

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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In re: : Chapter 11
SPORTSMAN'S WAREHOUSE, : Case No. 09-10990 (____)
INC., et al., :
Debtors.¹ : Jointly Administered
- - - - - x

DECLARATION OF ROURK D. KEMP, CHIEF FINANCIAL
OFFICER OF SPORTSMAN'S WAREHOUSE, INC., IN
SUPPORT OF CHAPTER 11 PETITIONS AND
FIRST DAY PLEADINGS

I, Rourk D. Kemp, being duly sworn, deposes
and says:

1. I am the Chief Financial Officer of
Sportsman's Warehouse, Inc. ("SWI"), a company
incorporated under the laws of the state of Utah, and of
each of the other debtors and debtors-in-possession in
the above-captioned chapter 11 cases (collectively, the
"Debtors" or "Sportsman's Warehouse"). I am authorized
to submit this Declaration in support of the Debtors'

¹ The Debtors and the last four digits of their respective
taxpayer identification numbers are as follows: Sportsman's
Warehouse, Inc. (2614), Pacific Flyway Wholesale, Inc. (5734),
Minnesota Merchandising Corp. (2908), Sportsman's Aviation,
LLC (4736), Sportsman's Warehouse Southwest, Inc. (8590), and
Sportsman's Warehouse Holdings, Inc. (5614).

chapter 11 petitions and the first day pleadings described herein.²

2. I am familiar with the Debtors' day-to-day operations, business affairs, and books and records. I have also reviewed the Debtors' "First Day Motions and Orders" and am familiar with the facts alleged therein and relief requested. Except as otherwise indicated, I have personal knowledge of the matters set forth herein or have gained knowledge of such matters from the Debtors' employees or retained advisers that report to me in the ordinary course of my responsibilities as Chief Financial Officer and, if called as a witness, would testify thereto.³

A. The Bankruptcy Cases.

3. On the date hereof (the "Petition Date"), Sportsman's Warehouse Holdings, Inc. ("SW Holdings") and its direct and indirect subsidiaries (the "Subsidiary Debtors") each commenced a case by filing a petition for

² Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the relevant First Day Motion (defined below).

³ Certain of the disclosures herein relate to matters within the knowledge of other employees of the Debtors and are based on information provided by them.

relief in this Court under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code").

B. The Debtors' Business and Recent Performance.

4. Based in Midvale, Utah, the Debtors operate large format retail sporting good stores offering outdoor equipment, apparel, footwear and accessories as well as casual apparel and footwear. Sportsman's Warehouse distinguishes itself from many other sporting goods stores by focusing exclusively on serving the outdoor enthusiast. Specifically, Sportsman's Warehouse serves as a one stop supplier of goods related to fishing, hunting, camping and other outdoor activities.

5. As set forth in more detail below, the Debtors recently sold fifteen (15) stores and are in the process of closing twenty-three (23) additional stores. As of the Petition Date, the Debtors continue to operate twenty-nine (29) stores as a going concern under the Sportsman's Warehouse name in the following states: Alaska, Arizona, California, Colorado, Florida, Iowa, Idaho, Kentucky, Montana, New Mexico, Nevada, Oregon, South Carolina, Tennessee, Utah and Wyoming. The

Debtors also maintain a website, www.sportsmanswarehouse.com, for, among other things, customer service and online gift card sales.

6. The Debtors' stores are staffed with highly-trained sales associates. As of the Petition Date, the Debtors employed approximately 3,245 full- and part-time employees in their stores, their corporate headquarters and distribution facilities.

7. As of December 31, 2008, the Debtors' books and records reflected total combined assets of approximately \$436,348,000 (book value) and total combined liabilities of approximately \$452,160,000. Notwithstanding the substantial efforts of the Debtors and their employees, for the fiscal year ending October 31, 2008, the Debtors generated revenues of approximately \$741,547,000 but incurred net operating losses of approximately \$24,834,000.

C. The Debtors' Corporate Structure.

8. SW Holdings is the direct or indirect parent company of each of the Subsidiary Debtors. Founded in October 1999 to acquire SWI and Pacific Flyway Wholesale, Inc., SW Holdings is a privately-held

Utah corporation. Since its formation, the Utgaard family collectively controls, and has controlled, a majority of the common stock of SW Holdings.

9. In November 2007, Seidler Equity Partners, through SEP SWH Holdings, L.P. ("Seidler"), acquired 2,173,913 shares of Series A Convertible Preferred Stock (the "Seidler Preferred Shares"), representing approximately 25% of the equity of SW Holdings on an as converted basis, making it the largest single equity holder in SW Holdings.

10. The Subsidiary Debtors are all direct or indirect wholly owned subsidiaries of SW Holdings. Specifically, SW Holdings owns 100% of SWI, a Utah corporation, Pacific Flyway Wholesale, Inc., a Utah corporation, and Minnesota Merchandising Corp., a Minnesota corporation. In turn, SWI owns 100% of Sportsman's Warehouse Southwest, Inc., a California corporation, and Sportsman's Aviation, LLC, a Delaware limited liability company.

