UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION - DAYTON

In re:	)	Chapter 11
	)	
DT INDUSTRIES, INC., et al.,[1]	)	Case No. 04-
	)	(Jointly Administered)
Debtors.	)	
	)	Honorable _______

AFFIDAVIT OF JOHN M. CASPER, VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER OF DT INDUSTRIES, INC., IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST-DAY ORDERS

STATE OF OHIO	)	
	)	ss:
COUNTY OF MONTGOMERY	)	

John M. Casper duly sworn, states that the following is true to the best of his knowledge, information and belief:

1. I am the Chief Financial Officer and a Vice-President of DT Industries Inc., ("*DTI*"). DTI's executive offices are located at 907 W. Fifth Street, Dayton, Ohio 45407.

2. I have been employed by DTI as Vice President and Chief Financial Officer since January 22, 2001. I received a BS degree in 1968 from Drexel Institute of Technology, Philadelphia, PA, an MBA in 1970 from Oklahoma State University, Stillwater OK, and a MA-AMP 104 degree in 1989 from Harvard Advanced Management Program, Boston, MA. I am

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[1] The other Debtors and Debtors-in-possession include the following: Vanguard Technical Solutions, Inc., Mid-West Automation Enterprises, Inc., Mid-West Automation Systems, Inc., Assembly Technology and Test, Inc., Detroit Tool and Engineering Company, Advanced Assembly Automation, Inc., Assembly Machines, Inc., Hansford Manufacturing Corporation, DTI Leominster Subsidiary, Inc., DTI Pennsylvania Subsidiary, Inc., DTI Massachusetts Subsidiary, Inc., DTI Lebanon Subsidiary, Inc., and DT Resources, Inc.

familiar with the Debtors' day-to-day operations and business affairs and, as chief financial officer of DTI, I am familiar with the Debtors' books and records.

3. On or about May 12, 2004 (the "*Petition Date*"), the above captioned debtors and debtors-in-possession (collectively, the "*Debtors*") will file voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "*Bankruptcy Code*"). The Debtors intend to continue in the possession of their properties and the management of their business as Debtors-in-Possession ("*DIP*") pursuant to sections 1107 and 1108 of the Bankruptcy Code. In order to enable the Debtors to operate effectively and to mitigate any adverse effects of the chapter 11 filings, the Debtors will request various types of relief in applications and motions filed with the Court on the Petition Date.

4. I submit this affidavit in support of the Petition Date applications and motions in the above-captioned chapter 11 cases. Except as otherwise indicated, all facts set forth in this affidavit are based upon my personal knowledge, my review of relevant documents, or my opinion, based upon my experience and knowledge of the Debtors' operations and financial condition. If I were called upon to testify, I could and would testify competently to the facts set forth herein. I am authorized to submit this affidavit. Any capitalized term not expressly defined herein shall have the meaning set forth in the relevant first-day motion or application.

5. Part I of this affidavit describes the Debtors' businesses and the circumstances surrounding the filing of the Debtors' chapter 11 petitions. Part II sets forth the relevant facts in support of the Debtors' various applications and papers filed concurrently herewith.

I. BACKGROUND

A. Company Overview

6. DTI is an engineering-driven designer, manufacturer, and integrator of automated production equipment and systems used to manufacture a variety of industrial and consumer products. Headquartered in Dayton, Ohio, DTI is a Delaware corporation that was formed in 1992. Through its operating subsidiaries, DTI maintains operations throughout the Midwestern U.S., as well as the United Kingdom and Germany.

7. Customers of DTI are found in a wide variety of industries, including automotive, appliance and consumer products manufacturing, electronics, and computers, as well as a diverse group of other industrial manufacturers. DTI maintains a significant foothold in each of these end-markets, serving a high quality customer base of Fortune 500 companies through its industry-leading product quality and engineering capabilities. In addition, DTI's custom machine building capabilities, which are a critical component of its customers' overall manufacturing processes, include engineering, project management, machining and fabrication of components, installation of electrical controls, and final assembly and testing.

8. DTI's operations are composed of two separate operating segments – Assembly and Test and Detroit Tool & Engineering. The Assembly and Test operating segment is composed of Advanced Assembly Automation, Inc. ("*AAA*"), Assembly Technology & Test, Inc. ("*AT&T*") (both direct, wholly-owned subsidiaries of DTI), DT Assembly and Test GMBH, a German limited liability corporation that is a direct, wholly-owned subsidiary of DTI, and DT Assembly & Test Limited, an English corporation that is an indirect, wholly-owned subsidiary of DTI. The business units in the Assembly and Test segment design and build custom assembly systems, electrified monorail material handling systems, fuel injection, engine and transmission test systems, and lean assembly systems primarily for customers in automotive-related and heavy

equipment markets. The businesses in DTI's Assembly and Test segment work closely with their customers to design, engineer, assemble, test, and install equipment that meets the customers' manufacturing objectives. Purchase contracts typically include equipment design, and customers often retain rights to the design after delivery of the equipment. However, DTI often reapplies the engineering and manufacturing expertise gained in designing and building equipment in projects for other customers.

