panola I (as defined below), (c) the Tyler Facility, (d) the Wildcat and Big Horn

[7] AME also owns midstream energy assets, independent of its interests in the Debtors, either directly or through its affiliates.

Facilities, (e) the Turkey Creek Pipeline, and (f) the Lake Murvaul System (as defined below). As discussed in further detail below, the Debtors sold the Lake Murvaul System and Panola I in August 2016.

23. In exchange for NuDevco's contribution to the Partnership of Marlin Midstream and Marlin Logistics: (i) NuDevco Midstream Development, LLC (a wholly owned subsidiary of NuDevco) ("**NuDevco Midstream**") received (a) 1,849,545 Common Units comprising a 10.4% limited partner interest in the Partnership; (b) 8,724,545 subordinated units (the "**Subordinated Units**") comprising a 49.0% limited partner interest in the Partnership, and all of the ownership interests in Azure General Partner[8] and (ii) Marlin IDR Holdings, LLC (a wholly owned subsidiary of NuDevco Midstream) ("**IDRH**") received all issued IDR Units (as defined below). Azure General Partner received 356,104 Common Units, comprising 2.0% of the limited partner interests. The remaining 38.6% of limited partner interests were sold to the general public in the IPO (as defined below).

24. **The Partnership Agreement**: In connection with the formation of the Partnership, on July 31, 2013, Azure and Azure General Partner entered into a partnership agreement (as amended on February 27, 2015, the "**Partnership Agreement**"). Pursuant to the Partnership Agreement, 45 days after the end of each quarter, holders of Common Units are entitled to receive, out of any operating surplus, a minimum quarterly distribution of $0.35 per unit (the "**Minimum Quarterly Distributions**"). Holders of incentive distribution rights ("**IDR Units**") are entitled to receive an increasing percentage of 13%, 23%, and 48% of quarterly distributions of available cash from operating surplus after all Minimum Quarterly Distributions

[8] The Partnership contemporaneously transferred to affiliates of NuDevco: (i) a 50% interest in a CO_2 processing facility located in Monell, Wyoming; (ii) certain transloading assets and purchase commitments owned by Marlin Logistics, but not subject to any service contracts; (iii) certain property, plant, and equipment and other equipment not yet in service; and (iv) certain other immaterial contracts.

have been made and certain target distribution levels have been achieved (the "**IDR Distributions**"). The target distribution levels are defined within the Partnership Agreement. All Minimum Quarterly Distributions and IDR Distributions have been suspended since February 1, 2016.

25. **The Original Omnibus Agreement**: On July 31, 2013, the Partnership entered into an omnibus agreement with NuDevco (the "**Original Omnibus Agreement**"). Under the Original Omnibus Agreement, the Partnership received a right of first offer to purchase certain of NuDevco's midstream energy assets during the five-year period following the closing of the IPO. The Original Omnibus Agreement also provided that NuDevco would provide management and administrative services to the Partnership and that the Partnership would reimburse NuDevco for any corresponding fees and expenses in connection therewith.

26. **The AES Service Agreements**: Additionally, on July 31, 2013, Marlin Midstream entered into a series of three-year agreements with AES pursuant to which Marlin Midstream would provide gas gathering, processing, and crude oil logistics and transloading services to AES (the "**AES Services Agreements**"). The AES Service Agreements provided for a minimum volume commitment of 18,980 Bbls/d in connection with gas gathering and processing services and 577,309 Bbls/month in connection with transloading services. AES' obligations under the AES Service Agreements were supported by a $15 million letter of credit (the "**AES LC**"). When the AES Service Agreements were executed in 2013 they generated approximately $16.2 million in total annual revenue for the Partnership. By the end of 2015, they generated approximately $29 million in total annual revenue.

27. **The IPO**: On July 31, 2013, Azure completed an initial public offering, placing 6,875,000 Common Units comprising 38.6% of the limited partner interests in the

Partnership (the "**IPO**"). Azure's Common Units traded on the New York Stock Exchange ("**NYSE**") under the symbol "AZUR" until June 3, 2016, when they were delisted for failure to comply with the NYSE's continued listing standards. Thereafter, the Common Units continued to trade over the counter. As of January 27, 2017 individual Common Units traded at $0.84 per unit, representing a total market capitalization of $9.84 million.

(iii) ***Acquisition of the Legacy Assets***

28. On January 14, 2015, the Partnership entered into an agreement (the "**Transaction Agreement**") with AME, NuDevco Midstream, and IDRH, whereby the Partnership acquired the Legacy System. Specifically, under the terms of the Transaction Agreement, the Partnership acquired Debtors Talco Midstream Assets, Ltd. and Azure TGG, LLC, which own and operate the assets that constitute the Legacy System, from AME. In return, AME received (i) $99.5 million in cash, (ii) 90% of all IDR Units, and (iii) all of the General Partner Units in Azure General Partner. To effectuate the transfer of the IDR Units from IDRH to AME, the Partnership redeemed 90% of the IDR Units from IDRH for $63 million in cash. Following consummation of the Transaction Agreement, IDRH owned 10% of all IDR Units. The Debtors financed the acquisition of the Legacy System by drawing on their Credit Facility.

(iv) ***The Omnibus Agreement***

29. On February 27, 2015, the Partnership and AME entered into a new omnibus services agreement (the "**Omnibus Agreement**") that superseded the Original Omnibus Agreement. Under the Omnibus Agreement, AME (a) procures insurance coverage on behalf of the Partnership and pays all costs related to such coverage (the "**Insurance Coverage**"), (b) pays

certain costs related to the Debtors' employees,[9] including wages, payroll taxes, and other related administrative costs (the "**Payroll Obligations**"), (c) pays certain of the Debtors' general administrative costs, including real property and equipment lease obligations, supplies, utilities, and property taxes (the "**G&A Obligations**"), and (d) pays certain costs related to services provided by third-parties for the benefit of the Debtors, including outside audit services, outside legal services, an employee credit card program, and other services (the "**Third-Party Services**," and, together with the Payroll Obligations, the Insurance Coverage, and the G&A Obligations, the "**Covered Obligations**").

30. Under the Omnibus Agreement, AME submits invoices to the Debtors on the 25th day of each month for reimbursement of all costs associated with provision of the Covered Obligations attributable to the Debtors in such month.[10] However, the Debtors directly cover all costs for all Employees that relate to (a) paid time off including sick days and vacation days, short-term disability benefits (includes maternity leave), bereavement leave, jury duty leave, and military leave; (b) medical, dental, vision, and prescription drug benefits, life insurance, accidental death and dismemberment insurance, long-term disability, and health savings accounts; and (c) any matching contributions pursuant to the Debtors' 401(k) plan (collectively, the "**Employee Benefits**").[11] Any Employee Benefits that are allocable to AME on

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[9] The Debtors employ ninety-six (96) employees (the "**Employees**"). Thirty-eight (38) Employees provide services exclusively for the Debtors ("**Dedicated Employees**"), twenty-six (26) Employees provide services exclusively for AME, and thirty-two (32) Employees provide services for the Debtors and AME (the "**Shared Employees**").

[10] As further described below in section IV, with respect to the Payroll Obligations, the Debtors' reimbursement is limited to costs related to the Dedicated Employees and a *pro rata* share of all personnel costs of Shared Employees. The Debtors do not reimburse AME for any costs related to the Employees that provide services exclusively to AME.

[11] For a more detailed discussion of the Employee Benefits, see the Debtors' *Emergency Motion for Entry of Interim and Final Orders (I) Authorizing Debtors To (A) Pay Prepetition Wages, Salaries, Employee Benefits, and Other Compensation, (B) Maintain Employee Benefit Programs and Pay Related Administrative Obligations, and (C) Pay Temporary Employee Obligations, and (II) Directing Financial Institutions to Receive, Process, Honor, and Pay All Checks Presented for Payment and to Honor All Fund Transfer Requests Related to Such Obligations Pursuant to*

account of the Shared Employees or the Employees who provide services exclusively to AME are credited against the Debtors' reimbursement obligations under the Omnibus Agreement. As of the Petition Date, the Debtors have paid all amounts invoiced by AME under the Omnibus Agreement.

