

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

In re

GameTech International, Inc., *et al.*<sup>1</sup>

Debtors.

Chapter 11

Case No. 12-11964 (PJW)

(Jointly Administered)

**DECLARATION OF SUDHIN ROY  
IN SUPPORT OF DEBTORS' MOTIONS FOR USE OF CASH COLLATERAL  
AND DEBTOR-IN-POSSESSION SECURED FINANCING**

Sudhin Roy hereby declares, under penalty of perjury, as follows:

1. I am Senior Managing Director of Kinetic Advisors LLC (“**Kinetic**”).<sup>2</sup> I submit this declaration (the “**Declaration**”) in support of (a) the *Debtors’ Emergency Motion for Entry of Emergency and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363(c), 364(c)(1), 364(c)(2), 364(d)(1), 364(e), and 507 and Bankruptcy Rules 2002, 4001 and 9014: (I) Authorizing the Debtors to (A) Obtain Priming Post-Petition Secured Financing; (B) Utilize Cash Collateral; and (C) Pay Certain Related Fees and Charges; (II) Granting Adequate Protection to Pre-Petition Secured Lender; and (III) Scheduling a Final Hearing* [Docket No. 100] (the “**DIP Financing Motion**”) and (b) the *Motion of the Debtors and Debtors-in-Possession for Entry of Interim and Final Orders (I) Authorizing the Use of Cash Collateral, (II) Granting Adequate Protection Pursuant to 11 U.S.C. §§351, 362, 363 and 507 and (III)*

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<sup>1</sup> The Debtors in these chapter 11 Cases, along with the last four digits of each Debtor's federal tax identification number, are GameTech International, Inc. (2983), GameTech Arizona Corp. (9812), GameTech Canada Corp. (0001), and GameTech Mexico S. De R.L. de C.V. (5419).

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the DIP Financing Motion.

*Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001(b) and Local Rule 4001-2* [Docket No. 11] (the “**Cash Collateral Motion**”).

2. I have approximately 15 years of experience in corporate restructuring, mergers and acquisitions, and capital raising for middle-market companies. I have held my current position with Kinetic since 2009. Prior to joining Kinetic, I worked at Oracle Partners, LLC, which is a private equity fund of which I was a founder. Oracle was an investor in numerous companies needing growth capital or facing turnaround situations. From 2001 to 2006, I served as President and Chief Executive Officer of PricewaterhouseCoopers Securities LLC where I led a team of investment bankers and restructuring advisors. At PricewaterhouseCoopers, I focused on financial advice to middle-market companies needing services related to capital raising, mergers and acquisitions, restructuring and bankruptcy. I hold a Bachelor of Technology in Chemical Engineering from the Indian Institute of Technology and a Master of Business Administration from the University of Texas at Austin.

3. Kinetic was retained by the above-captioned debtors and debtors-in-possession (collectively, the “**Debtors**”) on March 1, 2012, to assist in the evaluation of strategic alternatives and to render financial advisory services to the Debtors including restructuring and capital raising services, as well as a possible sale of the company. In late April 2012, Kinetic was retained to provide consulting services to the Debtors relating to the Debtors’ loan agreement.. The Debtors have also filed an application to retain Kinetic as their financial advisors in these chapter 11 cases.

4. Since the commencement of its engagement, Kinetic has, among other things, (a) familiarized itself with the Debtors’ businesses, (b) evaluated the Debtors’ liquidity position and

projected cash flow, (c) evaluated the range of financial and strategic alternatives available to the Debtors, and (d) performed a valuation of the Debtors' businesses.

5. I am familiar with the Debtors and their businesses as well as the Debtors' activities in these chapter 11 cases. I have supervised or been involved with each of the tasks performed by Kinetic set forth above including supervising the valuation of the Debtors' businesses undertaken by Kinetic. I, or people from Kinetic working at my direction, have assisted the Debtors' management with the preparation of the Debtors cash flow budgets and the financial information submitted in connection with the Cash Collateral Motion and DIP Financing Motion.

## **BACKGROUND**

### **A. Overview of these Cases**

6. Since shortly after the Petition Date, the Debtors have been attempting to negotiate with the Trust on the terms of (a) a stalking horse purchase agreement and a related bidding procedures and sale motion and (b) the necessary financing to support these cases and the proposed sale process. To date, although some progress has been made, the Debtors have been unable to reach agreement with the Trust.

