

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

In re:) Chapter 11
)
TWG CAPITAL, INC.,) Case No. 12-11019
)
Debtor.)

**DECLARATION OF MARK P. NONDORF
IN SUPPORT OF CHAPTER 11 PETITION AND FIRST DAY
APPLICATIONS AND MOTIONS**

Mark P. Nondorf, being duly sworn, states that the following is true and correct to the best of his knowledge, information, and belief:

1. I am the President of TWG Capital, Inc. ("TWG", or the "Company"), a corporation organized under the laws of the State of Delaware. TWG is the debtor in possession (the "Debtor") in the above-captioned Chapter 11 case (the "Chapter 11 Case"). The Debtor's principal office is located at 7434 Shadeland Station Way, Indianapolis, Indiana 46256.

2. I have been employed by the Company for five years and am familiar with the day-to-day operations, business affairs, and books and records of the Debtor.

3. I have over 25 years of experience in the financial services industry. The following is a list of my primary occupations over that timeframe:

- Between 2002 and 2007, I was Senior Vice President of Finance and Corporate Secretary for Union Federal Bank, a \$4 billion Indiana based financial institution.
- Between 1997 and 2002, I was Senior Vice President and Controller for USA Group, the parent company of USA Funds, the largest guarantor of student loans in the country.

- Prior to joining USA Group, I worked for Ernst & Young, LLC in Indianapolis, Indiana, as a certified public accountant for over 10 years.

4. I submit this declaration (the "Declaration") in support of TWG's petition for relief under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101, et. seq. (the "Bankruptcy Code"), and the relief set forth in the motions and applications filed by TWG concurrently herewith (the "First Day Pleadings").¹ I also submit this Declaration to assist this Court and any interested parties in understanding the circumstances that compelled the petition for relief in the above-captioned case.

5. Over the past four years, TWG has fallen victim to the financial crisis which is still impacting the economy. It has incurred significant losses – principally from the performance of portions of its purchased asset portfolio, coupled with the inability to access the capital markets - which have seriously depleted its cash from operations and capital.

6. TWG's bankruptcy filing is the means of recapitalizing TWG, an objective the Company has been pursuing for nearly three years. The recapitalization will save employees' jobs and preserve the continuing service of the unique needs of over 500 agents and 100 insurance carriers. This filing is designed to facilitate the sale of the assets of TWG to Carmel Funding, LLC ("Newco"), a putative stalking horse bidder who has executed an Asset Purchase Agreement ("APA") with TWG, or a Qualified Overbidder (a "Purchaser"), within 30-60 days of the bankruptcy filing date, so that once a Purchaser receives approval for the acquisition of TWG's assets, the Sale can be closed.

¹ All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the relevant First-Day Pleading or that certain Asset Purchase Agreement, dated as of September 14, 2012 by and between TWG and Newco (the "APA") filed contemporaneously herewith, as appropriate.

7. Except as otherwise indicated, all of the facts set forth in this Declaration are based upon my personal knowledge, my review of the Company's relevant books and records, information provided to me by other members of the Company's management, or my opinion based upon my understanding and familiarity with the Company's business operations. References to the Bankruptcy Code and all related legal matters, including information relative to the Chapter 11 bankruptcy process, are based upon my understanding of those matters in reliance upon explanations provided to me by counsel. If called as a witness, I could and would testify competently thereto.

8. The Debtor intends to continue to operate its business and manage its property as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

9. In order to enable the Debtor to operate effectively and to minimize the adverse effects of the Chapter 11 filing on its business, the Debtor has requested various types of relief in "first day" applications and motions (collectively, the "First Day Motions") filed with the Court on the Petition Date.

10. After briefly addressing the bankruptcy filing, Part I of this Declaration describes TWG's corporate structure, business operations, the efforts it has made to raise capital, and the circumstances that led to the commencement of this Chapter 11 Case. Part II sets forth the relevant facts in support of certain First Day Pleadings.

PART I

THE DEBTOR'S BUSINESS AND CIRCUMSTANCES

1. On September 14, 2012 (the "Petition Date"), TWG filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code.

2. Pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, TWG continues in the management and possession of its property as a debtor-in-possession. No trustee

or examiner has been appointed in this case, and no official committee has been appointed or designated as of the date of this Declaration.

3. TWG has reported total losses of over \$30 million for the past two years, primarily due to impairments associated with the Company's purchased asset portfolio and the unexpected costs to pursue and defend against litigation.

4. TWG has worked with investment bankers over the past three years to develop and execute strategies to raise capital. While some of these strategies have produced considerable interest in the operations and business model of the Company, they have not been able to result in the recapitalization that the Company needs to complete its business plan.