(v) ***Acquisition of the ETG System***

31. On August 6, 2015, the Partnership entered into a contribution agreement (the "**Contribution Agreement**") with AME. Pursuant to the Contribution Agreement, AME contributed to the Partnership all outstanding membership interests in ETG, the entity that owns and operates the ETG System. As consideration for the contribution of ETG, AME received $80,000,000 in cash and 255,319 Common Units. The Partnership financed the cash portion of the ETG acquisition price by drawing on the Credit Facility.

(vi) ***The AES Settlement***

32. In early 2016, AES defaulted on its obligations to the Debtors under the AES Service Agreements. The Debtors ultimately settled the matter with AES by entering into a settlement agreement with AES, NuDevco Midstream, and IDRH, on March 30, 2016 (the "**AES Settlement Agreement**"). Under the AES Settlement Agreement: (i) the Debtors drew the full amount of the $15 million AES LC and applied the proceeds to pay down outstanding debt under the Credit Facility; (ii) the AES Service Agreements were terminated effective as of January 1, 2016; (iii) NuDevco Midstream surrendered all of the Subordinated Units and 1,939,265 Common Units to the Partnership; (iv) IDRH surrendered 10 IDR Units (comprising 10% of all outstanding IDR Units) to the Partnership; and (v) the parties to the AES Settlement released each other from all claims relating to the AES Service Agreements.

Sections 105(a), 363(b), and 507 of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004 (the "**Employee Motion**").

(vii) ***The Panola and Murvaul Sale***

33. By the fourth quarter of 2016, as described below, the Debtors had been operating under default waivers of certain leverage covenants in the Credit Agreement for nearly 15 months. The Debtors sought to come into compliance with their Consolidated Total Leverage Ratio, as defined in the Credit Agreement by increasing their EBITDA through the elimination of fixed operating costs and reducing outstanding debt. To that end, on August 4, 2016, Marlin Midstream entered into an agreement for the sale to AMP ETX Gathering, LLC of (a) a 51.1 mile piece of natural gas pipeline, including related compression and gathering facilities and associated tracts of real property, surface leases, easements, and rights-of-way, located in Panola and Rusk Counties, Texas (the "**Murvaul System**") and (b) a 100 MMcf/d natural gas processing plant located in Panola County Texas ("**Panola I**") for an agreed purchase price of $44.9 million in cash, less certain agreed-upon adjustments in respect of ad valorem taxes. The Debtors used $41 million of the sale proceeds to pay down outstanding debt under the Credit Facility. The Debtors estimate that sale of the Murvaul System and Panola I increased annual EBITDA by about $1.5 million.

C. Prepetition Indebtedness

(i) ***The Credit Agreement and Credit Facility***

34. The Debtors are parties to that certain Credit Agreement, dated as of February 27, 2015 (as amended from time to time, the "**Credit Agreement**" and the senior secured revolving credit facility thereunder, the "**Credit Facility**") by and among Azure, all of its Debtor subsidiaries, as guarantors, Wells Fargo Bank, N.A. ("**Wells Fargo**"), as administrative agent (the "**Administrative Agent**"), and certain lenders thereto (collectively, the "**Lenders**"). The Credit Facility initially provided for a total borrowing capacity of up to $250 million, however, as discussed in further detail below, the total borrowing capacity has since

been reduced to $173.5 million. Borrowings under the Credit Agreement bear interest at: (i) the LIBOR Rate, as defined in the Credit Agreement, plus an applicable margin of 3.25% to 4.25%; or (ii) the Base Rate, as defined in the Credit Agreement, plus an applicable margin of 2.25% to 3.25%, in each case, based on the Consolidated Total Leverage Ratio, as defined in the Credit Agreement. The maturity date of the Credit Agreement is February 27, 2018. The Debtors' obligations under the Credit Agreement are secured by substantially all the Debtors' assets. As discussed in further detail below, since October 2015 the Debtors have entered into seven limited duration waiver agreements and two amendments to the Credit Agreement. As of the Petition Date, approximately $173.6 million in unpaid principal, plus accrued and unpaid interest, fees, and other expenses is outstanding under the Credit Agreement.

(ii) *Other Prepetition Debt*

35. As of the Petition Date, in addition to their secured debt obligations under the Credit Agreement, the Debtors owe approximately $2.2 million in outstanding secured obligations under their various gas gathering agreements. The Debtors also owe approximately $5.4 million in outstanding unsecured prepetition obligations, which include (a) $444,000 in employee claims, (b) $688,000 in vendor and trade claims, and (c) $4.2 million in tax and other priority claims. As discussed in further detail below, the Debtors expect to pay all allowed unsecured claims out of cash on hand as well as a portion of the proceeds realized from their impending asset sale.

III.

Events Leading to Chapter 11

A. The Sustained Drop in Oil & Gas Prices

36. The oil and gas industry has been enduring one of the longest and deepest troughs in oil and gas prices in recent history. The downturn has led many exploration and

production companies, whose businesses are directly impacted by price fluctuations in commodities, to sizably reduce their capital and operating expenditures relating to hydrocarbon production and drilling activities, causing a substantial reduction in the volumes serviced by midstream service providers such as the Debtors. In early 2016, crude oil and natural gas spot prices reached multi-year lows of approximately $26 per Bbl and $1.50 per MMBtu, respectively. This represented a decline in oil prices of more than 75% from a peak of over $105 per Bbl in mid-year 2014 and a decline in natural gas prices of more than 74% from a peak of over $5.8 per MMBtu in early 2014.

B. The Revenue Losses

37. As a result of the downturn, in 2015, Anadarko Petroleum Corporation ("**Anadarko**"), one of the Debtors' largest customers, chose not to renew a significant contract that generated approximately $7.5 million in total revenue in 2015. The continued weakness in natural gas and crude oil prices pushed AES to default on its obligations under the AES Agreements in early 2016. The AES Agreements generated $29.1 million of the Debtors' total revenue in 2015, comprising 36% of the Debtors' total annual revenue. Collectively, the Anadarko contracts and the AES Agreements generated 45% of the Debtors' total revenues in 2015. Although the Debtors were able to make up for some of the lost revenues through other contracts, total revenue in the first three quarters of 2016 decreased approximately 14% from total revenue in the first three quarters of 2015 (from $61.3 million to $53.0 million).

C. Defaults under the Credit Agreement

38. The reduction in the Debtors' revenues also led to a material reduction in their EBITDA, and by the fourth quarter of 2015, the Debtors had fallen out of compliance with certain debt and liquidity covenants under the Credit Agreement (the "**Covenant Defaults**"). To comply with leverage covenants under the Credit Agreement, on October 26, 2015, the Debtors

entered into the second amendment to the Credit Agreement (the "**Second Amendment**"), retroactively raising the Debtors' Consolidated Total Leverage Ratio from 5:1 (as defined in the Credit Agreement) for the quarter ended September 30, 2015, to 5.25:1, and further increasing the Consolidated Total Leverage Ratio for the quarter ending December 31, 2015 to 6:1. The Second Amendment also reduced the borrowing capacity under the Credit Facility from $250 million to $238 million and mandated the suspension of distributions to holders of Common Units.

39. Due to the drop in revenue from the loss of several of their key revenue-generating contracts, the report of the Debtors' independent registered public accounting firm that accompanied their 2015 audited consolidated financial statements expressed substantial doubt about the Debtors' ability to continue as a going concern, which constituted an event of default under the Credit Agreement. On March 29, 2016, the Debtors entered into the third amendment to the Credit Agreement ("**Third Amendment**"), which permanently waived this event of default and waived the Debtors' obligations to comply with the Consolidated Total Leverage Ratio and the Consolidated Interest Ratio through June 30, 2016.