D. The Debtors' Pre-Filing Debt Structure.

Secured Debt

11. **The GECC Revolving Credit Facility.** On October 31, 2007, the Subsidiary Debtors entered into a loan agreement, guaranteed by SW Holdings, that provided for a revolving credit facility with various lenders, with General Electric Capital Corporation ("GECC") as agent (as amended, the "GECC Revolving Credit Facility"). The GECC Revolving Credit Facility is secured by a first priority lien on and security interest in substantially all of the assets of the Debtors other than land, real estate, furniture, fixtures and equipment. As of the Petition Date, the amount outstanding under the GECC Revolving Credit Facility was approximately \$33.5 million.

12. **The GB Term Loan Agreement.** On January 11, 2008, the Subsidiary Debtors entered into a term loan and security agreement (the "GB Term Loan Agreement"), guaranteed by SW Holdings, pursuant to which various lenders, with GB Merchant Partners, LLC ("GB Merchant") as agent, provided a term loan in the principal amount of \$20 million. The obligations under

the GB Term Loan Agreement are secured by a second priority lien on and security interest in the same collateral securing the GECC Revolving Credit Facility. As of the Petition Date, the principal amount outstanding under the GB Term Loan Agreement was approximately \$16 million.

13. The UFA Bridge Loan Agreement. On November 17, 2008, SWI entered into a term loan and security agreement (the "UFA Bridge Loan Agreement") pursuant to which UFA Holdings, Inc. ("UFA") provided \$30 million of debt financing (the "UFA Bridge Loan") to SWI, as borrower, with the other Debtors as guarantors. The UFA Bridge Loan was secured by the furniture, fixtures and equipment and related personal property (excluding inventory and accounts) related to fifteen (15) identified stores. As set forth in more detail below, the purpose of the UFA Bridge Loan was to provide liquidity to the Debtors pending the consummation of a proposed transaction with UFA. On March 10, 2009, a sale transaction with UFA closed and the obligations under the UFA Bridge Loan were setoff against the purchase price. After consummation of the sale to UFA,

UFA contends that the Debtors are obligated to UFA under a pre-Petition Date purchase order in the amount of approximately \$6.5 million, which amount the Debtors maintain is subject to offset and is unsecured.

Subordinated Debt

14. On February 1, 2008, SW Holdings issued \$25 million principal amount of subordinated debt to Seidler (the "Seidler Subordinated Note").

15. In addition to the subordinated debt issued to Seidler in 2008, previously, and from time to time, SW Holdings raised capital through the private placement of subordinated debt to accredited investors. As of the Petition Date, there was approximately \$7.7 million principal amount of such subordinated debt outstanding.

E. Events Leading to the Filing of the Chapter 11 Cases.

16. Sportsman's Warehouse is another retailer victim of the worldwide global recession. Prior to its current financial condition, Sportsman's Warehouse experienced significant growth over the past decade. The largest growth came during fiscal years 2006 and

2007 with the opening of twenty-one (21) stores during this two year period. By the end of 2007, however, Sportsman's Warehouse suffered its first decline in same sale stores from a combination of inventory replenishment problems and the commencement of the national economic slowdown.

17. To address its liquidity problems, in the five month period from October 2007 through February 2008, Sportsman's Warehouse refinanced its existing secured bank loan with the GECC Revolving Credit Facility, issued the Seidler Preferred Shares, and incurred indebtedness under the GB Term Loan and the Seidler Subordinated Note.

18. Despite this capital infusion, by the fall of 2008 Sportsman's Warehouse was continuing to suffer inventory replenishment issues due to limited liquidity. This liquidity crisis, which was occurring prior to the all important holiday season, was greatly exacerbated by (i) Seidler's exercise of its contractual option to put the Seidler Preferred Shares back to the Debtors and (ii) covenant defaults under the GB Term Loan, which would cross default the GECC Revolving

Credit Facility in the event that GB Merchant exercised its remedies under the GB Term Loan. To address this liquidity crisis, the Debtors aggressively pursued an equity investment or other transaction.

UFA Transaction

19. United Farmers of Alberta Co-operative ("UFA CO-OP"), a Canadian company, was identified as a potential transaction partner, and quickly emerged as the only party willing to consider making an investment in the Debtors in the timeframe necessary to satisfy the Debtors' imminent business needs. Thereafter, after arm's length negotiations, UFA CO-OP entered into a Letter of Intent dated November 3, 2008 (the "Letter of Intent") with SW Holdings and Seidler pursuant to which UFA CO-OP agreed to subscribe for 80% of the common stock of SW Holdings for a capital investment of approximately \$90 million (the "Subscription Transaction"). Because of the pending transaction with UFA CO-OP, Seidler, GB Merchant and GECC agreed to forbear exercising any remedies at that time to allow the consummation of a transaction with UFA CO-OP.

20. The anticipated closing of the Subscription Transaction as set out in the Letter of Intent was December 2008. Given the substantial liquidity needs of SW Holdings known to UFA CO-OP at the time the Letter of Intent was entered into, UFA, a newly formed subsidiary of UFA CO-OP, agreed to provide the \$30 million UFA Bridge Loan, which was executed on November 17, 2008. Also, on November 17, 2008, UFA, SW Holdings and SWI entered into that certain Asset Purchase Agreement (the "UFA APA") providing for the purchase by UFA of fifteen (15) Sportsman's Warehouse stores in the event that the Subscription Agreement did not close by January 10, 2009 and the UFA Bridge Loan was not repaid by February 10, 2009.

21. The sale to UFA of fifteen (15) stores under the UFA APA (as amended) closed on March 10, 2009, resulting in an approximate \$35 million paydown of the GE Revolving Credit Facility and a setoff of the obligations to UFA under the UFA Bridge Loan.