Corporate Structure and Business Operations

5. Formed in 2000, TWG, headquartered in Indianapolis, Indiana, is a Delaware registered corporation. TWG currently has 6 employees and an office in Nashville, TN.

6. TWG is a specialty finance company that serves the insurance industry. TWG was founded around the realization that insurance agents and agencies own predictable renewal commission rights on certain types of insurance policies ("Insurance Commission Receivables", or "ICRs") that generate significant cash flows over extended periods of time. These ICRs have not been recognized by traditional financing sources yet represent significant financial assets. The Company leverages its understanding of the insurance market and needs of market participants to provide a range of products and services based on the value of ICR assets. TWG is organized around three business segments: Asset Originations, Asset Servicing, and Lending Business.

7. Asset Originations represent the Company's largest line of business. In this business segment, TWG provides liquidity to insurance agents and agencies as an originator to a special purpose vehicle ("SPVs") used to acquire the contractual rights of the ICR assets at a discount to their actuarially expected cash flow. TWG earns an origination fee for this service. Since June 2000, TWG has arranged for the acquisition of ICR assets with expected cash flows of over \$350 million, financed with \$150 million of capital. These purchases currently aggregate more than 1000 blocks from over 500 agents, and cover over 240,000 individual policyholders from approximately 100 different insurance carriers.

8. The SPVs are "bankruptcy remote" for the ICR asset purchases originated by TWG. These SPVs receive the commission payments directly from the insurance carriers, thus providing strong, secure collateral for lenders without operating risk. The majority of the existing ICR asset purchases reside in the Company's wholly owned SPV, Insurance Receivables 7, LLC ("IR7").

9. TWG also services ICR assets acquired by IR7, Insurance Receivables 1, LLC ("IR1") (an earlier SPV in which the Company owns a minority interest) and until recently, an unrelated entity LION 2004 Receivables Trust ("LION Trust"). The Company services these portfolios using proprietary technology.

10. TWG, in its capacity as servicer and with its proprietary technology, performs the following activities: track and process the cash received from ICRs at a policyholder level; monitor performance of the ICRs at a product/agent/insurance carrier level; performs ICR conservation activities, which include contact with policyholders, agents and carriers; and perform projections of future ICRs to be received. TWG performs these services on behalf of the various SPVs and the SPV lenders and/or investors.

11. TWG established a Lending Business in 2008, which makes loans to insurance agencies which are secured by future insurance commissions. The Lending Business is conducted (and assets reside in) the Company's wholly owned subsidiary, IR Finance 1, LLC. ("IR Finance"). TWG services the loans and pledged ICRs on behalf of IR Finance.

Events Leading to the Petition Filing

(i) IR7/Asset Purchase Business

12. Assets acquired from the Company's purchase of insurance commissions from agents were held in SPVs. The SPV that presently holds the vast majority of these acquired assets is IR7. The funding source for the IR7 assets was a \$90 million (later increased to \$103.5 million) syndicated debt facility ("IR7 Facility") of which \$50 million was initially borrowed. The \$90 million was comprised of \$75 million of senior debt (Fifth Third Bank and PNC Bank) and \$15 million of subordinated debt. The terms of the debt facility dictated that IR7 would be formed as a bankruptcy-remote SPV. This facility was highly levered with the expectation that the subordinated debt would serve as bridge capital and the assumption that it would need to be refinanced within 5 years given the higher interest cost.

13. As part of the IR7 Facility, TWG also entered into an origination and servicing contract with IR7 (the "IR7 Servicing Agreement"), whereby TWG would receive an origination fee for purchases placed in the facility and a servicing fee for monitoring and processing commission payments that were received under the purchases. The origination and servicing fees from IR7 represented the primary source of revenue to TWG.

14. In late 2007, TWG was in the process of negotiating three large purchase transactions: a \$25 million purchase of Long Term Care ("LTC") ICRs, another LTC purchase with a price ranging from \$25-40 million depending on the acquisition structure, and a purchase of \$50 million Medicare supplemental ("Med Sup") ICRs from American Insurance Marketing

Corp. Inc ("AIMC"). Due diligence had been completed on all three transactions and purchase documents were at various stages of completion in early 2008. Upon completion of these transactions, TWG expected the IR7 portfolio mix to be about 50/50 Med Sup to LTC.

15. In order to accommodate the transactions being negotiated, TWG approached Fifth Third about increasing the senior capacity in the IR7 facility and raised additional subordinated debt of \$13.5 million in February 2008. Additionally, TWG was negotiating with Credit Suisse and Wells Fargo about providing IR7 with larger debt facilities to take out the existing facility and/or provide IR7 with significant increased capacity for these transactions as well as a recapitalization of the existing subordinated debt.

16. TWG decided to move forward with a possible origination of a Credit Suisse facility for IR7 sized at \$200 million. Credit Suisse performed due diligence, began internal syndication discussions and established a web data room for participating banks.