40. On June 30, 2016, the Debtors entered into a *Limited Duration Waiver Agreement* (the "**First Waiver**") extending the waiver of the Covenant Defaults through August 12, 2016 and further reducing the borrowing capacity under the Credit Agreement to $214.7 million.

41. On August 12, 2016, the Debtors entered into a second *Limited Duration Waiver Agreement* (the "**Second Waiver**") extending the waiver of the Covenant Defaults through September 27, 2016, further reducing the borrowing capacity under the Credit Agreement to $173.7 million, and imposing restrictions on capital expenditures.

42. On September 27, 2016, the Debtors entered into a third *Limited Duration Waiver Agreement* (the "**Third Waiver**"). The terms of the Third Waiver extended the waiver of the Covenant Defaults through October 28, 2016. The Third Waiver also required the Debtors to deliver to the Lenders either a sale plan or a capital raise plan by October 11, 2016.

43. On October 28, 2016, the Debtors entered into a fourth *Limited Duration Waiver Agreement* (the "**Fourth Waiver**") extending the waiver of the Covenant Defaults through November 30, 2016. The Fourth Waiver also required that by November 15, 2016 the Debtors set up a data room containing information to be provided to potential equity investors or potential purchasers of substantially all the Debtors' assets.

44. On November 30, 2016, the Debtors entered into a fifth *Limited Duration Waiver Agreement* (the "**Fifth Waiver**") extending the waiver of the Covenant Defaults through December 18, 2016. The Fifth Waiver also required the Debtors to enter into an agreement with respect to a sale of substantially all the Debtors' assets no later than December 18, 2016.

45. On December 16, 2016, the Debtors entered into a sixth *Limited Duration Waiver Agreement* (the "**Sixth Waiver**") further extending the waiver of the Covenant Defaults through January 15, 2017. The Sixth Waiver also required that the Debtors submit by January 12, 2017 a certification to the Lenders that the sale and marketing process of the Assets had been substantially completed.

46. On January 14, 2017, the Debtors entered into a seventh *Limited Duration Waiver Agreement* (the "**Seventh Waiver**") further extending the waiver of the Covenant Defaults through January 30, 2017. The Debtors were unable to obtain an additional waiver thereafter.

47. Over the course of the last 15 months, the Debtors, with the cooperation of their Lenders, have explored various paths toward compliance with the Credit Agreement. The Debtors were able to sell the Murvaul System and Panola I, as discussed above, resulting in a $40 million paydown of the Credit Facility and an effective increase of $1.5 million in annual EBITDA on account of related cost-savings. They sought an equity infusion as well, but because of the continued weakness in the energy sector there was little appetite for an equity offering. With limited options available to remedy their leverage concerns and Covenant Defaults, the Debtors, with the support of their Lenders, began to explore a sale of their businesses as a going concern.

D. The Sale and Marketing Process

48. On November 23, 2015, the Debtors retained Evercore to serve as their investment banker and market the Assets. Evercore and the Debtors contacted 20 potential transaction partners, including strategic buyers (*i.e.*, companies already operating in the industry) and financial buyers (such as private equity firms) to gauge interest in a potential transaction. The Debtors received four proposals for a potential sale from the initial marketing period. Of the sale proposals received, two proposals implied values for the Debtors below prepetition debt levels, another proposal contemplated a joint venture with no cash consideration, and the final proposal was only to acquire Panola I. Subsequently, Evercore and the Debtors continued discussions with private equity firms and other parties potentially interested in an investment in or purchase of the Assets and engaged in a new marketing process for the Assets.

49. As of the Petition Date, Evercore has engaged with over 70 strategic and financial counterparts in its efforts to market the Assets. During this second-stage marketing process, parties that executed confidentiality agreements were granted access to an electronic data room containing significant diligence and other confidential information about the Debtors'

businesses. Twenty-five different parties ultimately executed confidentiality agreements. As a result of Evercore's extensive marketing efforts, the Debtors received 11 indications of interest for either an acquisition of all or a portion of the Assets or for a partial refinancing the Debtors' prepetition secured debt. From those indications of interest, the Debtors qualified six bidders to move to a second stage process. Bidders moving to the second stage were provided with access to a second data room with additional information about the Assets. Second-stage bids were received on January 26, 2017. The Debtors received three second-stage bids. In evaluating the proposals, the Debtors and Evercore analyzed, among other things: (i) the consideration offered by each potential buyer, (ii) the conditions to be imposed by each potential buyer, (iii) the proposal's impact on the Debtors' secured lenders and trade creditors, and (iv) the proposal's treatment of and effect on the Debtors' employees.

50. As of the Petition Date, after extensive deliberations with their advisors and separate negotiations with potential bidders, the Debtors are in the process of finalizing a stalking horse agreement with one of the bidders (the "**Stalking Horse Bidder**") as the highest or otherwise best bid received for the Assets. Once the Stalking Horse Bidder and the Debtors have finalized the stalking horse agreement, the Debtors expect to file a motion (the "**Sale Motion**") seeking approval of (a) bidding and auction procedures to ensure that the ultimate purchase price represents the highest or otherwise best bid for the Assets and (b) the Sale Transaction pursuant to section 363 of the Bankruptcy Code.

51. To ensure that these Chapter 11 Cases cases proceed as expeditiously as possible, thereby avoiding any dissipation of value that otherwise go to creditors and stakeholders, on or around the time the Debtors file the Sale Motion, the Debtors plan to file a liquidating chapter 11 plan (the "**Plan**") and related disclosure statement. The Debtors expect

that to the extent not satisfied by the relief requested in the various first-day motions, a portion of the proceeds of the Sale Transaction will be used to satisfy in full, the bulk of all prepetition claims, including all allowed secured claims, priority tax claims, trade, vendor, and customer claims, and employee claims (as of the Petition Date, the Debtors have been unable to ascertain whether the Sale Transaction will generate sufficient proceeds to satisfy all potential rejection damages that may arise in connection with the Sale Transaction).

IV.

Relief Sought in First Day Papers[12]

Motion of Debtors for Entry of Order Directing Joint Administration of Chapter 11 Cases Pursuant to Bankruptcy Rule 1015(b)

52. In this motion, (the "**Joint Administration Motion**") the Debtors request entry of an order directing joint administration of their Chapter 11 Cases for procedural purposes only pursuant to Bankruptcy Rule 1015(b). Specifically, the Debtors request that the Court maintain one file and one docket for all of the Chapter 11 Cases under the lead case, Azure Midstream Partners, LP.

53. There are 12 Debtors, and I have been informed that there are more than 1,000 creditors and other parties in interest in these cases. I believe that joint administration of these cases would save the Debtors and their estates substantial time and expense because it would remove the need to prepare, replicate, file, and serve duplicative notices, applications, motions, and orders. Further, I believe that joint administration would relieve the Court of entering duplicative orders and maintaining duplicative files and dockets. The United States Trustee for Region 7 (the "**U.S. Trustee**") and other parties in interest would similarly benefit from joint administration of these cases, sparing them the time and effort of reviewing duplicative dockets, pleadings and papers.

54. I believe that joint administration would not adversely affect any creditors' rights because the Joint Administration Motion requests only the administrative consolidation of these cases for procedural purposes. It does not seek substantive consolidation of the Debtors' estates. Accordingly, I believe that joint administration of these chapter 11 cases is in the best

[12] Terms used but not defined in this section shall have the meanings ascribed to them in the respective motion.

interests of the Debtors, their estates, and all other parties in interest and should be granted in all respects.