7. It has been clear throughout the negotiations with the Trust that the objective of the Trust is, as it was prior to the Petition Date, to acquire the Debtors' assets quickly and at a discounted price by leveraging its position as a secured lender. To date, the Trust has been unwilling to allow the Debtors the time or provide the funding to run a process that will result in the maximum value for the Debtors' assets.

**B. The Debtors' Use of Cash Collateral**

8. As set forth in the DIP Motion, the Debtors have been operating on Cash Collateral since the Petition Date. It is my understanding that the Debtors' authorization to use cash collateral would expire on August 8, 2012 absent further extension.

9. Since the Petition Date, Cash Collateral has been the Debtors' sole source of funding for their operations and the costs of administration of these cases. The Debtors' ability to use their cash and cash collateral is and will continue to be critical to the Debtors' ability to continue operations as a going concern during the course of these chapter 11 cases and to pursue a sale or a restructuring. The Debtors' use of Cash Collateral, supplemented by the DIP Facility if it is approved, has been and will be used to fund ongoing working capital needs of the Debtors including, but not limited to, employee payroll expenses, certain obligations to the Debtors' vendors, suppliers, customers, and taxing and regulatory authorities, fees payable to the United States Trustee, expenses of professionals retained at the expense of the estates, and other costs of administering the Debtors' estates.

**C. Valuation of the Debtors and Business Plan Projections**

10. It is my view that the value of the Debtors' business is substantially in excess of both the amounts outstanding under the Prepetition Loan Agreement and the value being offered by the Trust. While the Debtors' business has been starved of liquidity for the past two years and is currently operating in chapter 11, it is my view that the Debtors' market position and relationships with their customers remain strong.

***The Projections***

11. The Debtors have developed projections that are based on additional capital investment into the business resulting in increased operating revenue and a stronger business that could be reorganized or sold at substantially higher value than being offered by the Trust (the

“Projections”). The Projections were prepared under the assumption that the Debtors are successful in obtaining the DIP Facility requested in the DIP Motion, as well as adequate financing on a going forward basis to provide working capital availability.

12. The Projections also assume purchases of inventory and components in the VLT Business of approximately \$2,800,000 over the next six months. The Debtors’ VLT Business has underperformed in the past primarily due to the inability of the Debtors to purchase the machines (i.e. inventory) to allow them to sell to customers. Therefore, the bulk of the investment in the VLT Business will be primarily in the form of purchases of inventory that can then be sold to the Debtors’ existing customers generating additional revenue.

13. The Projections also assume that the VLT Business will begin to generate cash flow from the sale of the VLT equipment within the first two to three months after the purchases are made. The VLT Business has attractive margins which mean that the Debtors can generate substantial cash from this relatively modest investment.

14. The Debtors then intend to make investments in the Bingo portion of the business which will result in further increases in value. The capital for those investments will come from post-petition financing, certain IP intellectual property licensing deals and/or from the return on investment in the VLT Business.

### ***Valuation***

15. Kinetic has prepared a valuation of the Debtors’ businesses as of August 1, 2012. To arrive at its valuation range, Kinetic interviewed members of the Debtors’ management, reviewed the Projections, reviewed publically available information for companies that Kinetic believed were comparable to the Debtors, reviewed publically available information for

transactional data in the Debtors' market sector, and reviewed such other information as Kinetic deemed appropriate.

16. In performing its valuation, Kinetic undertook customary valuation analyses including a discounted cash flow analysis, a comparable public company analysis, and a comparable transaction analysis. Kinetic relied primarily on the discounted cash flow analysis in arriving at its determination of value.

17. Based on its analysis, Kinetic determined that the value of the Debtors' business was between \$24,000,000 to \$29,000,000 as of August 1, 2012, which equates to an approximate equity cushion of \$7.5 million to \$12.5 million over the Prepetition Indebtedness. The DIP Motion stated an equity cushion of \$6.5 million to \$8.5 million out of an abundance of caution because the Kinetic valuation report was not complete.

**D. The Marketing Process for DIP Financing and the Proposed DIP Facility**

18. Since the Petition Date, the Debtors, with the assistance of Kinetic, have assessed the financing needs of the Debtors and explored various financing alternatives. The Debtors solicited numerous proposals for debtor-in-possession financing from parties including their Prepetition Agent. Kinetic contacted more than twenty parties, including traditional lenders, equity shareholders, strategic investors, and various non-traditional capital sources.