9. The Detroit Tool & Engineering operating segment consists of Detroit Tool and Engineering Company ("*DTE*"), a direct, wholly-owned subsidiary of DTI which manufactures special machines, automated systems, tooling and fixturing, and the Peer(™) brand of automated welding equipment. DTE's products serve a wide variety of markets, including appliances, electronics, building construction, hardware, cosmetics, healthcare, and automotive. DTE's special automation equipment incorporates engineering capabilities ranging from refining and replicating existing equipment, to designing and building new equipment. DTE provides systems integration and implements a wide range of applications including, dials, power and free, synchronous, indexing processes, metal forming, welding, and robotics.

10. The Debtors have approximately 481 employees, 15 of whom are at the corporate level. The Debtors' workforce is composed of 225 hourly and 256 salaried workers. The Debtors' workforce is highly skilled, with approximately one-third of their employees at all levels possessing an engineering background.

B. Prepetition Financing

11. DTI, DT Industries (UK) II, Limited, DT Assembly and Test GMBH, Kalish, Inc., and DT Canada, Inc., as borrowers (the "*Borrowers*"), and U.S. Bank National Association f/k/a Firstar Bank, N.A., Bear Sterns & Co., Hourglass Master Fund, Ltd., The Bank of Nova Scotia, William E. Simons & Sons Special Situation Partners, L.P., National City Bank and Oz

Special Master Fund, Ltd., as lenders (collectively, with Bank of America, N.A. (formerly Nations Bank, N.A.), the "*Lenders*"), and Bank of America, N.A., as a lender and agent for the Lenders, are parties to that certain Fourth Amended and Restated Credit Facilities Agreement dated as of July 21, 1997 (as amended and supplemented from time to time, the "*Credit Facilities Agreement*"), pursuant to which the Lenders have provided to the Borrowers credit facilities and other financial accommodations. Under the terms of the Credit Facilities Agreement, the Borrowers had an aggregate commitment of $175 million ($10 million of term loans and $165 million of revolving loans), which has, through subsequent amendments to the Credit Facilities Agreement, been reduced to $33.182 million.

12. The Credit Facilities Agreement is secured by pledges of all of the shares of common stock of Borrowers' North American subsidiaries, 65% of the equity of Borrowers' European subsidiaries, and security interests in all of Borrowers' U.S. and Canadian assets including, but not limited to, all accounts, inventories, machinery, equipment and intangible assets, as well as mortgages on real property located in Saginaw, Michigan, Benton Harbor, Michigan, and Lebanon, Missouri.

13. The Credit Facilities Agreement requires quarterly commitment reductions of $1.5 million with additional commitment reductions under certain circumstances. The Borrowers must repay amounts outstanding under the Credit Facilities Agreement to the extent the outstanding principal amount (including the face amount of outstanding letters of credit issued under the Credit Facilities Agreement) exceeds the Lenders' aggregate commitment after the required quarterly commitment reductions. As of May 10, 2004, there was a total of $32.781 million outstanding under the Credit Facility Agreement, which amount includes $1.967 million of letters of credit issued by the Lenders.

14. In addition to the credit facilities under the Credit Facilities Agreement, DTI, through DT Capital Trust, issued $70 million in 7.16% Term Interest Deferrable Equity Securities ("*Tides*") in 1997, of which $35 million in principal amount remain outstanding.

C. <u>Events Leading to the Filing of these Chapter 11 Cases</u>

15. Over the last several years, the Debtors have experienced deteriorating financial performance as a result of depressed economic activity and lower capital goods spending by their customers. As a result of their cash and revenue crisis, the Debtors have had difficulty meeting the financial covenants under the Credit Facilities Agreement, and failed to make timely prepayments required under the Credit Facilities Agreement as of December 31, 2003 and March 31, 2004. As part of an effort to restructure its finances, in 2002, DTI converted $35 million of the Tides to equity, raised approximately $22 million in additional equity, repaid a portion of the debt owed under the Credit Facilities Agreement, and extended the maturity thereof to July 2, 2004. Beginning in 2002 and continuing thereafter, the Debtors executed additional significant restructuring strategies including expense reduction initiatives, facilities closings, and divestitures that resulted in the sale of substantially all of the assets of DTI's Converting Technologies and Packaging Systems businesses in early 2004 and application of the proceeds to reduce the debt under the Credit Facilities Agreement. The Debtors are currently in default under their Credit Facilities Agreement due to the above-referenced failure to make timely required principal payments on December 31, 2003 and March 31, 2004. The Debtors are also currently in violation of several financial and other covenants under the Credit Facilities Agreement. The Debtors have been unable to negotiate a waiver of defaults or forbearance from the Lenders or obtain a replacement credit facility to replace their existing Credit Facilities Agreement, which expires July 2, 2004. The Debtors have no availability under the Credit Facilities Agreement's revolving line and have been operating since January 1, 2004 through the