Application of Debtors for Order Authorizing Retention and Employment of Kurtzman Carson Consultants as Claims and Noticing Agent to the Debtors Nunc Pro Tunc to the Petition Date Pursuant to 28 U.S.C. §§ 156(c), 11 U.S.C. § 105(a) and 327, Bankruptcy Rules 2002(f), 2014(a), and 2016, and Local Rule 2014-1

55. By this application, the Debtors request authority to appoint Kurtzman Carson Consultants LLC ("**KCC**") as claims and noticing agent, including assuming full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in the Debtors' Chapter 11 Cases, in accordance with the terms and conditions of that certain engagement agreement dated as of December 12, 2016, effective *nunc pro tunc* to the Petition Date.

56. The Debtors anticipate that there will be in excess of 1,000 entities to be noticed on their creditor matrix. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, I believe that the appointment of KCC as claims and noticing agent is in the best interests of both the Debtors' estates and their creditors.

Motion of Debtors for Entry of Order Granting (A) Authority to File a Consolidated List of Creditors; (B) Authority to File a Consolidated List of 30 Largest Unsecured Creditors; and (C) Approval of the Form and Manner of Notifying Creditors of the Commencement of these Chapter 11 Cases and Other Information pursuant to Bankruptcy Rules 1007(A)(1),(D) and 2002(A)

57. In this motion (the "**Consolidated Lists Motion**"), the Debtors request entry of an order (i) authorizing the Debtors to file a consolidated creditor matrix (the "**Consolidated Creditor Matrix**") and a consolidated list of the Debtors' 30 largest unsecured creditors (the "**Consolidated Top 30 Creditor List**"); (ii) authorizing redaction of certain personal information for the Debtors' employees; and (iii) approving the form and manner of notice of the commencement of these chapter 11 cases (the "**Notice of Commencement**").

58. I believe that the Debtors should be permitted to maintain a Consolidated Creditor Matrix in lieu of filing a separate Creditor Matrix for each Debtor. The Debtors do not maintain entity specific lists of the names and addresses of their respective creditors that are entitled to receive notices and other documents in the Debtors' chapter 11 cases. Rather, they maintain a centralized list of creditors' names and addresses. Additionally, given the hundreds of creditors in the Debtors' cases, segregating the Debtors' records into a Debtor-specific creditor matrix format would be a time-consuming exercise. I believe that the Debtors' efforts and attention are better focused on ensuring the smooth transition into chapter 11 with minimal disruptions to their businesses.

59. To provide the U.S. Trustee with a clearer picture of the Debtors' creditor constituency, the Debtors have chosen to provide the Consolidated Top 30 Creditors List as opposed to a list of the statutorily-required 20 largest unsecured creditors. As I noted above, the Debtors have hundreds of creditors. It is my understanding that it would be both time-consuming and difficult in a case of this size to provide a separate list of top 20 creditors for each individual Debtor.

60. Additionally, I believe that the Debtors should be allowed to redact address information of the Debtors' employees from the Consolidated Creditor Matrix because such information could be used to perpetrate identity theft. It is my understanding that, upon request, the Debtors will provide an unredacted version of the Consolidated Creditor Matrix to the Court, the Office of the United States Trustee for the Southern District of Texas, and counsel to the official committee of unsecured creditors, should one be appointed in these chapter 11 cases.

61. Finally, I believe that the Debtors should be permitted to serve a single Notice of Commencement, in the form annexed as **Exhibit B** to the Consolidated Lists Motion, in order to avoid confusion among creditors and prevent the Debtors' estates from incurring unnecessary costs associated with serving multiple notices to the parties listed on the Consolidated Creditor Matrix.

62. Based on the foregoing, I believe that the relief requested in the Consolidated Lists Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted in all respects.

Emergency Motion of Debtors for Order Extending Time to File (I) Schedules of Assets and Liabilities, (II) Schedules of Current Income and Expenditures, (III) Schedules of Executory Contracts and Unexpired Leases, and (IV) Statements of Financial Affairs Pursuant to Section 521 of the Bankruptcy Code and Bankruptcy Rule 1007(C).

63. In this motion (the "**Extension Motion**"), the Debtors request entry of an order extending the deadline by which the Debtors must file their (i) schedules of assets and liabilities, (ii) schedules of current income and expenditures, (iii) schedules of executory contracts and unexpired leases, and (iv) statements of financial affairs (collectively, the "**Schedules and Statements**") by 15 days, for a total of 29 days from the Petition Date, through and including February 28, 2017, without prejudice to the Debtors' ability to request additional extensions for cause shown.

64. The Debtors, with the assistance of their professional advisors, are mobilizing their employees to work diligently and expeditiously on preparing the Schedules and Statements. To prepare the Schedules and Statements, the Debtors must compile information from books, records, and documents relating to creditor claims, as well as the Debtors' assets, executory contracts, and unexpired leases. This information is voluminous. Given the amount of work entailed in completing the Schedules and Statements and the competing demands on the

Debtors' limited number of employees with relevant knowledge and expertise, the Debtors may not be able to properly and accurately complete the Schedules and Statements within the required time period.

65. Accordingly, I believe that good and sufficient cause exists for granting an extension of time to file the Schedules and Statements.

Emergency Motion of Debtors for Interim and Final Orders (I) Authorizing Debtors to Pay Certain Prepetition Taxes and Assessments, and (II) Directing Financial Institutions to Receive, Process, Honor, and Pay All Checks Presented for Payment and to Honor All Fund Transfer Requests Related to Such Obligations Pursuant to Sections 105(a), 363(b), 507(a), and 541(d) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004

66. In this motion (the "**Tax Motion**"), the Debtors request entry of (i) interim and final authority to satisfy all Taxes (as defined below) due and owing to various local, state, and foreign taxing authorities (collectively, the "**Taxing Authorities**") that arose prior to the Petition Date, including all Taxes subsequently determined by audit or otherwise to be owed for periods prior to the Petition Date, and (ii) that the Court authorize and direct applicable banks and financial institutions to receive, honor, process, and pay all checks issued or to be issued and electronic fund transfers requested or to be requested relating to the above.

67. The Taxes and Assessments the Debtors typically incur generally fall into the following categories: Sales and Use Taxes, Gas Utility Taxes, Property/Ad Valorem Taxes, and Regulatory Assessments (collectively the "**Taxes**"). Approximately $5,000 in Sales and Use Taxes, $70,000 in Gas Utility Taxes, up to $4.14 million in Property Taxes, and approximately $35,000 in Regulatory Assessments relating to periods prior to the Petition Date will become due and owing to the Taxing Authorities after the Petition Date. Of these amounts, the Debtors estimate that approximately $5,000 in Sales and Use Taxes, $3.5 million in Property Taxes,

$55,000 in Gas Utility Taxes, and $18,000 in Regulatory Assessments will come due within the first 21 days after the Petition Date.

68. I believe that failure to pay the aforementioned Taxes may cause the Taxing Authorities to take precipitous action, including, but not limited to, filing liens, preventing the Debtors from conducting business in the ordinary course in the applicable jurisdictions in which they operate, and potentially holding directors and officers personally liable, all of which would disrupt the Debtors' day-to-day business operations, potentially impose significant costs of the Debtors' estates and their creditors, jeopardize the Debtors' maintenance of good standing to operate in the jurisdictions in which they do business, and hinder the Debtors' efforts to pursue a sale of assets. Based on the foregoing, I believe that the relief requested in the tax motion is in the best interests of the Debtors, their estates, and all parties in interest and should be approved.

Motion of Debtors (I) for Approval of Debtors' Proposed Form of Adequate Assurance of Payment to Utility Companies, (II) to Establish Procedures for Resolving Objections by Utility Companies, and (III) to Prohibit Utility Companies from Altering, Refusing, or Discontinuing Service Pursuant to Sections 366 and 105(a) and Bankruptcy Rule 6004

69. In this motion, (the "**Utilities Motion**"), the Debtors request entry of an order (i) approving the Debtors' proposed form of adequate assurance of payment for postpetition Utility Services (as defined below); (ii) establishing procedures for resolving objections by Utility Companies (as defined below) relating to the adequacy of the proposed adequate assurance; and (iii) prohibiting the Utility Companies from altering, refusing, or discontinuing service to, or discriminating against, the Debtors on the basis of the commencement of these chapter 11 cases or because a debt owed by the Debtors for Utility Services rendered before the Petition Date was not paid when due.

