

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE:

CEI ROOFING, INC., et al.

Debtors

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CASE NO. 04-_____
(Joint Administration Requested)

Hearing Date and Time: To Be Set

AFFIDAVIT IN SUPPORT OF FIRST DAY PLEADINGS

STATE OF COLORADO)
) ss:
COUNTY OF ARAPAHOE)

I, Gerard P. Mozian, being duly sworn on oath, do hereby depose and state to the best of my knowledge, information, and belief as follows:

1. I am the Chief Financial Officer of General Roofing Services, Inc (“GRS”) and in that capacity am familiar with GRS and GRS’s subsidiaries.

I. BACKGROUND REGARDING THE DEBTORS

2. GRS is a Florida corporation founded in 1998 to acquire closely held roofing companies nationwide. Since its formation, GRS has become the nation’s leading comprehensive provider of commercial roofing solutions in the United States. The Company has a national presence through twenty-seven operating and nonoperating subsidiaries and thirty-six operating locations in twenty-three states. GRSs’ services include: (i) new roof construction; (ii) replacement or restoration of existing roofing systems; and (iii) emergency and proactive maintenance services. GRS provides these services primarily to commercial property owners and to commercial facility managers in a variety of industries. The service segment of the business provides on call repairs as well as proactive repairs, proactive inspection and maintenance (approximately 13% of 2003 revenues). The construction segment provides roofing

systems for new buildings, replacement of significantly damaged roofs, and restoration of existing, mature roofs (approximately 87% of 2003 revenues).

II. SUMMARY OF SECURED DEBT

3. To finance the acquisition of nineteen operating subsidiaries, GRS entered into a Credit Agreement dated January 4, 1999, as amended (the "Credit Agreement") with Fleet National Bank (f/k/a BankBoston, N.A.) as the administrative agent on behalf of itself and Bank of America, N.A. (successor to NationsBank, N.A.), Spring Street Partners – II, L.P. (as successor to Wachovia) and Antares Capital Corp. (f/k/a Antares Leveraged Capital Corp.). The interests of Fleet National Bank, Bank of America, N.A., and Antares Capital Corp. have been acquired by GR Investment Holdings, LLC (GR Investment Holdings, LLC and Spring Street Partners – II, L.P. are collectively referred to herein as the "Lender"). The facility consisted of a term loan in the principal amount of \$18,000,000 and a revolving loan and letter of credit facility in the maximum principal amount of \$32,000,000, all of which were guaranteed by the subsidiaries of GRS, all of which are Debtors in the above-captioned Chapter 11 cases (the "Secured Debt"). The revolving loan was limited by GRS's Eligible Accounts Receivable and Inventory, as defined therein, and the letter of credit portion was used to secure GRS's insurer for workers' compensation, general liability, auto, and other non-medical insurance, and performance bond coverage. Nine amendments to the Credit Agreement have occurred with the last amendment occurring on April 30, 2004. The Credit Agreement matured on April 30, 2004 and the Debtors are currently in default. As of April 30, 2004, the principal indebtedness under the Credit Agreement was approximately \$14,200,914 for the term loan and \$17,216,315 for the revolving loan, plus \$14,783,685 of the letter of credit exposure.

4. The Credit Agreement is guaranteed by GRS and all of its subsidiary Debtors and is secured by a first priority security interest in all assets of the Debtors, including, but not

limited to, all Tangible Personal Property, Inventory, Accounts Receivable, Intangibles, Pledged Stock, Pledged Rights, Pledged Indebtedness, Chattel Paper, Instruments, Real Property, Leases, Deposit Accounts, Books and Records and Other Property (all of which are further defined in the Credit Agreement), and all insurance, proceeds and products thereof.