management of their operating cash flow. The inability of the Debtors to access their credit facility has impaired their ability to obtain new customer orders and to pay vendors that have provided components and services on credit for completed projects. The Debtors' ability to meet their short-term liquidity needs and debt obligations have been materially adversely affected by a drop in new orders that are customarily accompanied by advance payments from customers.

16. The declining market and the Debtors' concomitant loss of revenue has made it difficult for the Debtors to continue operations and, at the same time, service their debt under the Credit Facilities Agreement. As a result, these chapter 11 filings were necessary.

II. FIRST-DAY MOTIONS AND APPLICATIONS

17. The success of the Debtors' cases is dependent on the relief requested in the Debtors' motions and applications submitted concurrently herewith. Therefore, the Debtors respectfully request that orders be entered for the reasons set forth below and in the applications and motions.

A. Retention of Katten Muchin Zavis Rosenman

18. The Debtors have selected the firm of Katten Muchin Zavis Rosenman ("*KMZR*") as attorneys because of the firm's experience with, and knowledge of, the Debtors, as well as KMZR's expertise in business reorganization under chapter 11 of the Bankruptcy Code.

19. KMZR attorneys Julia W. Brand, Kenneth J. Ottaviano and others have represented the Debtors in similar cases to the Debtors, including the preparation and filing of the chapter 11 petitions.

20. I believe that continued representation of the Debtors by KMZR is critical to the success of the Debtors' reorganization because KMZR has become uniquely familiar with the Debtors' businesses, legal affairs, financial structure and the issues which must be resolved.

21. KMZR has stated its desire and willingness to serve as general counsel in these cases and render the necessary professional services. I believe that KMZR is well qualified to render such services and, based on the Affidavit of Julia W. Brand, does not hold or represent an interest adverse to the Debtors. Accordingly, I believe that KMZR is both well qualified and uniquely able to represent the Debtors in these chapter 11 cases in a most efficient and timely manner.

B. Retention of Coolidge, Wall, Womsley and Lombard

22. The Debtors seek to retain Coolidge, Wall, Womsley and Lombard ("*Coolidge*") to act as co-bankruptcy counsel to the Debtors in connection with their chapter 11 cases. The Debtors anticipate that Coolidge's role will focus on those matters where KMZR is unable to represent the Debtors, and to provide and render certain general corporate legal advice and services. The services of Coolidge under a general retainer are necessary to enable the Debtors to execute faithfully their duties as DIP. Coolidge has stated its desire and willingness to serve as special counsel in these cases and render the necessary professional services. I believe Coolidge is well qualified to render such services and, based on the Affidavit of Ronald Pretkin, Esq., does not hold or represent an interest adverse to the Debtors.

C. Retention of Focus Management Group USA, Inc. as Financial Advisor

23. The Debtors retained Focus Management Group USA, Inc. ("*Focus*"), in April of this year. Since then, Focus has provided financial advice to the Debtors in connection with the filing of these bankruptcy cases and in the operation of their businesses while preparing for bankruptcy. The Debtors provided Focus with a $30,000 unapplied retainer on April 26, 2004, and a $125,000 unapplied retainer on May 6, 2004. Focus has not applied the retainer amounts to pay its fees or expenses. Focus began performing services for the Debtors on April 18, 2004 and has since received payments totaling $129,200.00 for fees and $11,204.53 for expenses. As

of the Petition Date, Focus has been paid for all Pre-Petition Date fees and expenses associated with the performance of services for the Debtors.

24. In connection with the pre-petition services performed for the Debtors, Focus has become familiar with the Debtors' business affairs, assets, liabilities and financial structure. I believe that Focus's familiarity and knowledge of the Debtors' businesses will be critical to the Debtors' efforts. Furthermore, Focus's professionals have extensive experience with representing companies similar to the Debtors and are well-suited to provide financial guidance and to advise the Debtors through the chapter 11 process. The Debtors propose retention pursuant to the terms and conditions of the existing agreement with Focus.

25. As detailed in the Affidavit of J. Tim Pruban in Support of Debtors' Application for Order Authorizing Debtors to Retain Focus Management Group USA, Inc. as Financial Advisor, to the best of the Debtors' current knowledge, information and belief, other than in assisting and advising the Debtors prior to the Petition Date, Focus has no conflicting connection with the Debtors, their creditors or any other party in interest herein, or their respective attorneys or accountants, or the United States Trustee or any person employed in the Office of the United States Trustee.

