

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION**

In re:

Chapter 11

ALOUETTE HOLDINGS, INC.,

Case No. 19-36126-KRH

Debtor.

**DECLARATION OF BRET A. BERNECHE, PRESIDENT AND
CHIEF EXECUTIVE OFFICER OF ALOUETTE HOLDINGS, INC.
IN SUPPORT OF CHAPTER 11 PETITION**

I, Bret A. Berneche, of full age, state that the following is true and correct to the best of my knowledge, information and belief:

1. I am the President, Chief Executive Officer, and owner (as Tenants by the Entirety with my wife, Dorothy Berneche) of Alouette Holdings, Inc. (“Alouette” or the “Debtor”), a Virginia stock corporation. Given my current role, I am familiar with the day-to-day operations, business and financial affairs of the Debtor.

2. On November 20, 2019 (the “Petition Date”), the Debtor filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). As explained in more detail below, the Debtor has commenced this chapter 11 case (the “Bankruptcy Case”) to maximize the value of its assets for the benefit of its creditors despite its crippling financial distress.

3. I submit this affidavit: (a) to explain to the Court and other interested parties the circumstances that compelled the Debtor to seek relief under the Bankruptcy Code, and (b) in support of the relief requested in the *Debtor’s Motion for Entry of Interim and Final Orders Authorizing Post-Petition Financing* (the “DIP Motion”). Except as otherwise indicated, all facts set forth in this affidavit are based upon my personal knowledge and/or the knowledge I have

acquired from those who report to me, my review of relevant documents, or my opinion based upon experience, knowledge and information concerning the Debtor's operations and financial condition. If called upon to testify, I could and would testify competently to the facts set forth herein. I am duly authorized to submit this affidavit.

A. Company Background

4. The Debtor is a Virginia stock corporation. The Debtor was formed in 1992 to purchase Cardinal Homes, Inc. ("Cardinal").

5. The Debtor owns two primary assets: (i) 100% of the stock of Cardinal, a custom manufacturer of modular homes and (ii) six (6) contiguous parcels of real estate in Charlotte County, Virginia, a portion of which is used for the operation of Cardinal.

6. At the time the Debtor was formed, Cardinal's revenue was \$6.3 million per year. From 1992 to 2005, Cardinal's revenue grew at a compound annual growth rate of 8.5%. The company's growth was attributable to strong demand, improved operations, and an upgraded manufacturing facility.

7. In 2013, Cardinal's growth naturally required additional working capital, which was obtained from a third party individual investor (the "Investor"). In connection with the working capital financing, the Investor was also given a controlling interest in Cardinal.

8. Revenue growth at Cardinal suffered under the Investor's leadership, and in 2016 the Investor was bought out with a portion of the proceeds of a loan with Newtek Small Business Finance, LLC ("Newtek") (see Prepetition Capital Structure below). In the aggregate, Newtek made three loans totaling \$5.2 million to Alouette and Cardinal in 2016 and 2017 to facilitate working capital needs, debt refinancing, and the buyout of the Investor.

B. Events Leading to Bankruptcy

9. Cardinal did not have the borrowing capacity to finance its increasing working capital needs. Therefore, despite healthy demand, the growth and operating profits of Cardinal were hampered from 2016 forward. Since the buyout of the Investor, I have contacted many parties to obtain financial support or working capital financing to no avail. Sales from 2016 to 2019 (annualized 03/19) increased from \$3.1 million to \$8.1 million, respectively, which has accentuated Cardinal's working capital deficiency.

10. In May 2019, Kituwah LLC ("Kituwah"), a limited liability company formed as a wholly-owned subsidiary of the Eastern Band of Cherokee Indians, contacted me and expressed an interest in purchasing the assets of Alouette and Cardinal in a Chapter 11 bankruptcy case. Kituwah also agreed to provide debtor-in-possession financing ("DIP") to fund the Chapter 11 proceedings and the marketing process for the targeted assets.

11. Specifically, Kituwah has offered to provide a \$750,000 debtor-in-possession loan facility (the "DIP Facility") that is described in detail in the DIP Motion and agreed in principle to purchase the assets of Cardinal and Alouette for \$4 million in cash and the assumption of \$1.5 million in customer deposits (the "Stalking Horse Offer").