19. These efforts resulted in a proposal from Gibraltar Business Capital (the "**DIP Lender**") and a term sheet from the Prepetition Agent. After carefully considering the proposal by the DIP Lender and evaluating it against the proposal provided by the Prepetition Agent, the Debtors and Kinetic believe that the proposal by the DIP Lender provides the most advantageous and flexible terms available for the Debtors' estates. Accordingly, the Debtors negotiated and reached agreement to enter into, subject to Court approval, a senior secured credit facility in the amount of \$2,500,000 subject to the terms and conditions detailed in the DIP Financing Motion

(the “**DIP Facility**”) with the DIP Lender and to prime the Prepetition Senior Liens on a non-consensual basis in favor of the DIP Lender’s liens on all of the Debtors’ assets (the “**DIP Liens**”).

20. The DIP Facility includes: (i) on an interim basis, a factoring agreement whereby the DIP Lender will make advances to the Debtors up to a total of \$500,000 for the period from August 7, 2012 through August 21, 2012 pursuant to a Revolving Accounts Receivable Funding Agreement and Demand Note (the “**Interim DIP Facility**”); and (ii) a final revolving loan facility whereby the DIP Lender will provide financing in the aggregate amount of \$2,500,000 to the Debtors (the “**Final DIP Facility**”). Amounts outstanding under the Interim DIP Facility will be rolled into and become part of the Final DIP Facility. The terms of the DIP Facilities are detailed more fully in the DIP Financing Motion.

21. In order to satisfy the requirements of section 364(c) and (d) of the Bankruptcy Code in respect of the DIP Facility and proposed grant of senior secured priming liens to the DIP Lender on all assets and property of the Debtors, the Debtors understand that adequate protection is required to be provided to the Prepetition Agent in respect of its interests in such assets and properties.

22. The Debtors assert that the Prepetition Agent has a significant equity cushion in the Prepetition Collateral. Based on the valuation prepared by Kinetic and described herein, the valuation range of the Debtors is \$24 to \$29 million and provides the Prepetition Agent with a significant equity cushion of between \$7.5 and \$12.5 million above the Debtors’ obligations under the Prepetition Loan Documents. The Debtors also intend to (i) pay interest to the Prepetition Agent at the default rate during these cases as additional adequate protection and (ii)

provide the Prepetition Agent with replacement liens on the Prepetition Collateral subordinate only to the DIP Liens and the Carve-Out.

**E. The Debtors' Need for DIP Financing**

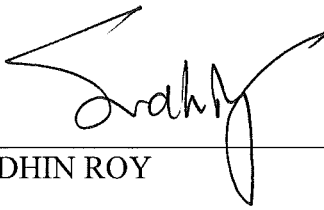
23. Approval of the Debtors' entry into the DIP Facility and continued use of Cash Collateral will provide the Debtors with immediate and ongoing access to cash and borrowing availability to pay their current and ongoing operating expenses as well as the administrative expenses in these cases. Unless these expenses are paid in the interim, it is likely that failure to pay such expenses will: (a) result in irreparable harm to the Debtors' businesses, (b) deplete the value of the Debtors' estates and quash the opportunity for a sale or reorganization, and (c) jeopardize the Debtors' ability to maximize the value of their estates. The credit provided under the DIP Facility together with continued use of Cash Collateral will enable the Debtors to preserve and enhance the value of their estates for the benefit of all stakeholders, and the interests of the Prepetition Agent in the Prepetition Collateral will be adequately protected.

24. Substantially all of the Debtors' assets are encumbered and the Debtors have been unable to procure the required funding absent granting the proposed priming liens pursuant to the DIP Facility. The Debtors have concluded that adequate and acceptable alternative financing on a non-priming basis and on terms more favorable than those being provided by the DIP Lender under the DIP Facility is currently not obtainable. As set forth above, the Debtors have contacted more than twenty parties and have not been able to obtain postpetition financing or other financial accommodations from any alternative prospective lender or group of lenders on more favorable terms and conditions than those for which approval in the DIP Motion.



I declare, pursuant to 26 U.S.C. § 1746, under penalty of perjury, that the foregoing is true and correct to the best of my information, knowledge and belief.

Dated: August 3, 2012



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SUDHIN ROY