Store Closings

22. Prior to the Petition Date, in addition to obtaining capital, the Debtors undertook efforts to

cut costs, streamline operations, and increase profitability. To that end, the Debtors determined that it was necessary to close certain underperforming or otherwise unprofitable retail stores. During 2008, the Debtors closed six (6) stores.

23. By early 2009, the Debtors in their business judgment, however, determined that a more aggressive closing of underperforming stores was necessary to preserve the Debtors' core business. In February 2009, the Company began soliciting offers from potential liquidation firms to conduct store closing sales (the "Store Closing Sales") at not fewer than twenty-three (23) stores (the "Store Closing Locations") and to liquidate the Company's inventory and certain other assets therein. As set forth in more detail below, the Debtors conducted an auction process to select a liquidation firm to conduct Store Closing Sales at the Store Closing Locations.

24. On March 7, 2009, the Debtors concluded the auction process and selected Gordon Brothers Retail Partners, LLC (the "Agent") as the agent to conduct the Store Closing Sales. On March 10, 2009, the Agent and

the Company executed the Agency Agreement and the Agent began preparing for the Store Closing Sales. On March 11, 2009, the Agent began the Store Closing Sales at the Store Closing Locations.

F. Objectives Of The Chapter 11 Filing.

25. The Debtors commenced these Chapter 11 cases to obtain the benefits of the automatic stay to promptly and efficiently restructure their capital structure and operational footprint. In that regard, the Debtors have commenced these cases having already taken the following significant steps: (i) closing six (6) stores and eliminating unessential overhead costs; (ii) selling fifteen (15) stores to UFA; (iii) commencing a process that will enable them to rapidly and efficiently close twenty-three (23) stores in unsuitable markets that do not fit their operating plan for the future; (iv) securing adequate financing for these chapter 11 cases; and (v) beginning discussions and negotiations to consummate either a sale or plan of reorganization centered on the ongoing operations of a smaller, viable chain of Sportsman's Warehouse stores.

I. FIRST DAY MOTIONS AND ORDERS.

26. In furtherance of these objectives, the Debtors expect to file a number of first day motions (the "First Day Motions") and proposed orders, each as listed on the attached Exhibit A, and respectfully request that the Court consider entering the proposed orders granting such First Day Motions. I have reviewed each of the First Day Motions and Orders (including the exhibits thereto) and the facts set forth therein are true and correct to the best of my knowledge, information and belief. Moreover, I believe that the relief sought in each of the First Day Motions and Orders (a) is vital to enable the Debtors to make the transition to, and operate in, chapter 11 with minimum interruption or disruption to their businesses or loss of productivity or value and (b) constitutes a critical element in achieving the Debtors' successful reorganization.

A. Administrative Motions.

27. The Debtors have filed two "administrative" motions that seek to have the bankruptcy cases jointly administered and Kurtzman

Carson Consultants, LLC ("KCC") retained as claims and noticing agent, as noted in items 1 and 2 on Exhibit A hereto.

28. The Debtors are requesting that the chapter 11 case of each of the Debtors be jointly administered. As set forth above, SW Holdings is the direct or indirect parent of all of the Subsidiary Debtors, and, therefore, the Debtors are affiliated entities. I believe that the joint administration of these cases and the other relief requested in this motion will avoid the unnecessary time and expense of duplicative motions, applications, orders and other pleadings, thereby saving considerable time and expense for the Debtors and resulting in substantial savings for their estates.

29. The Debtors also seek authority to retain KCC as claims, noticing and balloting agent in these bankruptcy cases. I understand that such appointment is required by the rules of this Court. Moreover, such relief is prudent in light of the thousands of creditors and potential creditors and parties in interest to whom certain notices will be sent. Accordingly, I believe

that the most effective and efficient manner by which to give notice and provide solicitation services in these cases is to engage an independent third party to act as agent of the Court.

B. Motions to Continue Certain Banking and Business Practices (Item 3).

30. The Debtors have filed a motion to continue their ordinary course banking practices. In that regard, I understand that the Debtors maintain approximately eighty-eight (88) bank accounts out of which they manage cash receipts and disbursements (the "Bank Accounts"). I believe that all of the Bank Accounts are in financially stable banking institutions, and, with the exception of one account, are fully insured by FDIC insurance (up to an applicable limit per Debtor per financial institution)⁴ and make up an established cash management system that the Debtors need to maintain, in my opinion, in order to ensure smooth collections and disbursements in the ordinary course.

⁴ SWI maintains an account at U.S. Bank for health insurance disbursements, which carries a balance of approximately \$1 million at any time, above the applicable limit for FDIC insurance.

31. In my opinion, the cash management procedures utilized by the Debtors constitute ordinary, usual and essential business practices and are similar to those used by other major corporate retail enterprises. The Debtors' cash management system is highly automated. This allows the Debtors to centrally manage all of their cash flow needs and includes the necessary accounting controls to enable the Debtors, as well as creditors and the Court, to trace funds through the system and ensure that all transactions are adequately documented and readily ascertainable. I believe that the Debtors will continue to maintain detailed records reflecting all transfers of funds.