17. In the meantime, the three large purchase transactions were progressing, with the AIMC Med Sup transaction the first to close in June 2008.

18. Shortly after the close of the AIMC Med Sup transaction, the perfect storm occurred. The financial crisis hit in the fall of 2008 and its prolonged impact effectively shut down the ability of IR7 to refinance its existing debt and secure the replacement/additional funding from Credit Suisse. Traditional financing sources were capital constrained, and the asset backed markets were out of favor. Certain insurance carriers were struggling; the impact of which hit the IR7 portfolio first with an insurance carrier bankruptcy and \$1.4 million in lost commissions. In late 2009, Coventry (insurance carrier) announced its decision to exit certain Medicare products that further impacted the portfolio by \$6.9 million. As the economy worsened, policyholders had a greater propensity to drop Med Sup policies and became more

price sensitive, thus seeking lower cost alternatives with other carriers. Certain carriers sought non-customary premium rate increases for their non profitable Med Sup product lines which further facilitated higher voluntary lapse of such policies in the IR7 portfolios. This higher voluntary lapse resulted in negative performance to the Med Sup blocks and a loss of expected future cash flow.

19. In the fall of 2008, TWG started to notice that certain blocks within the AIMC purchase were performing below expectation. Investigation revealed that AIMC had provided inaccurate information on certain acquired Med Sup policies that breached AIMC representations and warranties. AIMC initially cooperated and tried to resolve the issues by providing replacement commissions for those that were inaccurately represented. In January 2009, AIMC changed its position on providing replacement collateral. In February 2009, TWG notified Fifth Third of the issues and TWG and IR7 jointly moved forward with arbitration as provided in the AIMC purchase agreement. In April 2009, TWG updated Fifth Third once again as the arbitration progressed. Fifth Third initially allowed TWG and IR7 to proceed without impact on the IR7 Facility. However, in May, 2009, Fifth Third (under pressure from PNC (the minority senior lender in the IR7 facility)) declared an event of default of the IR7 Facility as a result of the issues surrounding the AIMC acquisition. TWG and IR7 executed a standstill agreement with the IR7 Facility lenders in July 2009 which would afford TWG and IR7 time to conclude the arbitration.

20. The immediate impact of the declared default was that IR7 became frozen and funding was no longer available for new originations. The freeze exacerbated the impact of the AIMC block issues and the negative Med Sup performance. When the first AIMC transaction closed, the portfolio was heavily weighted towards Med Sup, but it was expected that

the two large LTC transactions would close in quick succession. When funding shut down, the LTC blocks could not be acquired. TWG was unable to reset through new originations the Med Sup and LTC concentrations in the IR7 portfolio. In addition, the lack of originations effectively placed the IR7 portfolio in runout, creating a mismatch in the facilities interest rate hedge resulting in overall higher interest costs. That higher interest cost was magnified when the IR7 Facility lenders implemented the default rate of interest.

21. The events described above effectively made permanent the unprofitable Med Supp/LTC portfolio mix in IR7.

22. On or around May 13, 2008, TWG, Inservico, Inc. ("Inservico") and other parties, including lenders to IR7 (the "IR7 Lenders") entered into that certain Back-Up Servicing Agreement (the "Back-Up Servicing Agreement"). On August 13, 2010, TWG was terminated as the IR7 servicer and pursuant to the Back-Up Servicing Agreement, the IR7 Lenders purportedly appointed Inservico as successor to TWG as the servicer with respect to the IR7 Servicing Agreement. Inservico disputes any allegation that it has any obligations under the Back-Up Servicing Agreement or the IR7 Servicing Agreement. With reservation of Inservico's position, by that certain Subservicing Agreement between Inservico and TWG dated as of September 13, 2012, Inservico has subcontracted the servicing of IR7 to TWG. The origination and servicing fees from IR7 remain TWG's primary source of revenue.

23. On November 18, 2010, the AIMC arbitration settled. In addition to IR7 retaining \$1 million in set off funds previously collected, AIMC paid \$2.5 million on the date of closing and issued a note payable to IR7 in the amount of \$3.0 million that would be paid ratably over the next 4 years. The proceeds from the settlement were primarily used to reduce the

outstanding senior debt of the IR7 Facility, but did not relieve the default status or create liquidity for portfolio acquisitions needed to reset portfolio concentrations.

(ii) Litigation

24. In 2004, TWG was a party in a three party transaction that also included Long Term Preferred Care ("LTPC"), a national marketing organization of LTC policies; and LION Trust, an SPV created to purchase LTPC ICRs, the primary beneficial owner of which was Imagine Reinsurance.