70. As more fully described in the motion, the Debtors obtain electricity, internet, cable, waste disposal, water, gas, and other utility services (collectively, the "**Utility Services**") from a number of utility companies (collectively, the "**Utility Companies**"). I believe that uninterrupted Utility Services are essential to the Debtors' ongoing operations and the success of these chapter 11 cases. The Debtors' business involves natural gas gathering, transportation, and processing services. The Debtors' operations also require electricity for lighting, heating, and air conditioning. In addition to production processes conducted in the field, the Debtors maintain a corporate office and several regional and field offices that are responsible for ensuring the smooth operation of the Debtors' business. These offices require electricity, telecommunications, and internet services to operate in their respective locations. Should any Utility Company alter, refuse, or discontinue service, even briefly, the Debtors' business operations could be severely disrupted. Such disruption could jeopardize the Debtors' sale efforts by creating uncertainty and potentially chilling bidding for the Debtors' assets. As a result, I believe it is essential that the Utility Services continue uninterrupted during the chapter 11 cases.

71. To provide the Utility Companies with adequate assurance pursuant to section 366 of the Bankruptcy Code, the Debtors propose to deposit cash in an amount equal to two weeks' payment for Utility Services, calculated using the historical average for such payments during the past 12 months (the "**Adequate Assurance Deposit**") into a newly created segregated account for the benefit of the Utility Companies (the "**Utility Deposit Account**"). The Debtors estimate that the total amount of the Adequate Assurance Deposit will be approximately $58,000. The Adequate Assurance Deposit will be held by the Debtors in the Utility Deposit Account for the benefit of the Utility Companies on the Utility Services List

during the pendency of these chapter 11 cases. No liens will encumber the Adequate Assurance Deposit or the Utility Deposit Account. I believe that the Adequate Assurance Deposit, in conjunction with the Debtors' ability to pay for future Utility Services in the ordinary course of business (collectively, the "**Proposed Adequate Assurance**"), constitutes sufficient adequate assurance to the Utility Companies in full satisfaction of section 366 of the Bankruptcy Code as I understand the requirements of that provision. In the event a Utility Company is not satisfied with the Proposed Adequate Assurance, the Debtors also propose certain objection procedures (the "**Adequate Assurance Procedures**") through which a Utility Company may challenge the adequacy of the Proposed Adequate Assurance. The Adequate Assurance Procedures are set forth in their entirety in the Utilities Motion.

72. I believe that the Adequate Assurance Procedures are necessary to the success of the Debtors' chapter 11 cases because if such procedures are not approved, the Debtors could be forced to address numerous requests by Utility Companies for adequate assurance in a disorganized manner during the critical first weeks of the chapter 11 cases. Moreover, a Utility Company could blindside the Debtors by unilaterally deciding—on or after the thirtieth day following the Petition Date—that it is not adequately protected and threaten to discontinue service or make an exorbitant demand for payment to continue service. Discontinuation of Utility Service could disrupt operations and jeopardize the Debtors' asset sale efforts and, ultimately, the value of the Debtors' estates and stakeholders' recoveries.

Motion of Debtors (I) Authorizing Debtors to Pay Prepetition Claims in the Ordinary Course of Business and (II) Directing Financial Institutions to Honor and Process Related Checks and Transfers Pursuant to Sections 105(a), 362(d), 363(b) and 503(b) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004

73. In this motion (the "**All Trade Motion**"), the Debtors seek entry interim and final orders (i) authorizing, but not directing, the Debtors to pay, in the ordinary course of

business, allowed prepetition claims (collectively, the "**Trade Claims**") of general unsecured creditors that provide goods or services related to the Debtors' operations (collectively, the "**Trade Creditors**"); and (ii) authorizing applicable Banks to receive, honor, process, and pay all checks issued or to be issued and electronic funds transfers requested or to be requested relating to the above. The Debtors also request authority to condition the payment of Trade Claims upon the Trade Creditors' agreeing to maintain or reinstate contract terms during the pendency of these chapter 11 cases that are at least as favorable as the most favorable trade terms existing in the six months before the Petition Date or such other trade terms acceptable to the Debtors in their sole discretion (the "**Customary Trade Terms**").

74. As discussed in this Declaration, the Debtors operate midstream energy assets relating to (i) the gathering, transport, and processing of compressed and liquid natural gas and (ii) crude oil logistics services. To perform these services, the Debtors require various specialized materials, tools, and equipment. The Trade Creditors provide the Debtors with uninterrupted access to key resources and enable them to operate their businesses smoothly.

75. The Debtors estimate that, as of the Petition Date, approximately $3,571,000 of Trade Claims have accrued, of that amount, approximately $1,600,300 is entitled to statutory priority pursuant to section 503(b)(9) of the Bankruptcy Code for goods delivered to the Debtors in the ordinary course of business within 20 days before the Petition Date. The following table summarizes the types of Trade Claims held by the Trade Creditors and provides the Debtors' estimate of the total amount of each type of Trade Claim outstanding as of the Petition Date, including estimates for the portion of such total coming due within the interim period.

Category	Description of Obligation[13]	Estimated Amount Outstanding as of the Petition Date	Estimated Amount Due Prior to the Final Hearing	Section 503(b)(9) Component
Oil and Gas Production Payments	Payments for raw natural gas and other hydrocarbons extracted from the ground by upstream producers and gas service contracts.	$2,233,000	$154,000	$1,519,000
Logistics Payments	Payments to providers for information technology and safety personnel necessary to operate the Debtors' midstream facilities.	$9,000	$6,300	N/A
Operations / Real Property	Payments to suppliers, service providers and other vendors utilized in connection with Debtors' business operations including operating expenses, capital improvements, sale process diligence expenses, and facilities maintenance.	$1,168,000	$750,000	81,300
Administrative	Payments relating to support services for corporate and administrative functions, including professional/legal fees, rent, and corporate G&A. Additionally, includes corporate overhead costs associated with facilities and utilities.	$161,000	N/A	N/A
Total:		**$3,571,000**	**$910,300**	**$1,600,300**

76. Certain of the Trade Creditors in the "Oil and Gas Production" category above are also customers of the Debtors — *i.e.*, some of the upstream producers both sell to the Debtors raw natural gas (thus giving rise to a Trade Claim) and contract for midstream services. Pursuant to these agreements, the Debtors have arrangements with these Trade Creditors whereby the Debtors net any amounts earned for their provision of midstream services against amounts the Trade Creditors are owed by the Debtors for purchases of raw natural gas and other

hydrocarbons. Therefore, while the gross amount of accrued Trade Claims as of the Petition Date is approximately $3,984,000 (the "**Gross Trade Claims**"), the Debtors seek authority to pay only the net amount of the accrued Trade Claims, in an amount up to $910,300, upon entry of the Proposed Interim Order, and all other amounts upon entry of the Proposed Final Order.

77. Certain Trade Claims in an aggregate amount of approximately $2,653,000 are held by Trade Creditors that (i) repair and maintain the Debtors' equipment and facilities; (ii) lease facilities or equipment to the Debtors; or (iii) sell the Debtors raw natural gas. I understand that such Trade Creditors may be entitled to assert (a) mechanics' lien claims or (b) first-purchaser lien claims against certain of the Debtors' assets under various state and federal laws. Moreover, I understand that under section 363(e) of the Bankruptcy Code, Trade Creditors with liens may be entitled to adequate protection of their liens, which may impose additional costs on the Debtors' estates.

78. As discussed above, the Debtors are parties to that certain Credit Agreement, dated as of February 27, 2015. The Debtors' obligations under the Credit Agreement are secured by substantially all the Debtors' assets, including all available cash on hand. Before the Petition Date, the Debtors engaged their Lenders under the Credit Agreement regarding the use of cash to pay the Trade Claims. After substantial discussions, the Debtors and the Lenders have resolved that paying the Trade Claims in the ordinary course represents the surest path toward preserving the going-concern value of the Debtors' estates and, ultimately, maximizing recoveries for creditors.