32. Requiring the Debtors to alter their banking and business practices, including their use of numerous business forms (including, without limitation, letterhead, purchase orders, invoices, contracts and checks) would, I believe, cause enormous disruption in the Debtors' business and would impair the Debtors' efforts to reorganize and pursue other alternatives to maximize the value of their estates. Moreover, such actions would be expensive, unnecessary and burdensome

to the Debtors' estates and disruptive to the Debtors' business operations and would not confer any benefit upon those dealing with the Debtors. Consequently, I believe that maintenance of the existing cash management system and other banking and business practices, as requested in certain of the First Day Motions, during these chapter 11 cases is in the best interests of all creditors and other parties in interest.

C. Waiver of Investment and Deposit Requirements (Item 4).

33. The Debtors have filed a motion seeking a waiver of investment and deposit requirements. As already stated above, the Debtors believe that all of their Bank Accounts are with financially stable banking institutions with FDIC insurance (up to an applicable limit per Debtor per financial institution), except with respect to a health insurance disbursement account, U.S. Bank Account No. xxxxxxxx7421 (the "Health Disbursement Account"), that carries a balance of approximately \$1 million at any time.

34. I believe that the Debtors' use of the Bank Accounts, whether or not they are zero-balance

accounts, substantially conforms with approved investment and deposit practices that are required by the Bankruptcy Code, and that all money deposits are safe and prudent and yield, under the circumstances, the maximum reasonable net return on such money.

35. Furthermore, I understand that the Bankruptcy Code requires certain investment and deposit practices for accounts such as the Health Insurance Disbursement Account. However, I believe that the safety presented by U.S. Bank should allow the Debtors to maintain the Health Insurance Disbursement Account at U.S. Bank in a safe and prudent manner, even though such practice may deviate from the Bankruptcy Code's requirements.

D. Payment of Employee and Payroll Obligations and Certain Taxes (Item 5).

36. The Debtors have also filed a motion to continue certain prepetition wages, compensation and employee benefits. The Debtors' workforce is comprised of full- and part-time salaried and hourly employees. The Debtors employ approximately 3,245 employees, 1,608 of whom are classified as full-time employees and 1,637

of whom are classified as part-time employees. About 2,964 Employees work in the Debtors' retail store locations and approximately 103 employees are employed at the Sportsman's Warehouse distribution center. The remaining 178 are in corporate positions. Approximately 83% of all employees are hourly wage earners and the remaining 17% are salaried personnel.

37. Specifically, the motion seeks authorization to pay prepetition wages, salaries, bonuses, reimbursements, and other compensation, to continue the maintenance of employee benefit programs in the ordinary course of business, and directing all banks to honor prepetition checks for payment of prepetition employee obligations. I believe that without payment of these employee obligations, the Debtors' businesses and operations will be detrimentally impacted through the reduction in employee morale and the potential loss of key employees during a critical time for the Debtors and their businesses.

38. I estimate that there are presently no employees who are owed in excess of \$10,950 for prepetition wages or salaries. Thus, I believe that the

overwhelming majority of all of the Debtors' employees may have a priority claim with respect to all of their accrued but unpaid prepetition wages or salaries, a claim which I am told is granted priority over other claims pursuant to the Bankruptcy Code. Moreover, I understand that failure to maintain workers' compensation insurance in the various states in which the Debtors do business could result in administrative or legal proceedings against the Debtors and their officers and directors.

39. I believe the Debtors must continue to pay the outstanding amounts owed as of the date of this Declaration for accrued and unpaid wages and salaries, including amounts that the Debtors are required by law to withhold from employee payroll checks in respect of federal, state and local income taxes, garnishment contributions, social security and Medicare taxes. I believe that if such payments are not made, employees will terminate their employment with the Debtors, at a time when the need for a well-motivated workforce is most critical, and cause significant disruption to operations.

E. Utilities (Item 6).

40. The Debtors have filed a motion to provide utility companies with adequate assurance of payment and establishing procedures for additional assurance of payments. In connection with the operation of their businesses and the management of their properties, the Debtors receive utility service from various utility companies (the "Utility Companies"), including providers of water, gas, electricity, telephone, and sewer service, (collectively, the "Utility Services") covering a number of utility accounts.

41. Prior to the Petition Date, the Utility Companies provided Utility Services to the Debtors at their fifty-two (52) stores, corporate headquarters and distribution facilities in twenty-six (26) different states. The services provided by the Utility Companies are crucial to the continued operations of the Debtors. I believe that the procedures that the Debtors have proposed for the Utility Companies adequately protect such Utility Companies' rights that I understand are provided to the Utility Companies under the Bankruptcy

Code, while also protecting the Debtors' needs for continuous and uninterrupted Utility Services. Additionally, I believe that all postpetition obligations owed to the Utility Companies will be paid in a timely manner and that the Debtors will have sufficient funds from operations and their proposed postpetition financing to satisfy such obligations.

F. Motions for Payment of Other Critical Business Expenditures.

42. The Debtors have also filed a number of motions seeking authority to make critical business expenditures.

Sales, Use and Other Trust Fund Obligations (Item 7)

43. The Debtors seek authority to pay prepetition sales, use, and other similar "trust fund" taxes (the "Taxes"), fish and game license fees (the "Fish and Game License Fees"), and similar obligations to the respective taxing (the "Taxing Authorities") or other appropriate regulatory authorities in an amount up to \$4.0 million in prepetition obligations. The Debtors, in the ordinary course of their businesses, incur or collect various Taxes, including state and

local sales and use tax liabilities. Sales and use taxes accrue as the Debtors sell merchandise or consume goods and are calculated on the basis of statutorily mandated percentages of the price at which the Debtors' merchandise is sold and/or cost of merchandise consumed. Prior to the Petition Date, the Debtors were, for the most part, current on their obligations with respect to these Taxes. The only potential obligations outstanding represent Taxes that have accrued or have been collected, but are not yet legally due. By way of example of the scope of such obligations, in February 2009, the Debtors accrued approximately \$2.2 million in Taxes.