25. The commissions received from insurance carriers in this purchase were paid by the carriers to LTPC on a "gross basis," meaning that they included the commissions that were owed to LTPC as well as the commissions that were ultimately to be paid to the agent or broker that actually signed up the policyholder (collectively, the "Downlines").

26. The transaction was constructed as follows: LION Trust purchased the rights to the commissions from LTPC; TWG entered into a servicing contract with LION Trust, whereby TWG would receive a servicing fee and a senior payment from the LION Trust monthly waterfall to pay the Downlines; and TWG entered into an agreement under which TWG would then assume the obligation of LTPC to pay the Downlines.

27. In 2008, the senior payment to TWG became insufficient to pay the Downlines, as the senior payment is a fixed percentage of commissions received and the Downline payment was variable based on the policyholder mix in the portfolio.

28. From 2008 to October 2011, TWG covered the shortfall to Downlines from TWG operating cash. Effective November 2011, TWG could not continue to fund this shortfall and began a process to remit to Downlines only the amounts that were received from the

senior payment from LION Trust. At present, the senior payment covers only 70% of the amounts owed to the Downlines.

29. In January 2012, two Downline agents filed suit as a putative class action against TWG to recover the unpaid commissions. TWG has limited operating funds to defend this litigation or pursue recourse or contribution from the other parties to the original LION Trust transaction.

(iii) TWG's Efforts to Raise Capital and Expense Reductions

30. In August 2009, TWG engaged William Blair & Company ("Blair"), an investment banking firm recognized nationally for its expertise in the financial services industry to advise it on raising capital and evaluating all available strategic alternatives. With the assistance of Blair, the Company developed the following strategies: (i) seeking a partner to merge with or acquire TWG, and (ii) soliciting investors to participate in a private recapitalization.

31. During late 2009 and 2010, Blair conducted a process to identify and contact potential strategic partners (nontraditional lenders and specialty finance entities) and other potential sources of capital (private equity and hedge funds). Blair contacted 117 possible partners. Thirty-five of the parties executed nondisclosure agreements and were provided confidential information on TWG through a virtual data room. A total of five parties conducted some level of due diligence. During the process conducted by Blair, there was considerable interest in the business model and processes built by TWG; however, no definitive capital partner was identified.

32. Concurrent with Blair's process, City Capital Advisors, an investment banking firm, also introduced TWG to several private equity and specialty finance companies.

The feedback received from the parties introduced by City Capital was that they lacked interest in pursuing a transaction because of the apparent complexity of negotiating with the many stakeholders (shareholders, servicing counterparties, lenders, etc.) of TWG.

33. In addition to the capital raising efforts, the Company's management executed major expense reductions in 2010 and 2011, including the following:

- Elimination of all sales and administrative staff;
- Elimination of all non-essential servicing staff; and
- Expense reductions achieved by outsourcing certain information technology costs and physical move to new office location.

34. While each of these expense reduction actions had their intended effects, the total impact was not sufficient to overcome the effect of TWG's continuing losses.

PART II

FIRST DAY MOTIONS AND APPLICATIONS

35. An important (and, in some cases, critical) element in a debtor's successful reorganization is approval of each of its First Day Motions.

36. In furtherance of the objective of successfully reorganizing or maximizing the value of the assets for creditors, the Debtor respectfully requests that the Court consider entering orders granting such First Day Motions.

37. I have reviewed each of the First Day Motions (including the exhibits thereto) and believe that the relief sought in each of the First Day Motions (a) is vital to enable the Debtor to make the transition to, and operate in, Chapter 11 with a minimum of interruption or disruption to its business or loss of productivity or value and (b) constitutes a critical element in achieving the Debtor's successful reorganization.

A. Retention of the Debtor's Professionals

38. In addition to the above-requested relief, the Debtor is requesting the appointment of legal and other professionals to aid in the administration of this Chapter 11 Case.

39. I believe that the continued representation of the Debtor by the following professionals is essential to the success of this reorganization. These professionals have expertise in matters that will require specialized knowledge of various aspects of the Chapter 11 process.

Faegre Baker Daniels LLP

40. Continued representation of the Debtor by its primary counsel, Faegre Baker Daniels LLP ("Faegre BD"), is critical to the success of the Debtor's reorganization because Faegre BD is uniquely familiar with the Debtor's business and legal affairs.

41. The Debtor seeks to retain Faegre BD as its primary counsel because of the firm's extensive experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under Chapter 11 of the Bankruptcy Code, its expertise, experience and knowledge practicing before bankruptcy courts, its experience in representing the Debtor before the Petition Date and its ability to quickly respond to all issues that may arise in this case. Accordingly I believe that Faegre BD is both well qualified and uniquely able to represent the Debtor in this Chapter 11 Case in an efficient and timely manner.

Peters, Browning & Co. P.C.