III. SUMMARY OF FINANCIAL PROBLEMS

5. The Debtors found themselves unable to meet their financial obligations primarily as a result of the pursuit of an overly aggressive initial growth by acquisition from 1999 to early 2000. The result was severe difficulty in integrating twenty-one distinct companies and related operations. This initial expansion coupled with subsequent volume growth resulted in an over-leveraged position for the Debtors. Poor liquidity resulted and GRS defaulted under its senior credit agreement. GRS sought to obtain a new financing facility and restructure its current capital structure to provide liquidity, but was unsuccessful.

6. The Debtors currently suffer from an excessive cost burden, most of which was inherited or incurred in conjunction with the aforementioned growth strategy. The Debtors' cash operating accounts were closed unilaterally and in advance of a scheduled orderly closing and transfer to another institution by its operating bank, causing the return of a large number of checks for a significant amount of money. This essentially signaled to many trade partners a perceived inability of GRS to meet its obligations. The resulting lien notices and setoff claims against construction accounts receivable forced a rapid deterioration in free collateral for working capital purposes.

7. As of the Debtors' fiscal year ending December 31, 2003, primary liabilities included indebtedness aggregating over \$46,200,914 in senior secured debt and approximately \$10,738,734 in subordinated debt to various third parties. Additionally, the Debtors owed approximately \$31,000,000 in trade debt to over 3500 trade vendors. Net book value was

approximately \$5,479,000. For the same fiscal year, revenues totaled \$311,504,951, with a gross profit margin of \$53,624,952 and a net loss of approximately \$6,456,000.

IV. SUMMARY OF GRS INVESTMENT HOLDINGS

8. GR Investment Holdings LLC (“GR Investment Holdings”), a Delaware limited liability company, is a wholly-owned subsidiary of Republic Financial Corporation (“RFC”) doing business in Denver, CO. GR Investment Holdings was formed by Republic for the purpose of acquiring the Secured Debt and controlling interest in GRS. That acquisition occurred on April 30, 2004, following which GR Investment Holdings reconstituted the Board of Directors and elected Bartley E. Roggensack to be the CEO/President and reappointed Jeffrey K. Burks as COO and me as CFO. GR Investment Holdings is the owner of a majority of the Class A Preferred Stock of GRS. GR Investment Holdings does not own any of the common stock or any of the other two classes of preferred stock of GRS. GR Management, L.L.C. is the manager of GR Investment Holdings. GR Management, LLC is a member of GR Investment Holdings and is also an affiliate of RFC. Donald F. Barrickman, Steven B. Stemper and James D. Dumler are (i) directors and officers of GR Investment Holdings with special voting rights, (ii) officers and directors of each Subsidiary Debtor and GRS, and (iii) employees of RFC. The remaining four directors of GR Investment Holdings are unaffiliated with RFC. Donald F. Barrickman, Steven B. Stemper, James D. Dumler and Ann D. Hastings are officers of GR Investment Holdings and each Subsidiary Debtor as well as GRS. Ann D. Hastings is also an employee of RFC.

V. NEED FOR CHAPTER 11

9. The Debtors’ businesses can be revitalized to serve the interests of their creditors, employees, and customers. Through the DIP Financing that is being proposed, the Debtors will have the working capital to preserve and enhance their businesses. Additionally, through the

reorganization effort the Debtors will be able to focus on consolidating back office functions, implementing integration strategies, streamlining and consolidating operations, increasing strategic accounts and reworking the current cost structure. Notwithstanding past liquidity problems, the Debtors believe that their business strategy and future prospects remain fundamentally strong.

**VI. NEED FOR ADDITIONAL TIME TO FILE
SCHEDULES AND STATEMENTS**

10. The Debtors seek an extension of time to complete and file their schedules of assets and liabilities, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the "Schedules and Statements") as required by Section 521 of the Bankruptcy Code and Bankruptcy Rule 1007.

11. On the filing date, the Debtors filed lists of each Debtors' twenty largest unsecured creditors with the Bankruptcy Court. As more fully discussed in the Motion for Extension, because of the quantity of information that the Debtors must synthesize to prepare the Schedules and Statements from their twenty-seven subsidiaries, thirty-six business locations in twenty-three states, the Debtors are unable to submit their Schedules and Statements within fifteen days of the Filing Date. Accordingly, the Debtors have requested an additional time to file the Schedules and Statements, such that the Schedules and Statements should be filed by June 30, 2004.