44. In the ordinary course of their business, the Debtors issue hunting, fishing and game licenses in their stores primarily as a means to encourage traffic. The Debtors are authorized to sell such licenses by various state regulatory authorities ("Regulatory Authorities") in which they conduct business on behalf of such states. Although the mechanics vary between the states, Fish and Game License Fees typically accrue as the Debtors issue various hunting, fishing, and/or gaming licenses to customers in their stores. Customers

pay the Debtors for a particular license and the Debtors are required to remit the Fish and Game License Fees (minus a small commission) to the applicable Regulatory Authorities, either on a weekly or monthly basis. In many cases, the Debtors caused bonds to be issued to the Regulatory Authorities to secure payment of the Fish and Game License Fees.

45. Under the regulatory authority pursuant to which they sell licenses, the Debtors do not own the licenses they sell but issue such licenses only as an agent of the state. Although seasonal in nature, during the present season, the Debtors estimate that they will owe the Regulatory Authorities approximately \$1,345,000 each month for Fish and Game License Fees.

Customer Obligations (Item 8)

46. I believe that the success and viability of the Debtors' business, and ultimately the Debtors' ability to successfully reorganize, are totally dependent upon the patronage and loyalty of their customers. In this regard, I believe that the Debtors' programs aimed at customer satisfaction, including gift cards, layaway arrangements, returns, refunds, exchanges,

price adjustments, rebates and reward points (collectively, the "Customer Satisfaction Programs"), are critical, and any delay in honoring the Debtors' obligations thereunder will severely and irreparably impair customer relations. Among other things, I believe that any failure to honor any claims of customers may well drive away valuable customers, thereby harming the Debtors' efforts to reorganize.

47. Accordingly, honoring such customer obligations, including payments to credit card processors, is in the best interest of the Debtors and their estates. I believe, therefore, that the Debtors should be permitted to pay prepetition claims in connection with such obligations in the ordinary course of business.

Shipping and Delivery Charges (Item 9)

48. In the normal course of their businesses, the Debtors incur certain fees and charges to third party shippers, haulers, common carriers and other transporters. As of the date of this Declaration, I believe that the Debtors will be liable to various common carriers for shipment of the Debtors' merchandise

among the Debtors' vendors, distribution centers and stores and from overseas. Therefore, I believe that the Debtors should be authorized to pay any prepetition shipping charges and customs duties in an amount not to exceed \$1 million in order to avoid the detrimental consequences that may occur if these common carriers are not paid.

49. If these claims are not paid, many of the Debtors' shippers may refuse to perform additional services for the Debtors, requiring the Debtors to replace such shippers, at considerable cost to the Debtors and their estates. I further believe that because of the Debtors' delivery system, if the shippers refused to ship, the Debtors may risk having inadequate in-store inventory. I believe that such an outcome could be potentially devastating to the Debtors' reorganization efforts. Finally, I understand that any delays in payment of shipping charges with respect to goods that are in the possession of the Shippers as of the Petition Date will likely result in the assertion, under applicable law, of possessory liens upon the Debtors' property in the possession of such parties.

Thus, I believe that the Debtors will have no alternative but to pay the Shipping Charges in full in any event in order to effect the release of any liens securing payment of such charges.

Insurance Premiums (Item 10)

50. In connection with the operation of their businesses and management of their properties, the Debtors maintain various insurance policies, including coverage for, among others, workers' compensation claims, commercial automobile claims, ocean cargo claims, fiduciary liability claims, claims for losses due to crime, business travel and accident claims, certain general and excess liability claims, directors' and officers' liability, employers' liability, and various property-related liabilities. I believe that maintenance of insurance coverage under the various Insurance Policies is essential to the operation of the Debtors' business and I am told is required under the United States Trustee's Operating Guidelines for Chapter 11 Cases (the "Operating Guidelines"), the laws of the various states in which the Debtors operate and the Debtors' various financial agreements. I believe that

payment of any Insurance Policy premiums relating to prepetition insurance coverage is necessary to continued coverage under such Policies and to maintain good relationships with the Debtors' insurers.

51. I also believe that it is in the best interests of the Debtors' estates and their creditors to continue their business relationship with their brokers, Diversified Insurance and Lockton Companies, and continue payment of brokerage fees to such brokers. Similarly, I believe that the Debtors should be authorized to continue their practice of financing payment of premiums on various insurance policies.

Critical Vendors (Item 11)

52. The Debtors have filed a motion seeking authority to pay up to \$5 million to certain of their vendors on account of their prepetition claims. In the ordinary course of business, the Debtors purchase their inventory from a large number of vendors. While many of the Debtors' vendors will continue to do business with the Debtors postpetition, I believe that there are certain vendors (the "Critical Vendors") who will (a) refuse to deliver materials, goods and services

without payment of their prepetition claims, (b) refuse to deliver materials, goods and services on reasonable credit terms absent payment of prepetition claims, or (c) suffer significant financial hardship, such that the Debtors' non-payment of prepetition claims could negatively impact the Critical Vendor's business, ultimately impacting its ability to supply the Debtors.