42. The services of Peters, Browning & Co. P.C. ("PB") are necessary to enable the Debtor to maximize the value of its estate and to reorganize successfully.

43. PB will provide independent accounting services and complete the filing of the Debtor's tax returns and other related services to the Debtor.

44. The Debtor has selected PB as its financial advisors because of PB's extensive and diverse experience, knowledge and its understanding of the complicated business operated by the Debtor.

45. The Debtor believes that PB is eminently qualified to serve it in this Chapter 11 Case in a cost-effective and efficient manner. I therefore believe that the employment of PB is in the best interest of the Debtor, its estate and creditors.

B. Establishing Procedures For Interim Compensation And Reimbursement Of Expenses For Professionals And Committee Members

46. The Debtor requests the establishment of procedures for compensating and reimbursing any employed professionals on a monthly basis. Such an order will streamline the professionals' compensation process and enable the Court and all other parties to more effectively monitor the professional fees incurred in this Chapter 11 Case. Further, it will avoid forcing the professionals to finance the Chapter 11 Case while awaiting final approval of their fees and expenses.

47. Therefore, I believe that the procedure suggested in this Motion will enable all parties, including the Debtor, to closely monitor the costs of administration of this bankruptcy proceeding and allow the Debtor to maintain a more level cash flow availability and implement efficient cash management procedures.

C. Authority to Pay Certain Prepetition Wages, Salaries, Benefits and Other Compensation

48. The Debtor seeks approval to (a) pay prepetition (i) wages, salaries and other compensation in an amount not to exceed the priority claim cap established in 11 U.S.C. § 507(a)(4), (ii) employee medical and similar benefits in an amount not to exceed the priority

claim cap established in 11 U.S.C. § 507(a)(5), (iii) reimbursable employee expenses; and (b) to authorize and direct applicable banks and other financial institutions to receive, process, honor and pay all checks presented for payment and to honor all electronic payment requests made by the Debtor relating to the foregoing. I believe that each of the matters enumerated in the motion is essential to protect the Debtor's investment in its human capital and to reorganize successfully.

(i) Unpaid Compensation

49. In the ordinary course of its business, TWG issues payroll checks to its employees on a semi-monthly basis.

50. As of the Petition Date, certain prepetition wages, salaries, commissions, payroll and other withholding taxes, overtime, holiday, other paid leave and/or other compensation (excluding vacation and severance pay) may have accrued during the most recent payment period but were not paid (collectively, the "Unpaid Compensation"). As of the Petition Date, there is approximately \$27,000 in Unpaid Compensation.

51. The Chapter 11 petition was filed during TWG's regular and customary salary and hourly wage payroll periods.

52. Employees may not have been paid all their salaries and wages for services previously performed on behalf of the Company.

53. The Debtor seeks authority to pay prepetition wages and salaries not to exceed the priority claim cap established in Section 507(a)(4) of the Bankruptcy Code.

(ii) Vacation, Holiday and Floating Holiday

54. The Debtor offers paid vacation benefits and certain paid holidays to all employees who have met their eligibility period. Employees are eligible for one to four weeks of paid vacation time that must be taken within the calendar the year of accrual or is lost. Under

TWG's vacation policy, employees accrue vacation benefits on January 1 and July 1. Employees who are terminated or who voluntarily separate may be entitled to a payout for accrued, unused vacation time.

55. TWG provides its employees with approximately 9 paid holidays each year.

56. All current employees who have met their eligibility period are entitled to three floating holidays that must be used in the calendar year.

57. The Debtor requests that all employees be authorized to use such accrued vacation days, paid holidays, and floating holidays in the ordinary course of the Debtor's business.

58. I believe that the payment of the above described unpaid compensation for the employees is in the best interests of the Debtor, its estate and creditors.

(iii) Temporary Employment Services

59. TWG also employs, from time to time, temporary personnel. The services provided by these temporary employees are vital to the maintenance of the Company's business by providing necessary administrative services. The estimated semi-monthly payments to temporary employees total approximately \$400.

60. I believe that the services performed by these employees are vital and that the amounts owed to the temporary employees to ensure the continued availability of these employees is of benefit to the Debtor and its estate.

(iv) Employee Deductions

61. TWG deducts from employees' paychecks (a) payroll taxes and the employees' portion of FICA and unemployment taxes; (b) employee contributions for medical,

dental, and life insurance; (c) employee contributions to the Debtor's 401(K) plan; (d) employee contributions to the Debtor's medical flexible spending account; (e) legally ordered deductions such as wage garnishments, child support and tax levies; and (f) voluntary savings through savings bonds, credit unions, or other financial institutions (collectively, the "Employee Deductions"). TWG forwards amounts equal to the Employee Deductions from its general operating account to appropriate third-party recipients. Due to the commencement of this Chapter 11 Case, these funds may have been deducted from employee paychecks but may not have been forwarded to appropriate third-party recipients.