12. After seeking alternative postpetition loan arrangements from third parties and other possible stalking horse bids, I determined that it was in the best interest of the creditors of Alouette and Cardinal to proceed with the filing of the Bankruptcy Case, the DIP Motion and to move forward to negotiate the terms of the Stalking Horse Offer, including the bidding procedures and the sale process. As of the date of this Affidavit, the specific terms of the Stalking Horse Offer, the bidding procedures and the sale process have not been fully negotiated with Kituwah.

13. I determined in my business judgment that the filing of this Bankruptcy Case prior to the completion of the negotiations of the specific terms of the Stalking Horse Offer was in the best interest of the creditors of Alouette because such filing was necessary to preserve an avoidance action against one of the prepetition secured lenders.

14. While the Debtor requested a larger DIP Facility (on the basis that more was needed to reach an optimal production rate), Kituwah was only willing to provide \$750,000 in financing and only on the specific terms provided for in the DIP Facility as described in the DIP Motion. The Debtor is nonetheless confident that it can successfully operate a scaled-back operation during the Chapter 11 proceeding and marketing process and maintain going concern operations through the date of a sale.

15. Alouette is currently preparing to file a Chapter 11 petition for Cardinal (its operating subsidiary) in the Eastern District of Virginia on December 2, 2019.

C. Prepetition Capital Structure

16. Alouette and Cardinal are co-borrowers on a majority of the prepetition debt as illustrated in the table below.

Prepetition Capital Structure

<u>Lender</u>	<u>Obligor</u>	<u>Outstanding Balance</u>	<u>As Of Date</u>
Newtek - 100593	AHI, CHI	\$ 3,596,941	11/27/19
Newtek - 102092	AHI, CHI	487,468	11/27/19
Newtek - 120249	AHI, CHI	393,468	11/27/19
Howard	AHI, CHI [1]	683,099	11/20/19
PIRs Capital	AHI, CHI [2]	140,557	10/30/19
Kituwah, LLC	AHI, CHI	300,000	10/11/19
Berneche - Related Pty	CHI	134,530	10/30/19
		<u>\$ 5,736,062</u>	

1. AHI is a guarantor.

2. PIRs has a subordinate lien on CHI assets. Original advance amount was \$363,000. AHI is a guarantor.

17. As previously discussed, three Newtek loans were originated in 2016 and 2017 in the aggregate amount of approximately \$5.2 million. The aggregate balance has been amortized to approximately \$4.5 million as of the petition date. Alouette and Cardinal are both obligated under the Newtek loans

18. The remaining debt obligations of Cardinal and Alouette are as follows:

a. Benson Howard. Mr. Howard advanced \$615,000 of working capital during 2018. The current balance of \$683,099 includes accrued interest.

b. PIRs Capital LLC. PIRs Capital LLC (“PIRs”) made a merchant capital advance of \$363,000 in December 2018. The current outstanding balance of the PIRs obligation is \$140,557.

c. Kituwah LLC. In the initial phases of the discussions with Kituwah, on October 11, 2019 Kituwah provided \$250,000 of financing to Cardinal and Alouette and obtained a subordinate lien on the assets of both companies. In addition, in November 2019, Kituwah advanced another \$50,000 under a similar agreement.

d. Bret A. Berneche. Lastly, in December 2016, I converted a prior note in the amount of \$129,112 to Cardinal to create an unsecured obligation to me personally. The original advance was used to fund working capital requirements, as part of the Newtek closing. The current balance includes accrued interest.

D. Exit Strategy

19. The Debtor plans to operate Cardinal in Chapter 11 using the proceeds of the DIP Facility and simultaneously market the assets of Alouette and Cardinal to strategic and financial buyers. After an adequate marketing period and the conclusion of due diligence, the Debtor will conduct an auction of the Alouette and Cardinal assets, using the Stalking Horse Offer as a

foundation to qualified bidders. The Debtor believes this sale will maximize stakeholder recoveries, secure a viable pathway to future growth for Cardinal, and ensure that Cardinal continues to operate as a going concern for the benefit of its customers, vendors, and employees.

In furtherance of its efforts to maximize the value of the estate, the Debtor respectfully requests that an order granting the interim relief requested in the DIP Motion be entered. Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: November 21, 2019

/s/ Bret A. Berneche
Bret A. Berneche, President and
Chief Executive Officer of Alouette
Holdings, Inc.