53. In determining which of the Debtors' vendors are critical to the Debtors' businesses, the Debtors used the following criteria: (a) whether the vendor in question is a "sole source" provider; (b) whether quality requirements or other specifications prevent the Debtors from obtaining a vendor's products or services from alternative sources within a reasonable timeframe; (c) if a vendor is not a sole source provider, whether the Debtors have sufficient product in inventory to continue operations while a replacement vendor is put in place; (d) whether a vendor meeting the standards of (a) or (b) is likely to refuse to ship product to the Debtors postpetition if its prepetition balances are not paid; and (e) whether a vendor would suffer significant financial hardship absent the Debtors' payment of

prepetition claims. After applying such criteria, the Debtors identified between twenty (20) and (30) critical vendors who, as of the Petition Date, are owed over \$15 million.

54. I believe that it is in the Debtors' best interest to make payments not to exceed \$5 million toward the Critical Vendors' prepetition claims in exchange for trade terms that are consistent with the historical trade terms between the Debtors and the Critical Vendors. Without such payment, I believe the Debtors will lack the inventory needed for their customers, hindering the Debtors' ability to successfully restructure.

G. Approval of Debtor-in-Possession Financing (Item 12).

55. The Debtors have also sought authority to enter into a postpetition financing agreement with GECC (the "DIP Credit Agreement"), whereby GECC has agreed to provide for a revolving credit facility in an amount not to exceed \$85 million (the "DIP Credit Facility"). For the reasons set forth below, I believe that the Court's approval of this motion is absolutely critical.

56. The Debtors' Immediate Need for Financing.

As set forth above, the Debtors' prepetition secured debt consists of (i) obligations under the GECC Revolving Credit Facility, secured by a first priority lien on and security interest in substantially all of the assets of the Debtors other than land, real estate, furniture, fixtures and equipment, and (ii) obligations under the GB Term Loan, secured by a second priority lien on and security interest in the same collateral securing the GECC Revolving Credit Facility.

57. Substantially all of the Debtors' cash constitutes cash collateral (the "Cash Collateral") of GECC and GB Merchant (together with the lenders under such facilities, the "Prepetition Secured Lenders") under the GECC Revolving Credit Facility and the GB Term Loan Agreement, respectively. Therefore, without immediate authority to use Cash Collateral, it is my understanding that the Debtors would have no cash to sustain their business and would be forced to immediately cease operating as a going concern to the detriment of all stakeholders.

58. Furthermore, under the terms of the GECC Revolving Credit Facility, GECC sweeps the Debtors' excess cash on a daily basis and applies such cash to the Debtors' obligations under the GECC Revolving Credit Facility. The Debtors, therefore, have limited access to immediately available funds.

59. Accordingly, I believe the Debtors have an immediate need to access the DIP Credit Facility and use Cash Collateral in order to permit, among other things, the orderly continuation of the operation of their business and the completion of the restructuring process. The Debtors' access to Cash Collateral is necessary in order to ensure that the Debtors have sufficient working capital and liquidity to operate their businesses and thus preserve and maintain the going concern value of the Debtors' estates, which, in turn, is integral to maximizing recoveries for the Debtors' stakeholders.

60. To secure goods, pay employees and maintain the operation of their business as they restructure, the Debtors must have immediate access to additional financing under the DIP Credit Facility. I

believe that such financing will enable them to retain employees and begin restoring critical relationships, trade terms, and obtain sufficient merchandise to sell to their customers.

61. **The Debtors' Decision to Enter into the DIP Credit Agreement.** Based on GECC's and GB Merchant's senior lien positions and history with the Debtors, these parties were identified as the most likely sources of debtor-in-possession financing. Before deciding to enter into the DIP Credit Agreement, the Debtors conducted vigorous and lengthy arm's-length and good-faith negotiations with GECC and GB Merchant. The Debtors ultimately determined that the proposals for debtor-in-possession financing provided by the DIP Lenders⁵ under the DIP Credit Agreement was the most favorable under the circumstances, and adequately addressed the Debtors' reasonably foreseeable liquidity needs.

⁵ The "DIP Lenders" are the lenders party to the DIP Credit Agreement and GECC in its capacity as agent and lender under the DIP Credit Agreement.

62. The Debtors, therefore, decided, in the exercise of their sound business judgment, that the DIP Credit Agreement provided by the DIP Lenders were the most favorable under the circumstances and best addressed the Debtors' working capital needs.

63. I believe that entry into the DIP Credit Agreement will afford the Debtors valuable additional time to pursue the process of closing underperforming stores while maintaining the value of the Debtors' going forward business. Thus, I believe that entry into the DIP Credit Agreement was in the best interest of the Debtors' estates, creditors and other parties in interest. I would request the Court authorize the Debtors to enter into the DIP Credit Agreement and immediately be permitted to borrow under it.

H. Motion to Reject Unexpired Leases on Nonresidential Real Property (Item 13).

64. As part of their ongoing restructuring efforts, the Debtors have evaluated their current and proposed store locations and markets. As a result, in the months leading up to the commencement of these cases, the Debtors closed six stores and determined to

discontinue the construction of three new stores. The stores that were closed and those that will no longer be constructed are either in markets in the which the Debtors in their business judgment believe they should no longer operate, or are otherwise not consistent with the Debtors' go forward plans.