62. As of the Petition Date, the Debtor estimates that the unremitted Employee Deductions total approximately \$2,000.00. The Debtor seeks authority to forward the Employee Deductions to the appropriate parties.

63. I believe that the Debtor's ability to forward the Employee Deductions to the appropriate parties is in the best interests of the Debtor and its estate.

(v) Employee Benefits

64. Prior to the Petition Date and in the ordinary course of its business, TWG established various plans and policies to provide their employees with medical, dental, prescription drug, disability, life insurance and other similar benefits (collectively the "Employee Benefits"). The Debtor seeks authority to pay prepetition Employee Benefits in an amount not to exceed the priority claim cap established in Section 507(a)(5) of the Bankruptcy Code. These Employee Benefits are described below.

(vi) Health Benefits

65. An important element of the Employee Benefits is the availability of medical benefits. As with the Unpaid Compensation, employees, their families and dependents

rely on the Company to provide continuing health care. Any failure to pay these amounts would be injurious to employee welfare, morale and expectations.

(vii) Medical Insurance

66. All eligible employees may choose a health plan for themselves and their families from the offerings of TWG's insurance carrier. The Company and its employees share in the premium payment, with the employees' shares being deducted from their semi-monthly paychecks. The Company and the employees' shares of the premium payments are remitted monthly to the insurance carrier.

(viii) Dental Insurance

67. All eligible employees may choose to have a dental plan for themselves and their families from the offerings of TWG's insurance carrier. The premium payments are deducted from the employees' paychecks on a semi-monthly basis and remitted monthly to the insurance carrier.

(ix) Life Insurance and Disability Benefits

68. TWG automatically provides basic life insurance and long-term disability benefits to eligible employees. TWG pays monthly premiums in the approximate amount of \$450. The aggregate amount payable by the Company for the premiums as of the Petition Date is approximately \$450. The Debtor requests authority to continue to pay these amounts in the ordinary course of business.

(x) Corporate Benefits.

69. Before the Petition Date and in the ordinary course of its business, TWG reimbursed employees and directors for certain expenses incurred in the scope of their employment. As of the Petition Date, the Debtor estimates, based upon average monthly

expenditures, that it owes approximately \$1,500 to employees and/or directors consisting of prepetition expenses relating to, among other things, business related travel expenses, business meals, relocation allowances, phone costs, tuition reimbursement, membership in professionals associations, seminars and other job related training expenses, relocation/moving expenses, car expenses, mileage reimbursement, and miscellaneous business expenses (collectively, the "Reimbursable Employee Expenses"). All such Reimbursable Employee Expenses were incurred on the Company's behalf, by employees of the Company, and with the understanding on the part of the employees that such expenses would be reimbursed. Accordingly, to avoid harm to such employees, the Debtor seeks to be authorized to pay the Reimbursable Employee Expenses to the employees in the ordinary course of business, consistent with past practice.

70. I believe that the payment of the Employee Benefits and the Reimbursable Employee Expenses is in the best interests of the Debtor's estate and its creditors.

(xi) Workers' Compensation

71. There are currently no known workers' compensation claims pending against the Company. To the extent the Debtor subsequently learns of any workers' compensation claims that arose prior to the Petition Date, the Debtor seeks authority to pay and/or contest in good faith, as appropriate in the Debtor's business judgment, all amounts related to workers' compensation claims that arose prior to the Petition Date, including without limitation, any payments to insurers required as a result of such claims.

D. Authorization to Continue the Use of Existing Bank Accounts and Business Forms

72. I believe that continued use of the current bank accounts is the only way to preserve the ongoing business of the Debtor without serious interruption to its customers and employees.

73. Prior to the Petition Date and in the ordinary course of its business, TWG maintained a number of operational bank accounts (collectively, the "Bank Accounts").

74. The office of the United States Trustee has established certain operating guidelines for debtors-in-possession. One such provision requires a Chapter 11 debtor-in-possession to open new bank accounts and close all existing accounts. This requirement is designed to provide a clear line of demarcation between prepetition and postpetition claims and payments and help to protect against the inadvertent payment of prepetition claims by preventing the debtor-in-possession's banks from honoring checks drawn prior to the Petition Date.