26. To the best of the Debtors' knowledge, information and belief, Focus does not represent and does not hold any interest adverse to the Debtors or their estates, creditors, or equity security holders in the matters for which Focus is proposed to be retained. Furthermore, Focus is a "disinterested person" within the meaning of sections 101(14) and 327 of the Bankruptcy Code, and its retention is in the best interests of the Debtors, their estates and their creditors.

27. For the Financial Advisory Services rendered to the Debtors during these chapter 11 cases, Focus's fees will be $400.00 per hour plus reasonable expenses.

28. Focus's compensation arrangement with the Debtors is consistent with, and typical of, arrangements entered into by Focus and other such firms with respect to rendering similar services for clients such as the Debtors. In addition, Focus will seek reimbursement of all reasonable out-of-pocket expenses incurred in connection with the Financial Advisory Services rendered to the Debtors, including but not limited to meals, transportation and lodging, and other travel expenses associated with the performance of services by consultants living outside of Dayton, Ohio or other locations where the Debtors conduct business, computer research, messenger services, and long-distance communication charges.

D. Retention of Houlihan Lokey Howard & Zukin as Investment Banker

29. I believe that it is necessary to retain Houlihan Lokey Howard & Zukin ("*HLHZ*") to assist the Debtors in facilitating an orderly sale of substantially all of their assets (the "*Transaction*"), and assisting the Debtors in relation to various issues that may arise during these chapter 11 proceedings, all as further described in the application for retention of HLHZ.

30. The Debtors have selected HLHZ as their investment banker because HLHZ has considerable familiarity with the Debtors' assets, business, and related financial and operational affairs having been employed by the Debtors in the months preceding the filing of the chapter 11 cases to assist in the marketing of the Debtors' assets. In addition, I believe that HLHZ possesses the requisite expertise to handle complex distressed sale transactions, including bankruptcy and reorganization matters associated therewith, as well as the vast spectrum of associated financial and valuation issues that often arise in reorganization cases.

31. Based upon the Affidavit of David J. Rosen (the "Rosen Affidavit,") the Debtors believe that HLHZ does not hold or represent any interest adverse to the Debtors, and that HLHZ and each of its directors, officers, consultants, associates, analysts and other professionals are each a "disinterested person" within the meaning of section 101(14) of the Bankruptcy Code.

32. Based upon the Rosen Affidavit, the Debtors believe that HLHZ's directors, officers, consultants, associates, analysts, and other professionals have no connection with the Debtors, any of the Debtors' subsidiaries or affiliates, any creditors of the Debtors, the United States Trustee for this District, or any person employed in the United States Trustee's office, or any other party in interest in the Debtors' chapter 11 proceedings, or their respective attorneys or accountants, except as set forth in the Rosen Affidavit.

33. HLHZ will seek compensation and reimbursement of expenses pursuant to the agreed-upon terms of the Letter Agreement (a copy of which was attached to the application for retention of HLHZ as Exhibit B). I believe that the terms of the Letter Agreement including, without limitation, the terms of the compensation, are reasonable and, therefore, should be approved by the Court.

34. A statement of the compensation paid for services rendered or to be rendered in contemplation of or in connection with this case by HLHZ, and the source of such compensation, is included in the Rosen Affidavit and the attached Letter Agreement.

35. As set forth in the Rosen Affidavit, during the period prior to the Petition Date, HLHZ was paid $250,000 under its prepetition engagement agreement for services on behalf of the Debtors and was reimbursed for $21,462.53 in out-of-pocket expenses associated therewith. These amounts represent payment in full for HLHZ's prepetition services and HLHZ waives any claim it might otherwise have for additional prepetition payments. As of the Petition Date, HLHZ will continue to be paid for postpetition investment banking services under the existing Letter Agreement between the Debtors and HLHZ.

36. Were the Debtors required to retain an investment banker other than HLHZ in connection with these cases, the Debtors, their estates, and all parties in interest would be unduly prejudiced by the time and expense necessarily attendant to such restructuring advisor's

familiarization with the intricacies of the Debtors' business in general, and various factual and financial issues that will have to be addressed in these cases.

E. Retention of Poorman-Douglas as Claims and Noticing Agent

37. There are thousands of creditors and other parties in interest in these chapter 11 cases located in the United States and overseas. The size of these cases and the large number of creditors may impose heavy administrative and other burdens on the Court and the Office of the Clerk of the Court (the "Clerk's Office"). To relieve the Clerk's Office of these burdens, the Debtors propose to engage Poorman-Douglas Corporation ("Poorman") as their notice agent and claims agent in these chapter 11 cases.