VII. NEED TO CONTINUE BANK ACCOUNTS

12. Prior to the Filing Date and in the ordinary course of conducting their business affairs, the Debtors maintained bank accounts (the "Bank Accounts") with the banks listed on Exhibit A to the Motion to Maintain Existing Bank Accounts and Business Forms. The Debtors' cash management system is designed to efficiently collect, transfer, and disburse funds generated

through the Debtors' operations and to accurately record such collections, transfers, and disbursements as they are made. The Debtors routinely deposit and withdraw funds from the Bank Accounts by, *inter alia*, check, wire transfer, and Automated Payment Debits.

13. The Debtors believe that their transition to Chapter 11 will be smoother and more orderly, with a minimum of disruption to operations, if the Bank Accounts are maintained with the same account numbers following the commencement of these cases. By preserving this continuity and avoiding disruption and delay that would necessarily result from closing the Bank Accounts and opening new accounts, all parties in interest will be best served.

14. The Debtors are also requesting authorization to continue to use their prepetition bank forms without reference to the Debtors' status as debtors in possession. If the Debtors are not permitted to maintain and utilize their Bank Accounts and continue to use their existing checks, the resultant prejudice will include significant (i) disruption in the ordinary financial affairs and business operations of the Debtors, (ii) delay in the administration of the Debtors' estates, and (iii) cost to the estates to set up new systems and open new accounts, print new business forms and immediately print new checks.

VIII. NEED TO PAY EMPLOYEE PREPETITION OBLIGATIONS

15. As of the Petition Date, GRS had approximately 2400 employees, of whom approximately 30 were corporate personnel. Approximately 450 were salaried personnel, and the balance was hourly personnel. Many of the Debtors are parties to collective bargaining agreements. A large percentage of the Debtors' employees are paid weekly with the next payroll due on various days. Administrative employees are generally paid bi-weekly. Outstanding unpaid payroll will include wages earned from April 23, 2004, or within ten days of the Petition

Date. None of the employees will be paid prepetition obligations in excess of \$4,650. Total payroll for one payroll cycle of hourly and biweekly paid employees is approximately \$2,400,000.

16. The employees are critical to the Debtors' continued operations and consequently to their reorganization efforts. Indeed, the Debtors' operations are designed to provide uninterrupted, on-demand service to their clients and even a relatively minor disruption in the Debtors' ability to maintain current staffing levels as a result of the filing of these Chapter 11 cases would create an immediate and severe threat to the Debtors' ability to continue their operations. Moreover, any disruption of the Debtors' ability to retain their employees could severely affect the level of service rendered to the Debtors' clients. Accordingly, as described in more detail below, the Debtors are requesting authority to honor and pay prepetition wages, prepetition commissions earned within 90 days of the Debtors' chapter 11 petitions, salary, bonuses, tax obligations, medical and dental benefits, vacation obligations, business expense reimbursement obligations, benefits and related obligations, as such obligations become due in the ordinary course of the Debtors' businesses.

17. The Debtors seek to pay prepetition commissions to employees for commissions earned within 90 days of their chapter 11 petitions up to \$4,650 per employee. The Debtors also seek to pay bonuses to their employees postpetition in accordance with their prepetition policies and programs. These payments are made on a discretionary basis.

18. The Debtors administer several health and welfare benefit plans on behalf of their current and certain former employees (the "Health Benefit Plan Participants") and their covered dependents, including medical, dental, vision, long-term disability and life insurance benefits, and to the extent required, COBRA medical continuation coverage (collectively, the "Health

Benefit Plans”). The Debtors seek to pay approximately \$600,000 in prepetition amounts due under the Health Benefit Plans.