65. Accordingly, the Debtors seek authority to reject certain leases of non-residential real property at which the Debtors no longer conduct business or no longer plan to open new stores. In connection with the rejection of such leases and where applicable, the Debtors will surrender possession of the premises to the landlord on or before the Petition Date. Rejection of the leases will discontinue further obligations to the landlords and save the Debtors' bankruptcy estates considerable costs. Consequently, I believe that such relief is in the best interests of the Debtors and their estates.

I. Motion to Assume Agency Agreement and Continue Store Closing Sales, and Related Relief (Item 14).

66. As discussed above, prior to the Petition Date, the Debtors undertook efforts to cut costs,

streamline operations, and increase profitability. To that end, like many retail businesses, the Debtors determined that it was necessary to close certain underperforming or otherwise unprofitable retail stores.

67. In February 2009, the Company began soliciting offers from potential liquidation firms to conduct Store Closing Sales at the Store Closing Locations and liquidate the Company's inventory and certain other assets therein. To that end, in or about early March, the Company obtained confidentiality agreements from six national liquidation firms.

68. After discussions with the liquidation firms, the company received three bids: one from a joint venture formed by four of the six liquidation firms, as well as individual bids from the two other liquidation firms. From those bids, the Company selected a stalking horse bidder and the stalking horse bidder and the other bidders participated in a telephonic auction on March 7, 2009 (the "Auction").

69. Based on the stalking horse bid, the joint venture declined to bid at the Auction. However, the remaining two bidders engaged in back and forth

competitive biddings. Ultimately, after evaluating the bids submitted by the Agent and the stalking horse bidder, the Company determined that the Agent's bid was the highest or otherwise best bid, and that proceeding with the Store Closing Sales according to the terms of the Agency Agreement was in its best interest and the best interests of its stakeholders.

70. On March 10, 2009, the Debtors entered into an Agency Agreement with the Agent, pursuant to which the Agent would liquidate the Company's inventory and certain other assets therein. The Agent commenced Store Closing Sales on March 11, 2009. Pursuant to the terms of the Agency Agreement, the Agent has been acting as the exclusive, independent agent of the Debtors to conduct the Store Closing Sales currently ongoing at Store Closing Locations.

71. In order for the Debtors to conclude the Store Closing Sales as quickly and efficiently as possible, and thereby minimize any unnecessary administrative expenses, including those expenses for rent and related costs in connection with the Store Closing Locations, I believe that it is essential that

the Debtors be permitted to continue performing pursuant to the Agency Agreement. Moreover, any delay in assuming the Agency Agreement could result in a reduction to the Guaranty Percentage equal to 30 bps/day.

72. The Company also seeks authority to continue the Store Closing Sales. Since March 10, 2009, the Agent has been preparing for the Store Closing Sales and actively commenced such sales on March 11, 2009. As a result of the preparations, the Agent is familiar with the Debtors' operations in such stores and the Store Closing Sales being conducted therein. Moreover, the Agent has overseen the Store Closing Sales and best knows how to maximize the value to be obtained by the Debtors during the remainder of such sales.

73. I believe that failure by the Debtors to continue performing pursuant to the Agency Agreement at this point would in all likelihood lead only to unnecessary delay and expense that would in turn disrupt the Debtors' restructuring efforts. Among other things, the Debtors and their advisors would be compelled to devote valuable time and effort, at considerable expense to the Debtors and their estates, to locating new agents

to conduct closing sales at these stores. Locating alternate agents willing to conduct the Store Closing Sales and provide equivalent value would be extremely difficult because the Debtors already gave the other major inventory liquidation firms an opportunity to submit competing and such firms declined. Moreover, because the Store Closing Sales are scheduled to conclude in late April to early May, it is unlikely that any such agents could even be found at this stage of the store closings or undertake to continue the store closings on an uninterrupted basis. This would inevitably result in tremendous disruption to the Debtors' operations at the Store Closing Locations and in all likelihood decrease the Debtors' recovery from the Store Closing Sales.

74. In contrast to the harm that any failure to perform under the Agency Agreement would likely cause the Debtors and their estates, I believe that there will receive significant benefits from performing under the Agency Agreement and allowing the Store Closing Sales to proceed for the remaining weeks under the guidance of the Agent. In particular, the Agent is well-equipped

and highly experienced at conducting sales similar to the Store Closing Sale. Such experience will help ensure a maximum recovery on the inventory sales occurring through the Store Closing Sales. Moreover, the Debtors agreed to file a motion to assume the Agency Agreement in connection with any chapter 11 filing.

J. Motion to Enforce and Restate Automatic Stay and Ipso Facto Provisions (Item 15).

75. Finally, the Debtors have many creditors and counterparties to contracts who may not be well-versed in the restrictions of the Bankruptcy Code. In light of the many creditors that do not transact business on a regular basis with companies that have filed for chapter 11, or are unfamiliar with the scope of the debtor-in-possession's authority to conduct its business, the Debtors filed a motion requesting that the Court issue an order which substantially restates the applicable provisions of Bankruptcy Code sections 362 and 365.