38. By appointing Poorman as the notice and claims agent in these chapter 11 cases, the Debtors' estates, and particularly the creditors, will benefit from Poorman's significant experience in acting as a notice and claims agent in other cases and the efficient and cost-effective methods that Poorman has developed.

39. Poorman is fully equipped to handle the volume involved in properly sending the required notices to and processing the claims of creditors and other interested parties in these cases. Poorman will follow the notice and claim procedures that conform to the guidelines promulgated by the Clerk of the Bankruptcy Court and the Judicial Conference.

40. Poorman's compensation is set forth on Schedule A to the Poorman Agreement, attached to the application to retain Poorman. I believe that the compensation to be paid to Poorman, as set forth in the Poorman Agreement, is reasonable in light of the services to be performed.

F. Key Employee Retention Program

41. The Debtors have designated the following employees to which the Key Employee Retention Program ("KERP") will apply: Steve Perkins, Jack Casper, John Baysore,

John Schott, Angie Young, Kelli Webb, Rita Deckard, John Deszcz, Steve Broaddus, Greg Wilson, Karl Frydryk, Dennis Dockins (collectively, the "Key Employees").

42. Retaining the Key Employees is critical to the successful operation of the Debtors' businesses. Indeed, the Debtors consider the Key Employees to be one of their most valuable assets. The Key Employees possess unique skills, knowledge, and experience that are vital to the Debtors' businesses, and, in many cases, impracticable to replicate given their familiarity with the Debtors' operations and the difficult circumstances under which the Debtors are currently operating.

43. I believe that it is necessary to pay to each Key Employee that is a corporate employee, his or her respective Stay Bonus as listed on Exhibit A to the motion seeking approval of the KERP upon the earlier of (i) ninety (90) days after the Petition Date; (ii) the conversion of the Debtors' bankruptcy cases to chapter 7 cases; or (iii) the closing of the sale of the Debtors Assembly and Test and Detroit Tool & Engineering Divisions. In addition, DTI's CEO, CFO, and the Division Presidents of Assembly and Test and Detroit Tool & Engineering are eligible for premium bonuses in the event that the sales of the Divisions results in sales in excess of a certain amount as set forth on Exhibit A to the motion seeking approval of the KERP.

44. Any Key Employee that voluntarily resigns from employment or is terminated for cause with the Debtors shall not qualify for payment of a Stay Bonus. If a Key Employee is terminated with out cause prior to the payment date, the Key Employee shall receive their stay bonus as provided in the KERP Motion.

45. The Debtors have reviewed this proposed retention program with their Lenders. The Lenders have stated that they will not object to the retention program and will consent to payment of such amounts from their collateral. The maximum total cost of the base bonus

portion of the retention program is $715,000.00 assuming all bonus obligations, other than premium bonus severance obligations, are triggered.

46. I believe that the continued employment, dedication, and motivation of the Key Employees is essential to preserving the value of the Debtors' estates by ensuring the continuing operation of the various ongoing businesses. The KERP provides the Key Employees with the necessary assurance that they will be rewarded for their dedicated service during these cases.

G. Limitation of Notice

47. I believe that by establishing the Notice Procedures, as that term is defined in the motion for an order limiting notice, all parties will be assured of receiving appropriate notice of matters affecting their interests with ample opportunity to prepare and respond. Moreover, by establishing case management procedures at the outset of these cases, the administration of these cases will be eased and the economic burdens on the Debtors' estates, as well as other parties in interest, will be dramatically reduced.

H. Extending Time to File Schedules and Statements

48. Given the size, complexity and scope of the Debtors' businesses, the Debtors have not been able to gather the necessary information to prepare and file the respective schedules and statements. The Debtors have already commenced the extensive process of gathering the information needed to prepare and finalize their schedules and statements, but the Debtors do not believe that the 15 day extension under Bankruptcy Rule 2007(c) allows sufficient time.

49. The Debtors estimate that an extension of 60 additional days (for a total of 75 days) will provide sufficient time to prepare and file the schedules and statements.

I. Maintenance of Existing Bank Accounts, Continued Use of Existing Business Forms, Continued Use of Existing Cash Management System Continuation of Inter-Company Transactions and Relief from Strict Compliance with 11 U.S.C. 345(b)

50. In the ordinary course of business, the Debtors maintain a sophisticated banking structure consisting of one master account, and separate deposit and disbursement "zero balance" accounts used by various Debtors (the "Bank Accounts," a complete listing of the Bank Accounts are attached to the motion as Exhibit A). All funds deposited into the deposit accounts are transferred to the master account on a daily basis. Funds that are required for disbursement are transferred from the master account to the respective disbursement accounts as needed. Through the Bank Accounts, the Debtors manage their receivables, disbursements, and flow of funds. Maintenance of the Bank Accounts in their respective locations is essential to the Debtors' ability to transact business without significant interruption.