75. Notwithstanding the foregoing, the Debtor has an immediate need to continue the Bank Accounts and the Debtor's cash management system without interruption and believe that its transition to Chapter 11 will be much more orderly and efficient, with a minimum amount of disruption and harm to its business operations, if the Bank Accounts are continued postpetition with the same account numbers and without interruption. Accordingly, the Debtor hereby requests immediate authority to (i) maintain the Bank Accounts in the ordinary course of business and (ii) to pay any ordinary course postpetition bank fees that may be incurred in connection with the Bank Accounts. Although the Debtor has requested authority to keep the Bank Accounts open, there may be circumstances where the Debtor finds it appropriate to close certain of the Bank Accounts in order to avoid paying prepetition indebtedness not authorized under the orders granting the First Day Motions entered by this Court in this Chapter 11 Case. The Debtor reserves the right to reopen any accounts and, to the extent that any accounts are reopened, such accounts shall not be designated as "Debtor-in-Possession" accounts for the reasons stated above.

76. By preserving business continuity and avoiding monumental disruption and delay to payroll and daily business operations that would necessarily result from the closing of the Bank Accounts and the opening of new bank accounts, all parties in interest, including the Debtor's employees, vendors and customers, will be best served by continuing to maintain the Bank Accounts. The benefit to the Debtor's estate will be considerable by eliminating the confusion that would otherwise result absent the relief requested herein.

77. The Debtor has concurrently filed a First Day Motion of Debtor For Entry of An Order (A) Authorizing, But Not Requiring, Payment of Certain Prepetition (i) Wages, Salaries, and Other Compensation, (ii) Employee Medical and Similar Benefits, (iii) Reimbursable Employee Expenses, and (B) Authorizing and Directing Applicable Banks and Other Financial Institutions To Receive, Process, Honor and Pay All Checks Presented For Payment And to Honor All Electronic Payment Requests Made By the Debtor Relating to the Foregoing (the "Employee Wage Motion"). To minimize the personal hardship employees will suffer if the prepetition employee-related obligations described in the Employee Wage Motion are not paid when due, and to maintain employee morale at this critical juncture of this Chapter 11 Case, the Debtor has asked for entry of an order approving the Employee Wage Motion as a "First Day Motion". It is imperative that the Debtor's Bank Accounts and cash management system remain in place without interruption to support the payments that will be made to employees if the Employee Wage Motion is granted.

78. The Debtor also has concurrently filed a First Day Motion For Interim Order (i) Authorizing Debtor To Obtain Postpetition Financing Pursuant to 11 U.S.C. § 364(c) and 364(d); (ii) Granting Liens and Superpriority Claims; (iii) Authorizing the Use of Cash Collateral; and (iv) Scheduling A Final Hearing (the "DIP Motion"). Among other things, the

DIP Motion seeks immediate entry of an order without notice approving the financing sought by the DIP Motion, which financing, in part, will be used immediately to free funds necessary to fund payroll and operating expenses so that the Debtor's' business operations will not be disrupted. It is imperative that the Debtor's Bank Accounts and cash management system remain in place without interruption to support such payments if the DIP Motion is granted.

79. In addition, to minimize expenses to the Debtor's estate, the Debtor requests authorization to continue to use the current correspondence and business forms, including, but not limited to, invoices, purchase orders and related vendor communications and documents, letterhead, envelopes, promotional materials, order forms and other business forms (collectively, the "Business Forms"), substantially in the form existing immediately before the Petition Date, without reference to the Debtor's status as a debtor-in-possession.

80. If the Debtor is not permitted to maintain and utilize the current Bank Accounts and continue to use its existing Business Forms, it will be adversely impacted by (i) the resulting disruption to its ordinary financial affairs and business operations, (ii) the delay of the administration of its estate and (iii) the incurrence of unnecessary costs to the estate.

81. In the ordinary course of its business, TWG maintained an intricate and efficient centralized cash management system, which facilitates cash forecasting and reporting, monitors the collection and disbursement of funds and administers the various bank accounts required to effect the collection, disbursement and movement of cash.

E. Postpetition Financing

82. Historically, TWG's operations have been financed primarily through cash flow from its various servicing contracts.

83. The Debtor is projected to incur significant costs and expenses in the administration of its Chapter 11 case that will be in addition to historic operating expenses. The Debtor will not generate sufficient funds from operations to cover these additional expenses.

84. The Chapter 11 case is necessary to effect the recapitalization of the Debtor through a sale transaction.

85. The Debtor does not have sufficient liquidity or cash flow to operate its business postpetition until such time as it can consummate a sale transaction, and is unable to obtain postpetition financing on an unsecured basis.

86. In the DIP Motion, the Debtor seeks authority to obtain postpetition secured and super-priority financing, subject to a Carveout for U.S. Trustee and professional fees and subject to valid prepetition liens.

87. Newco has stepped forward to be both the DIP Lender to the Debtor, and the Stalking Horse Bidder for the Debtor's assets. Newco is owned 100% by 221 Partners Fund, L.P. ("221 Partners"). 221 Partners owns 57.72% of Inservico. Inservico owns 62.47% of the Debtor.