79. I believe that payment of the Trade Claims as they become due in the ordinary course of business is a sound exercise of the Debtors' business judgment because doing so will avoid value-destructive business interruption. The goods and services secured by

satisfaction of the Trade Claims are necessary for the continued operation of the Debtors' business. Authority to pay the Trade Claims as they come due will assist the smooth transition into and out of these chapter 11 cases and will ensure the Debtors' continued operation during the intervening period. I believe that failure to pay the Trade Claims as they become due may result in an inability to secure vital goods and services required to maintain the Debtors' corporate and field operations, potentially damaging the Debtors' going-concern value and jeopardizing a sale of substantially all the Debtors' assets, to the detriment of the Debtors' estates, their stakeholders, and all parties in interest.

Motion of Debtors for Interim and Final Orders (I) Authorizing Debtors to (A) Continue Existing Cash Management System, (B) Maintain Existing Business Forms and Bank Accounts, and (C) Continue Intercompany Arrangements, (II) Waiving Requirements of Section 345(b) of the Bankruptcy Code; and (III) Granting Related Relief Pursuant to Sections 105(a), 345(b), 363(b)(1) and 363(c)(1) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004

80. Through this motion (the "**Cash Management Motion**"), the Debtors request (I) interim and final authority to (a) continue their existing cash management system; (b) continue using their existing business forms and bank accounts; and (c) continue to perform intercompany transactions (i) among the Debtors and (ii) between the Debtors and non-Debtor affiliate AME; and (II) a waiver of the requirements of section 345(b) of the Bankruptcy Code. The Debtors also request that the Court authorize the banks to continue to charge bank fees and to charge back returned items to the Bank Accounts (as defined below), whether such items are dated before, on, or after the Petition Date.

81. The Debtors utilize a centralized cash management system (the "**Cash Management System**") to operate their businesses in the ordinary course. The Cash Management System is comprised 13 active bank accounts (each, a "**Bank Account**" and, collectively, the "**Bank Accounts**"). A list of the Bank Accounts is attached to the Cash

Management Motion as **Exhibit 1**. Twelve of the Bank Accounts are held at Wells Fargo and one is held at Chase. The Cash Management System has several main components: (i) cash collection, including the collection of payments made to the Debtors from revenue generated in the ordinary course of business; (ii) cash transfers among the Debtors and non-Debtor affiliate AME; and (iii) cash disbursements that fund the Debtors' business operations and debt obligations. A diagram depicting the Cash Management System, including the flow of funds between the Bank Accounts, is attached as **Exhibit 2** to the Cash Management Motion. Additionally, the Debtors use the Cash Management System to facilitate cash monitoring, forecasting, and reporting.

82. Upon my review of the relevant account documents, each of the banks is designated as an authorized depository by the Office of the United States Trustee for Region 7 pursuant to the U.S. Trustee's Operating Guidelines for Chapter 11 Cases (the "**UST Operating Guidelines**"). Furthermore, my review of the account documentation obtained from various Banks showed that all of the Debtors' accounts are deposit accounts, and none of the Debtors funds are invested in money market funds. Accordingly, the Debtors comply with the requirements of section 345(b) of the Bankruptcy Code.

83. In the ordinary course of business, the Debtors engage in various transactions among themselves that result in intercompany receivables and payables ("**Debtor Intercompany Claims**" or "**Debtor Intercompany Transactions**").

84. Debtor Intercompany Transactions are not settled by actual transfers of cash among the Debtors. The Debtors track all Debtor Intercompany Transactions electronically in their accounting system, which concurrently are recorded on the applicable Debtor's balance sheets and regularly reconciled. The accounting system requires that all general-ledger entries be

balanced at the legal-entity level, and, therefore, when the accounting system enters an intercompany receivable on one entity's balance sheet, it also automatically creates a corresponding intercompany payable on the applicable affiliate's balance sheet. This results in a net balance of zero when accumulating all intercompany accounts.[14]

85. The Debtors maintain records of all transactions processed through their Cash Management System. During these chapter 11 cases, the Debtors will keep records of any postpetition Debtor Intercompany Transactions and implement accounting procedures to identify and distinguish between prepetition and postpetition Debtor Intercompany Transactions.

86. As discussed above, Azure General Partner and AME (a non-Debtor affiliate), are parties to that certain Omnibus Agreement dated as of February 27, 2015. Under the Omnibus Agreement, AME (a) procures insurance coverage on behalf of the Debtors and pays all related costs related to such coverage (the "**Insurance Coverage**"); (b) pays certain costs related to the Debtors' employees, including wages, payroll taxes, and other related administrative costs (the "**Payroll Obligations**"); (c) pays certain of the Debtors' general administrative costs, including real property and equipment lease obligations, supplies, utilities, and property taxes (the "**G&A Obligations**"); and (d) pays certain costs related to services provided by third parties for the benefit of the Debtors, including outside audit services, outside legal services, the Purchase Card Program (as defined below), and other services (the "**Third-Party Services**", and, together with the Payroll Obligations, the Insurance Coverage, and the G&A Obligations, the "**Covered Services**"). A detailed list of the Insurance Coverage procured by AME is attached to the Insurance Motion as **Exhibit 3** (the "**Insurance Summary**"). The

[14] For example, if Marlin Midstream, LLC makes a disbursement into the Concentration Account in order to pay a vendor on behalf of Azure TGG, LLC, the Debtors' accounting system automatically enters an intercompany receivable on Marlin Midstream, LLC's balance sheet and an intercompany payable on Azure TGG, LLC's balance sheet.

Debtors directly cover all costs for all Employees that relate to (a) paid time off including sick days and vacation days, short-term disability benefits (includes maternity leave), bereavement leave, jury duty leave, and military leave; (b) medical, dental, vision, and prescription drug benefits, life insurance, accidental death and dismemberment insurance, long-term disability, and health savings accounts; and (c) any matching contributions pursuant to the Debtors' 401(k) plan (collectively, the "**Employee Benefits**").[15] Any Employee Benefits that are allocable to AME on account of the Shared Employees or the Employees who provide services exclusively to AME are credited against the Debtors' reimbursement obligations under the Omnibus Agreement.

87. AME funds the Debtors' Payroll Obligations (including all related tax obligations) by initiating a transfer from an account at Chase held in the name of AME (the "**Chase Concentration Account**") to another Chase account held in the name of Azure General Partner (the "**Payroll Disbursement Account**"). Azure General Partner disburses funds every two weeks from the Payroll Disbursement Account to ADP in connection with third-party payroll services and taxes.

88. Under the Omnibus Agreement, AME invoices the Debtors on the 25th day of each month for reimbursement of all costs associated with provision of the Covered Services. As discussed above, on a monthly accrual basis, the Debtors credit Employee Benefits that are allocable to AME on account of the Shared Employees or the Employees who provide services exclusively to AME against the Debtors' reimbursement obligations under the Omnibus Agreement, thereby reducing the amount of the Omnibus Transfers. The terms of the Omnibus Agreement require the Debtors to reimburse AME on account of the invoices no later than the fifth day following receipt. All reimbursements made pursuant to the Omnibus Agreement are

[15] The Employee Motion contains a more detailed discussion of the Employee Benefits.

made by ACH Transfer (the "**Omnibus Transfers**," and, together with the Debtor Intercompany Transactions, the "**Intercompany Transactions**") directly from the Concentration Account to the Chase Concentration Account.

89. For the six-month period preceding the Petition Date, the average monthly Omnibus Transfer Amount was $968,718. As of the Petition Date, nothing is outstanding under the Omnibus Agreement on account of the Covered Services, as the Debtors made a payment for the January Covered Services on January 25, 2017. The Debtors anticipate that in the 21 days following the Petition Date, an additional $445,317 in obligations under the Omnibus Agreement will accrue, but the Debtors do not anticipate needing to make a payment under the Omnibus Agreement to AME in advance of a final hearing regarding the Debtors' Cash Management System.