The Debtors Should be Granted Authority to Continue to Use Existing Bank Accounts

51. The Debtors seek a waiver of the United States Trustee's requirement that the Bank Accounts be closed and that new postpetition bank accounts be opened. In order to avoid delays in payments to administrative creditors, to ensure as smooth a transition into chapter 11 as possible with minimal disruption, it is essential that the Debtors be permitted to continue to maintain their existing Bank Accounts. Furthermore, the operation of the Debtors' businesses requires that their cash management system continue during the pendency of these chapter 11 cases. Requiring the Debtors to adopt new cash management systems would be expensive, administratively difficult, and very disruptive to the Debtors' operations. Consequently, maintenance of the existing cash management system is not only essential, but is in the best interest of all creditors and other parties-in-interest.

The Debtors Should be Granted Authority to Continue to Use Existing Business Forms and Checks

52. In order to minimize expenses, the Debtors also request that they be authorized to continue to use all correspondence, business forms (including, but not limited to, letterhead,

purchase orders, invoices, etc.) and checks existing immediately prior to the Petition Date, without reference to the Debtors' status as debtors-in-possession.

53. Parties doing business with the Debtors' will likely be aware of the Debtors' status as chapter 11 debtors-in-possession. Changing correspondence and business forms will be unnecessary and burdensome to the Debtors' estates and expensive and disruptive to the Debtors' business operations. For these reasons, the Debtors request that they be authorized to use existing checks and business forms without being required to place the label "debtor-in-possession" on each until the existing stock has been depleted. If and when the existing stock has been depleted, the Debtors will order business forms and checks with the designation "debtor-in-possession."

54. If the Debtors are not permitted to maintain and utilize their Bank Accounts and continue to use their Existing Business Forms, the resultant prejudice will include: (a) disruption in the ordinary financial affairs and business operations of the Debtors; (b) delay in the administration of the Debtors' estates; and (c) cost to the estates to set up new systems and open new accounts, print new business forms and immediately print new checks.

The Debtors Should be Authorized to Continue Inter-company Transactions

55. As a crucial part of their ordinary course operations, the Debtors transfer funds among themselves to pay for the inter-company provision of essential goods and services (the "Inter-company Transactions").

56. The Inter-company transactions are reflected either as general ledger entries in the particular Debtors' books and records or as loans evidenced by notes, as appropriate. Such bookkeeping and documentation provide ample records of Inter-company Transactions.

57. In the exercise of their reasonable business judgment, the Debtors believe that maintenance of these operations is absolutely essential to the preservation of the going concern

value of the Debtors. The relief requested herein is necessary because Inter-company Transactions are integral to the Debtors' daily operations and certain Debtors may require inter-company advances in order to maintain their liquidity and going concern values.

<u>Cause Exists for Relief From Strict Compliance with 11 U.S.C. §345(b)</u>

58. The Debtors seek an order for relief from the deposit and investment requirements set forth in section 345(b) of the Bankruptcy Code. In the exercise of their reasonable business judgment, the Debtors believe that the funds of their bankruptcy estates are properly safeguarded at their banks and that the spirit of 11 U.S.C. 345(b) is fully satisfied.

<u>Waiver of Investment Guidelines</u>

59. I believes that the banks that the Debtors utilize in their cash management system are financially stable banking institutions.

J. Authorization to Pay Pre-petition Wages, Salaries and Benefits and Directing Banks to Honor Pre-petition Checks and automatic Transfers <u>For Payment of Pre-Petition Employee Obligations</u>

60. In the ordinary course of their businesses, the Debtors incur payroll obligations to approximately 481 persons ("Employees"). The Employees consist of: (a) approximately 256 salaried employees, and (b) approximately 225 full and part-time employees who work on an hourly basis.

61. Prior to the Petition Date, the Debtors paid some of their Employees on a semimonthly pay cycle, and others every week. The Debtors estimate that their accrued and unpaid wage and salary obligations as of the Petition Date aggregate approximately $560,000 (the "Wage and Salary Obligations").

62 The Debtors are required by law to (a) withhold from their payrolls, and remit to the appropriate tax authorities, certain federal, state, and local income taxes, social security and

Medicare taxes (collectively, the "Payroll Tax Obligations"), and (b) directly pay state and local unemployment taxe

s and contributions ("Unemployment Taxes"). The Debtors estimate that as of the Petition Date, the amount of such Payroll Tax Obligations and Unemployment Taxes approximates $55,000.

Vacation Obligations

63. e Debtors have a vacation and other paid-time-off policy with respect to their different operations. In general, the majority of the Employees accrue paid-time-off on a pay-period basis and such paid time off may be used as it is accrued. Upon termination or resignation, Employees can request a cash payout or payment of the vested hours over an extended period of time. As of the Petition Date, the Debtors' accrued and unpaid obligations in respect of vacation pay, holiday pay, sick time, and personal days is approximately $1,306,000 (collectively, the "Vacation Obligations").