88. Newco is willing to extend secured credit to the Debtor subject to the agreed terms, conditions, and limitations set forth in the DIP Agreement and the Interim Order.

89. I believe it is in the best interest of the Debtor, the Debtor's estate, and its creditors for the Debtor to be allowed to obtain secured credit from Newco on the conditions set forth in the DIP Motion.

F. Use Of Cash Collateral

90. The U.S. Small Business Administration, as Receiver for Cardinal Growth, L.P. (the "Receiver") asserts a claim against Debtor in the amount of \$52,475.84 (the

"Receiver's Claim") under a certain Credit Enhancement and Security Agreement dated as of June 30, 2009 (the "Credit Agreement") which the Receiver asserts is secured by a lien against all assets of the Debtor (the "Receiver's Lien"). The Debtor disputes the amount of the Receiver's Claim, and contends that under the terms of the Credit Agreement, the Receiver's Lien should have been terminated prior to the Petition Date.

91. The proposed postpetition financing is expressly subordinate to Permitted Liens, which will include the Receiver's Lien if the Receiver's Lien is ultimately determined to be valid, enforceable and perfected.

92. The Debtor's assets include its cash and cash equivalents ("Cash Collateral"). The Receiver asserts an interest in Cash Collateral by way of the Receiver's Lien.

93. As and for adequate protection to the Receiver for the use of its Cash Collateral, the Debtor proposes to (a) grant the Receiver a replacement lien in and to the Debtor's postpetition Cash Collateral, which lien shall have the same validity and priority as the Receiver's Lien, and (b) segregate and hold in escrow proceeds from the sale or disposition of its assets in the amount of \$52,475.84, pending a determination of the validity and priority of the Receiver's Lien and the allowed amount of the Receiver's Claim.

94. It is essential for the ability of the Debtor to continue its business operations that the Debtor be authorized to use its Cash Collateral. I believe that the interest of the Receiver in the Cash Collateral, to the extent it exists, will be adequately protected by the grant of replacement liens and segregation of sale proceeds as proposed by the Debtor.

G. Remission Motion

95. In the ordinary course of TWG's business, pursuant to the IR7 Servicing Agreement and the Subservicing Agreement, IR7 makes monthly payments to TWG (the "IR7

Monthly Payment") that consists of three components: (i) the servicing fee payable to the Debtor; (ii) the reimbursement of expenses allowed by the IR7 Servicing Agreement payable to the Debtor or third parties; and (iii) the sum of monthly commissions (the "Commission Monies") due by IR7 to agents or brokers (the "IR7 Downline Agents"). TWG and IR7 have this arrangement to facilitate payment of the Commission Monies to the IR7 Downline Agents because IR7 does not maintain bank accounts with outgoing wire and check writing authority.

96. Further, as part of TWG's servicing to the SPVs, from to time TWG receives funds directly by wire or check that are the property of a SPV in which TWG has no interest and, as part of TWG's servicing obligation to the SPV, TWG is obligated to remit to the appropriate SPV (the "SPV Receipts"). In the ordinary course of business, as and when the SPV Receipts are received, (i) if by wire into the Operating Account, TWG causes a wire in the same sum to be sent to the appropriate SPV, and (ii) if by check, TWG endorses the check and remits the same to the appropriate SPV (collectively, the "SPV Trust Disbursements").

97. Neither the Commission Monies nor the SPV Receipts are the property of TWG. Rather, TWG receives and holds such funds in trust, for disbursement in accordance with TWG's agreements and obligations to IR7 and TWG's other SPVs.

98. It is essential for the ability of the Debtor to continue its business operations that, in accordance with the requests set forth in the Remission Motion, the Debtor be authorized to continue to remit (i) the Commission Monies to the IR7 Downline Agents in accordance with its obligations to and the instructions of IR7, and (ii) the SPV Receipts via the SPV Trust Disbursements to the appropriate SPV.

Summary

99. The Debtor's goal is to minimize any loss of value of its business during its restructuring and to continue to fulfill the servicing contracts for those entities dependent upon its operations. The Debtor's immediate objective is to maintain a business as usual atmosphere during the early stages of this Chapter 11 Case, with as little interruption or disruption to the Debtor's operations as possible. I believe that if the Court grants the relief requested in each of the First Day Motions, the prospect for achieving these objectives and completing a successful reorganization of the Debtor's' business will be substantially enhanced.

Pursuant to 26 U.S.C. §1746, I declare under penalty of perjury that the foregoing is true and accurate.

Mark Hardy

President

STATE OF INDIANA)
) SS:
COUNTY OF Marion)

Subscribed and sworn to before me this 14th day of September, 2012.

Sarah B. Herendeen

Notary Public
Printed Name: Sarah B. Herendeen
A resident of Marion County,
Indiana

My Commission Expires: July 6, 2019