76. Such an order will help ensure that (i) the non-debtor parties to unexpired leases and executory contractors with the Debtors will continue to perform

and will not unilaterally terminate their contracts, and
(ii) creditors do not seize the Debtors' assets or take
any other action in violation of the automatic stay.

77. It is my understanding that such an order
will facilitate a smooth and orderly transaction into
chapter 11 and minimize the disruption of the Debtors'
business affairs.

I swear under penalty of perjury that the foregoing is true and correct.

Dated: Midvale, Utah
March 21, 2009

SPORTSMAN'S WAREHOUSE, INC.,
et al.,
Debtors and Debtors in Possession

/s/ Rourk D. Kemp
Rourk D. Kemp
Chief Financial Officer

EXHIBIT A

List of First Day Motions

1. Debtors' Motion For Order Directing Joint Administration Pursuant To Bankruptcy Code Section 302 And Bankruptcy Rule 1015(b) And Waiving Requirements Of Bankruptcy Code Section 342(c)(1) And Bankruptcy Rules 1005 And 2002(n)
2. Debtors' Application For Order Under 28 U.S.C. § 156(c) And Bankruptcy Rule 2002(f) Approving Agreement With Kurtzman Carson Consultants LLC And Appointing Kurtzman Carson Consultants LLC As Claims, Noticing, And Balloting Agent
3. Debtors' Motion For Order Pursuant To 11 U.S.C. §§ 105(a), 363, 345 And 364, Fed. R. Bankr. P. 6003 And Del. Bankr. L.R. 2015-2
(I) Authorizing Maintenance Of Existing Bank Accounts, (II) Authorizing Use Of Existing Business Forms, (III) Authorizing Use Of Existing Cash Management System, (IV) Authorizing Intercompany Transactions And (V) Granting Superpriority Status To Intercompany Claims
4. Debtors' Motion For Interim And Final Orders Waiving Investment And Deposit Requirements Pursuant To Bankruptcy Code Sections 105 And 345 And Local Rule 2015-2(b)
5. Debtors' Motion For Order Pursuant To Bankruptcy Code Sections 105(a), 363, 507(a), 541, 1107(a) And 1108 And Bankruptcy Rule 6003 Authorizing Debtors To Pay Prepetition Wages, Compensation, And Employee Benefits

6. Debtors' Motion For Order Under Bankruptcy Code Sections 105(a) And 366 (I) Approving Debtors' Adequate Assurance Of Payment, (II) Establishing Procedures For Resolving Requests By Utility Companies For Additional Assurance Of Payment, And (III) Scheduling A Hearing With Respect To Contested Adequate Assurance Of Payment Requests
7. Debtors' Motion For Order Pursuant To Bankruptcy Code Sections 105(a), 506(a), 507(a)(8), And 541 And Bankruptcy Rule 6003 Authorizing The Debtors To Pay Prepetition (I) Sales, Use, Trust Fund Taxes, (II) Fish And Game License Fees, And (III) Other Taxes And Related Obligations To Certain Federal, State, And Local Governmental Entities
8. Debtors' Motion For Order Pursuant To Bankruptcy Code Sections 105(a), 363, 506, 507(a), 553, 1107(a) And 1108 And Bankruptcy Rule 6003 Authorizing Continuation Of Certain Customer Practices
9. Debtors' Motion For Order Pursuant To Bankruptcy Code Sections 105, 362(b), 363, 503(b), 506, 546(b), 1107(a) And 1108 And Bankruptcy Rule 6003 Authorizing Payment Of Certain Prepetition Shipping And Delivery Charges
10. Debtors' Motion For Order Pursuant To Bankruptcy Code Sections 105, 363, 364, 1107 And 1108, And Bankruptcy Rule 6003 Authorizing Debtors To (I) Maintain Existing Insurance Policies And Pay All Policy Premiums And Brokers' Fees Arising Thereunder And (II) Continue Insurance Premium Financing Programs And Pay Insurance Premium Financing

Obligations Arising Thereunder Or In Connection
Therewith

11. Debtors' Motion For Order Under Bankruptcy Code Sections 105(a), 363(b), 364, 1107(a), And 1108 And Fed. R. Bankr. P. 6003 Authorizing Payment Of Prepetition Claims Of Certain Critical Suppliers
12. Debtors' Motion For Interim And Final Orders Pursuant To 11 U.S.C. §§ 105, 361, 363, 364 And 507 And Federal Rules Of Bankruptcy Procedure 4001 (I) Authorizing Debtors (A) To Obtain Postpetition Financing And (B) To Utilize Cash Collateral; (II) Granting Adequate Protection; And (III) Scheduling Interim And Final Hearings
13. Debtors' Motion For Order Pursuant To 11 U.S.C. §§ 105(a), 365(a) And 554 And Fed. R. Bankr. P. 6006 Authorizing Rejection Of Unexpired Leases Of Nonresidential Real Property And Abandonment Of Personal Property Effective As Of The Petition Date
14. Debtors' Motion For Entry Of Order Pursuant To Bankruptcy Code Sections 105, 363 And 365 Authorizing The Debtors (I) To Assume The Agency Agreement Among The Debtors And Gordon Brothers Retail Partners, LLC, And (II) To Continue Store Closing Sales Pursuant To The Agency Agreement
15. Debtors' Motion For Order Pursuant To Bankruptcy Code Section 105(a), 362 And 365 Enforcing And Restating Automatic Stay And Ipso Facto Provisions