Employee Benefits

64 As is customary with most large companies, the Debtors have established various plans and policies for the benefit of their Employees, which include health insurance, life insurance, dental insurance, disability benefits and coverage, vision coverage, flexible spending programs for medical and dependent care, 401(k) plans, profit sharing, and other similar benefits (collectively, the "Employee Benefits"). Benefits such as 401(k) plan participant contributions, flexible spending contributions, supplemental AD&D, supplemental life insurance, health insurance premiums, dental insurance premiums and other similar Employee requested deductions are exclusively deducted from Employees' wages (the "Employee Requested Payroll Deductions").

65 The Debtors estimate that, as of the Petition Date, their accrued and unpaid obligations in respect of the Employee Benefits aggregate approximately $200,000, which

amount is comprised of the following: (a) payments for both Debtors' and employees' contributions to various group medical and health insurance plans and flexible spending accounts aggregating approximately $40,000; (b) payments of both the Debtors and employees' contributions in respect of disability, life, and accidental death and dismemberment insurance aggregating approximately $50,000; (c) payments in respect of Employee 401(k) plan contributions aggregating approximately $110,000. With respect to the Employee-Requested Payroll Deductions, the Debtors estimate that collected but not yet disbursed amounts should not exceed $5,000.

Reimbursement

66 The Debtors customarily reimburse their Employees who incur a variety of business expenses in the ordinary course of performing their duties on behalf of the Debtors. These reimbursable business expenses include, among other expenses, those incurred in connection with travel, long-distance telephone charges, and cellular phone charges. In some instances, Employees may use personal credit cards for which the Employee pays the bill and upon submission of the receipt, is then reimbursed by the Debtors. Because the Employees do not always submit claims for reimbursement promptly, it is difficult for the Debtors to determine the exact amount outstanding at any particular time. The Debtors estimate that, as of the Petition Date, their obligations in respect of reimbursements to be made to Employees should not exceed $100,000 (the "Reimbursement Obligations").

Administration of Employee Benefit Plans

67 As is customary in the case of most large companies, the Debtors utilize the services of administrators and consultants in the ordinary course of their businesses in order to facilitate the administration and maintenance of certain Employee Benefits. The Debtors estimate that approximately $230,000 was accrued and unpaid on account of services provided to

the Debtors by such professionals and consultants prior to the Petition Date (the "Administrative Obligations").

68 Additionally, the Debtors are self-insured with respect to Employees' medical insurance. There is typically a 60 day lag between the time medical services are provided to the Employee and the adjudication of the medical claim. The Debtors estimate that approximately $830,000 was accrued and unpaid on account of medical services provided Employees of the Debtors (the "Medical Insurance Obligations").

69. Because all employees are covered by the same workers' compensation program, it is critical that the Debtors be permitted to continue the program and to pay prepetition assessments and premiums because alternative arrangements for workers' compensation coverage would most certainly be more costly. In addition, the failure to provide coverage may, in some states, subject the Debtors or their officers to civil and criminal liability.

70 Failure to provide the employees with the Prepetition Employee Obligations would severely undermine the employees' morale and cause them great hardship. In order to retain the employees and maintain morale under difficult chapter 11 circumstances and working conditions, the Debtors seek authority to satisfy the Prepetition Employee Obligations and continue to provide post-petition employee benefits consistent with those provided prepetition in the ordinary course of the Debtors' businesses.

71 The Debtors submit that because Payroll Tax Obligations constitute "trust fund" taxes, the payment of such taxes will not prejudice other creditors of these estates, given that the relevant taxing authorities would hold priority claims under section 507 of the Bankruptcy Code in respect to such obligations.

72 The Debtors further submit that all Employee Requested Payroll Deductions are made from amounts earned by, and otherwise payable to, the Employees. Accordingly, continuation of such deductions will not diminish the estates or otherwise prejudice creditors.

73 If pre-petition benefit, compensation and reimbursement amounts are not received by the employees in the ordinary course, many will suffer extreme personal hardship and in many cases will be unable to pay their basic living expenses. In addition, such a result obviously would destroy the employees' morale and result in unmanageable employee turnover. I believe that any significant deterioration in morale at this time will substantially and adversely impact the Debtors and their ability to reorganize, thereby resulting in immediate and irreparable harm to the Debtors and their estates.

L. Debtors-In-Possession Financing and Use of Cash Collateral

74 The Debtors are facing a serious cash flow shortage due, in part, to the timing of payments for services rendered to their customers under various long term contracts. As a result, an immediate need exists for the Debtors to obtain additional funds in order to continue to operate their businesses. Without the financing requested herein, the Debtors will not be able to meet their payroll, payroll expenses and day-to-day operating expenses, or maintain necessary levels of inventory and supplies. These expenses are identified in the Budget attached to the motion.