90. Ninety-two of the Debtors' employees participate in the Purchase Card Program (the "**Purchase Card Participants**"). Purchase Card Participants are assigned a Purchase Card and associated spending limit according to job function and management estimates of monthly spending requirements. Eighty of the Purchase Card Participants hold Purchase Cards with credit limits ranging from $500 through $5,000, eleven hold Purchase Cards with limits ranging from $5,001 through $15,000, and one Purchase Card Participant holds a Purchase Card with a $50,000 spending limit. In the six months before the Petition Date, the Debtors' average monthly obligation in connection with the Purchase Card Program was approximately $41,043. Purchase Card Program Participants are required to submit monthly expense reports (the "**Expense Reports**") to their managers detailing their usage of the Purchase Cards. AME directly pays the invoices related to the Purchase Card Program through the Chase

Concentration Account. The Debtor then reimburse AME under the Omnibus Agreement for the amounts allocable to the Debtors.

91. The Debtors' business operations are spread out across Texas, New Mexico, Louisiana, Utah, and Wyoming. As a result, Debtors rely on the ability of their employees to pay for travel expenses and to make other reasonable work-related purchases necessary to fulfill their day-to-day professional obligations. I believe that permitting the Debtors to continue using the Purchase Cards will ensure that the Debtors' employees are able to fulfill their daily professional obligations and, in turn, prevent significant disruption to the Debtors' business operations.

92. I believe that the Intercompany Transactions, including the ability to continue making Omnibus Transfers pursuant to the Omnibus Agreement, are integral to the Debtors' ability to operate their businesses while in chapter 11.

93. In the ordinary course of business, the Debtors incur and pay, honor, or allow to be deducted from the appropriate Bank Accounts certain service charges and other fees, costs, and expenses charged by the Banks (collectively, the "**Bank Fees**"). The Bank Fees currently average approximately $10,295 per month to the Debtors' Banks. The Debtors estimate that they owe approximately $6,875 in Bank Fees as of the Petition Date. To maintain the integrity of their Cash Management System, the Debtors request authority to pay the full amount of the Bank Fees during the Interim Period, including fees for prepetition transactions that are charged postpetition, and to continue to pay the Bank Fees in the ordinary course of business postpetition. The Debtors also request that the Banks be authorized to charge-back returned items to the Bank Accounts, whether such items are dated before, on, or after the Petition Date, in the ordinary course of business and consistent with prior practice.

94. I believe that the Cash Management System constitutes an ordinary-course, essential business practice providing significant benefits to the Debtors, including, among other things, the ability to control corporate funds, ensure maximum availability of funds when and where necessary, and reduce borrowing costs and administrative expenses by facilitating the movement of funds and the development of more timely and accurate account balance information.

Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors To (A) Pay Prepetition Wages, Salaries, Employee Benefits, and Other Compensation, (B) Maintain Employee Benefit Programs and Pay Related Administrative Obligations, and (C) Pay Temporary Employee Obligations, and (II) Directing Financial Institutions to Receive, Process, Honor, and Pay All Checks Presented for Payment and to Honor All Fund Transfer Requests Related to Such Obligations Pursuant to Sections 105(a), 363(b), and 507 of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004

95. In this motion (the "**Employee Motion**"), the Debtors request authority to: (i) pay, in their sole discretion, prepetition obligations relating to Base Compensation Obligations, Payroll Servicer Fees, Payroll Taxes, Severance Obligations (if any, pursuant to a final order), and Mileage Reimbursements (each as defined below and related expenses, and fees and costs incident to the foregoing) (collectively, the "**Employee Obligations**"); (ii) maintain and continue to honor and pay, in their sole discretion, amounts with respect to the Debtors' business practices, programs, and policies for their employees (the "**Benefits Plans**") as currently in effect and as may be modified or supplemented from time to time in the ordinary course of business; and (iii) pay, in their sole discretion, pre- and postpetition obligations for Temporary Employees.

96. The Debtors employ approximately 96 employees (the "**Employees**"), all but one on a full-time basis. The Employees are located in Texas (72), Louisiana (22), and Utah (2). The majority of Employees provide operational services at the Debtors' processing plants and gas gathering systems in East Texas and Northern Louisiana. Two Employees provide

operational services at the Debtors' crude oil transloading facilities in Utah. The remaining Employees provide a variety of management, administrative, and other support services in the Debtors' offices in Dallas and Katy, Texas.

97. All Employees are legally employed by Debtor Azure General Partner, though some provide services to the Non-Debtor Affiliate Company, for which the Non-Debtor Affiliate Company pays. Specifically, 38 Employees provide services exclusively to the Debtors (the "**Dedicated Employees**"), 26 Employees provide services exclusively to the Non-Debtor Affiliate Company, and 32 Employees provide services to both the Debtors and Non-Debtor Affiliate Company (the "**Shared Employees**"). AME funds payroll-related obligations for all Employees by depositing funds into a bank account of Azure General Partner prior to each semi-monthly payroll period. Azure General Partner uses these funds to satisfy payroll obligations on the fifteenth and the final day of each month. As discussed above, pursuant to the Omnibus Agreement, the Debtors are obligated to reimburse AME or its affiliates for amounts paid by AME on account of Dedicated Employees and for the Debtors' *pro rata* share of amounts paid by AME on account of Shared Employees. With respect to certain benefits plans the "**Benefits Plans**"), however, the Debtors initially pay premiums and other expenses for all Employees, and, in turn, are reimbursed on a monthly basis by the Non-Debtor Affiliate Company for its allocated portion.[16]

98. As the legal employer of all Employees, the Debtors are obligated to pay base compensation for all Employees (the "**Base Compensation Obligations**"). In the ordinary course of business, and in addition to the Employees, the Debtors also rely on the services of

[16] In practice, prior to the Debtors' reimbursement of AME for their portion of the payroll obligations, the Monthly Omnibus Payment is reduced by the Non-Debtor Affiliate Company's monthly reimbursement obligation to the Debtors for its portion of, among other things, the health and welfare benefits.

approximately 20 individuals as temporary employees (each, a "**Temporary Employee**") to conduct their business operations. The Debtors contract with external employment agencies to hire Temporary Employees when it is efficient or cost-effective to do so.

99. As of the Petition Date, the Debtors owe approximately $240,000 in prepetition Base Compensation Obligations to Employees and seek authority to pay them pursuant to the Employee Motion. The Debtors estimate that, as of the Petition Date, they owe approximately $117,000 on account of prepetition Temporary Employee obligations and seek authority to pay them pursuant to the Employee Motion. No proposed payments to be made to any individual Employee on account of Base Compensation Obligations will exceed the $12,850 priority cap imposed by section 507(a)(4) of the Bankruptcy Code. The various components of the Prepetition Employee Obligations are described in further detail in the Employee Motion.

100. It is my understanding that in these chapter 11 cases, prepetition Employee Obligations constitute priority claims under sections 507(a)(4) and (a)(5) of the Bankruptcy Code. As of the Petition Date, the Debtors do not owe any Employee or Temporary Employee an amount in excess of $12,850 or an amount that falls outside of the statutory priorities granted in sections 507(a)(4) and (a)(5).