19. Additionally, as requested or required by law, the Debtors make certain deductions from the Debtors’ employee wages for flexible spending plans, charitable donations, and wage garnishments (the “Deductions”). As of the Petition Date, the Debtors are required to remit a *de minimis* amount on behalf of the Debtors’ Employees.

IX. NEED TO PAY MATERIALMAN’S LIEN CLAIMS

20. Central to the Debtors’ business is the providing of roofing services in construction contracts that also involve construction suppliers and subcontractors who have been engaged by the Debtors. Before many customers will pay the Debtors any amounts owed for the roofing services that have been provided by the Debtors, the customers will either (i) make the check payable to the Debtors and the supplier, (ii) withhold payment until the customer has received a lien waiver from the supplier, or (iii) offset the account receivable with the amount owed to the supplier/subcontractor and pay same. In any case, the Debtors will not get paid until the supplier and/or subcontractor has been paid.

21. The Debtors’ cash flow depends on their ability to pay the suppliers and subcontractors in order to obtain signatures on joint checks, waivers from those parties, or pay amounts subject to offset or lien. Accordingly, the Debtors need an order authorizing the payment of such prepetition obligations.

X. NEED TO REIMBURSE INSURANCE COMPANY FOR WORKERS COMPENSATION CLAIMS

22. Under the terms of the Debtors workers compensation insurance policy, the Debtors must reimburse CNA, as the insurance carrier, at least quarterly for certain payments made by CNA under the policy. The Debtors’ failure to pay the required deductible amount

constitutes a default under the policy and relieves CNA of its obligation to advance payments on covered claims that are within the deductible amount. A payment of approximately \$900,000 is due the first week in May, 2004 related to the insurance provided by CNA for payment of claims and for an increase in the letter of credit collateralizing unpaid losses under such coverage.

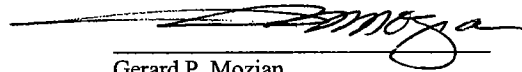
23. Assuming that the DIP Financing is approved by the Court, the Debtors will have sufficient funding to pay these obligations and maintain the workers compensation coverage uninterrupted. The failure to continue the worker compensation coverage and payments under the CNA policy will negatively affect the Debtors' ability to retain employees, will impair the Debtors' ability to survive if it had to absorb all claims/suits, and may cause the Debtors to be in violation of state statutory worker compensation requirements.

XI. NEED TO CONTINUE UTILITY SERVICES

24. Contemporaneously herewith, the Debtors have filed a Motion for DIP Financing. Assuming that Motion is granted, the Debtors will have sufficient cash available to meet all administrative expenses, including all charges for postpetition utility services. The uninterrupted continuation of utility services is essential to the Debtors' ability to sustain their operations during the Chapter 11 cases. In the normal operation of their business operations, the Debtors' facilities use gas, water, sewer, landfills, telephone, telecommunication and other similar services (the "Utility Services"). Any interruption of the Utility Services would severely disrupt the Debtors' operations, cause an interruption in service to Debtors' clients, and diminish their chances for a successful reorganization. The average monthly utility charges incurred by the Debtors are approximately \$260,000.

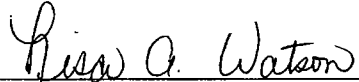
**XII. AUTHORITY TO PERFORM UNDER
EXISTING CONTRACTS**

25. A large portion of the Debtors' customers perform under existing contracts. In many cases, performance is due by both parties. The customer has the obligation to pay for roofing services and materials provided by the Debtors. The Debtors have the obligation to complete work on jobs that have not been completed. The Debtors anticipate that many customers will be hesitant to continue performing under contracts upon learning that the Debtors are in Chapter 11. The Debtors seek an order from the Court authorizing them to continue to perform under existing executory contracts and to prohibit their customers from unilaterally terminating contracts with the Debtors as a result of their bankruptcy filings.



Gerard P. Mozian
Chief Financial Officer
General Roofing Services, Inc.

Sworn to before me this 3rd day of May, 2004.



Notary Public
My Commission Expires