75 Failure to meet such expenses will result in the loss of key employees and customers, a loss of confidence by the Debtors' customers and vendors, and will force the Debtors to cease operations to the detriment of the Debtors, their estates, and their creditors.

76 Moreover, the Debtors have negotiated an agreement with a bidder for the sale of substantially all of their operating assets. The Debtors are seeking an order form the Court authorizing such sale under section 363 through an auction process. It is absolutely essential to

the success of that process that the Debtors maintain the operations of their business to maximize the value for their creditors. Thus, it is critical that the Debtors have the funds to be provided under the Postpetition Financing Obligations to fund their operations while the sale process occurs.

77. The Debtors have been unsuccessful in obtaining either unsecured credit or unsecured credit allowable under section 503(b)(1) of the Bankruptcy Code as an administrative expense. Without immediate debtor-in-possession financing, the Debtors will have to cease operations immediately.

78. The Postpetition Lenders have indicated a willingness to lend money and extend credit to the Debtors, but only under the terms and conditions set forth in the proposed interim Postpetition Financing Order and Postpetition Credit Agreement, including, without limitation, payment to the Postpetition Lenders of the fees set forth therein.

79. Further, subject only to valid, duly perfected and enforceable liens upon and security interests in such property held by third parties other than the Postpetition Lenders, and pursuant to § 364(d)(1) of the Bankruptcy Code, all DIP Lender Indebtedness shall be secured by senior, priming, first and paramount liens upon, and security interests in, all of the property of the Debtors as set forth in full in the Postpetition Agreement (collectively, the "Postpetition Collateral").

80 The Debtors also seek, pursuant to sections 363 and 361(2) of the Bankruptcy Code, authorization to use cash collateral and to grant second priority liens upon and security interests in the Postpetition Collateral to the Lenders (the "Lender Adequate Protection Lien") as adequate protection of the Lenders' interest in the Prepetition Collateral for any decrease in the value of the Lenders'interests therein resulting from the priming liens granted by the proposed interim Postpetition Financing Order, if granted, and for the use of cash collateral by the Debtors.

M. Administrative Order Relating to Interim Compensation

81. The Debtors have determined that it is reasonable and necessary that the Debtors' Motion For Entry of an Administrative Order Under 11 U.S.C. §§ 105(A) And 331 Establishing a Procedure For Interim Compensation And Reimbursement Of Expenses of Professionals be granted.

82 The procedures suggested in the motion will enable all parties and professionals to monitor closely costs of administration, maintain a more level cash flow availability and implement efficient cash management.

N. Motion For Order Prohibiting Utilities From Altering, Refusing Or Discontinuing Services

83 In the normal conduct of their businesses, the Debtors use gas, water, electric, telephone, and other services provided various utility companies (the "Utilities"). The Debtors' corporate functions require extensive use of computers, copiers, and other equipment to manage their businesses. Accordingly, the Debtors' corporate operations are highly dependant on continued utility services. An interruption of utility service would severely disrupt the Debtors' business operations.

84 Prior to the Petition Date, the Debtors had an excellent payment history with the Utilities. The Debtors have consistently paid their pre-petition utility bills in a timely fashion and are current with all of the Utilities except for those payments that would have been made in the ordinary course of the Debtors' businesses but for the filing of these Chapter 11 cases.

85 The Debtors are concerned that the Utilities may terminate, alter, or refuse to provide service, or may demand an unreasonably large deposit in order to continue providing service.

86. Debtors believe that funds generated by their ongoing operations, together with funds that will be available through their DIP financing and their right to use cash collateral

which has been agreed to by their secured lenders, will provide it with sufficient cash to pay for their post-petition utility services on a current basis. The Utilities are further protected by their entitlement to an administrative expense priority under section 503 of the Bankruptcy Code for any unpaid post-petition utility services. Thus, the Debtors believe that their current payment status with the Utilities, and their ability to pay for post-petition Utility services on a current basis going forward, together with the Utilities' entitlement to an administrative expense claim, provide the Utilities with adequate assurance within the meaning of section 366 of the Bankruptcy Code.

87. The Debtors' history of prompt and complete utility payments and their continued ability to pay future utility bills constitutes adequate assurance to all Utilities of payment for future services. It would be unnecessary, and an improvident use of available cash funds, for the Debtors to be required to give cash deposits to each of the Utilities.

FURTHER AFFIANT SAYETH NOT

s/ John M. Casper
John M. Casper

Subscribed and sworn to before me
this 12th day of May, 2004.

Barbara B. Piatt
Notary Public

My Commission expires April 1, 2007

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