101. In my opinion, Employees and Temporary Employees are the most important parts of the Debtors' business. Any delay in paying or failure to pay Employee Obligations or Temporary Employee Obligations could irreparably impair the morale of the Debtors' workforce at the time when their dedication, confidence, retention, and cooperation are most crucial. It could also inflict a significant financial hardship on their families. The Debtors cannot risk such a substantial disruption to their business operations, and it is inequitable to put the Debtors' Employees at risk of such hardship. Moreover, the Debtors intend to file a motion

seeking approval of auction procedures and a sale of substantially all of their assets in an expeditious manner under section 363 of the Bankruptcy Code. The proposed asset sale transaction will maximize value for the Debtors' estates and provide the funds necessary to confirm a chapter 11 plan. Payment of the Employee Obligations will enable the Debtors to maintain the assets and focus on the sale and confirming a chapter 11 plan to the benefit of all key stakeholders. Furthermore, it is my understanding that the Debtors are legally obligated to satisfy Payroll Obligations for all Employees. Failure to timely pay Employee Obligations and Temporary Employees Obligations may place the Debtors in violation of the law, potentially creating additional unnecessary liabilities.

102. Moreover, I believe that reimbursement of Expenses is necessary because any other treatment of Employees would be highly inequitable. Employees who have incurred Expenses should not be forced personally to bear the cost of the Expenses, especially because the Employees incurred the Expenses for the Debtors' benefit, in the course of their employment by the Debtors, and with the understanding that they would be reimbursed for doing so.

103. Further, I believe, payment of Payroll Servicer Fees is also necessary and appropriate. Without the continued service of these administrators, the Debtors will be unable to honor their obligations to Employees under the Benefits Plans in an efficient and cost-effective manner. The Debtors do not seek to alter any of Benefit Plans pursuant to the Employee Motion. Rather, the Employee Motion only seeks permission for the Debtors, in their discretion, to (i) make payments consistent with existing policies to the extent that such payments could otherwise be inconsistent with the provisions of the Bankruptcy Code and (ii) continue to honor practices, programs, and policies with respect to Employees as such were in effect before the Petition Date.

104. The Debtors are required by law to withhold from the Employees' salaries and wages certain amounts related to federal, state, and local income taxes, social security taxes, Medicare taxes (each, a "**Withholding Tax**"). The Debtors are also required to make certain additional payments from their own funds in connection with the Withholding Taxes which include matching payments on account of social security and Medicare taxes and, subject to certain limitations, additional amounts based upon a percentage of gross payroll for, among other things, state and federal unemployment insurance (collectively, the "**Contribution Taxes**;" together with each Withholding Tax, the "**Payroll Taxes**"). I believe that Payment of Payroll Taxes would not prejudice other creditors because Payroll Taxes generally give rise to priority claims under section 507(a)(8) of the Bankruptcy Code. In any event, Payroll Taxes that the Debtors withhold are held in trust for the Taxing Authorities. The withheld funds are not property of the Debtors' estates under section 541 of the Bankruptcy Code.

Emergency Motion of Debtors (I) Authorizing Debtors' Limited Use of Cash Collateral, (II) Granting Adequate Protection to Prepetition Secured Parties, (III) Modifying the Automatic Stay, and (IV) Scheduling a Final Hearing Pursuant to Sections 105, 361, 362, 363, and 507 of the Bankruptcy Code and Bankruptcy Rules 2002, 4001, 6003, 6004, and Bankruptcy Local Rule 4001-1

105. In this motion (the "**Cash Collateral Motion**"), the Debtors request entry of interim and final orders (each, a "**Cash Collateral Order**") authorizing the Debtors, pursuant to Bankruptcy Code sections 105, 361, 362, 363, and 507 to (i) use cash collateral, as such term is defined in section 363(a) of the Bankruptcy Code ("**Cash Collateral**"), and other Prepetition Collateral solely in accordance with the terms of the interim order (the "**Interim Order**"), including the weekly cash disbursements and receipts budget annexed thereto (as such budget may be modified from time to time by the Debtors with the prior written consent of Wells Fargo Bank, National Association, as administrative agent (the "**Budget**")); (ii) subject to entry of the Final Order, and except to the extent of the Carve-Out (as defined in the Cash Collateral

Motion), authorization to grant adequate protection liens on the proceeds and property recovered in respect of the Debtors' claims and causes of action (but not on the actual claims and causes of action) arising under sections 544, 545, 547, 548, 549, and 550 of the Bankruptcy Code, or any other similar state or federal law; (iii) provide adequate protection to the Administrative Agent under the Credit Agreement and the Lenders; (iv) modifying the automatic stay imposed by section 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms and provisions of the Interim Order and Final Order, (v) subject to entry of the Final Order, except to the extent of the Carve Out (as defined in the Cash Collateral Motion), waiving all rights to surcharge any Prepetition Collateral or Collateral (as defined in the Cash Collateral Motion) under sections 506(c) or 552(b) of the Bankruptcy Code or any other applicable principle of equity or law; and (vi) waiving any applicable stay with respect to the effectiveness and enforceability of the Interim Order or the Final Order (including a waiver pursuant to Bankruptcy Rule 6004(h)).

106. The Debtors require immediate access to liquidity to ensure that they are able to continuing operating during these chapter 11 cases, pursue their sale strategy, and to preserve the going concern value of their estates for the benefit of all parties in interest. Substantially all of the Debtors' total cash on hand as of the Petition Date, approximately $6 million is subject to the liens of the Lenders and thus constitutes Cash Collateral. I have determined that this existing cash, together with cash generated from operations, will be sufficient to operate the Debtors' businesses and continue paying their debts as they come due during these chapter 11 cases. However, without a prompt grant of authority to use their cash according to these terms, the Debtors will be unable to satisfy trade payables incurred in the ordinary course of business, preserve and maximize the value of their estates, implement their

sale process, and administer these chapter 11 cases, which would cause immediate and irreparable harm to the value of the Debtors' estates to the detriment of all stakeholders. Conversely, I believe that immediate access to Cash Collateral will permit the Debtors to continue to operate as they did prepetition while they implement their chapter 11 process. For these and other reasons, I have determined that use of Cash Collateral in accordance with the terms of the Cash Collateral Orders is essential to the Debtors' ability to minimize disruptions and maximize value for their estates and parties in interest.

107. The arrangements for consensual use of Cash Collateral authorized under the interim Cash Collateral Order represent a flexible, interim solution to the Debtors' near-term liquidity needs. The consensual use of Cash Collateral preserves the status quo while providing the Debtors with sufficient liquidity to fund their businesses and to pursue and consummate a successful sale process

108. I believe that the proposed Adequate Protection Package (as defined in the Cash Collateral Motion) is necessary and sufficient for the Debtors to continue to use Cash Collateral. Further, the Administrative Agent has agreed to the Adequate Protection Package provided in the Cash Collateral Orders. It is also my belief, and the Debtors' conclusion, in an exercise of their business judgment and following good-faith, arms' length negotiations, that the Administrative Agent would only consent to the Debtors' use of Cash Collateral subject to the terms and protections included in the Cash Collateral Orders, including the Significant Provisions (as defined in the Cash Collateral Motion). In my opinion, the consensual use of Cash Collateral on the terms set forth in the Cash Collateral Orders is unquestionably the Debtors' best postpetition financing option available and the Debtors respectfully request that the Court authorize such use.

109. It is my belief that an orderly transition into chapter 11 is critical to maximizing the Debtors' going concern value. Any delay in granting the relief request in the Cash Collateral Motion could hinder the Debtors' business operations, cause immediate and irreparable harm to the Debtors' estates, and thereby threaten the success of the Debtors' chapter 11 process.

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

Dated: January 30, 2017
Houston, Texas

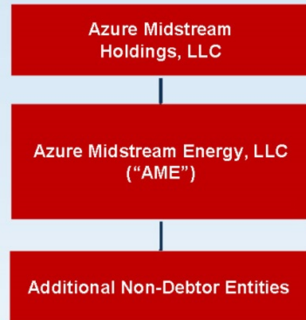
/s/ Ed Mosley
Name: Ed Mosley
Title: Managing Director,
Alvarez & Marsal North America, LLC

Exhibit A

Corporate Structure Chart

Corporate Organizational Structure

"Non-Debtor Affiliate Company"



Debtor

Non-Debtor Affiliate

"Debtors" or "Company"