

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re

VIOLIN MEMORY, INC.,¹

Debtor.

Chapter 11

Case No.: 16-12782 (LSS)

Re: Docket No. 9

**DECLARATION OF CORY J. SINDELAR IN SUPPORT OF MOTION OF
THE DEBTOR FOR ENTRY OF (I) AN ORDER (A) APPROVING BIDDING
PROCEDURES FOR THE SALE OF SUBSTANTIALLY ALL OF THE
DEBTOR'S ASSETS, (B) APPROVING PROCEDURES FOR THE
ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS AND
UNEXPIRED LEASES IN CONNECTION WITH THE SALE, (C) SCHEDULING
A SALE HEARING, AND (D) GRANTING CERTAIN RELATED RELIEF, AND
(II) AN ORDER (A) APPROVING THE SALE OF THE DEBTOR'S ASSETS,
(B) APPROVING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN
EXECUTORY CONTRACTS AND UNEXPIRED LEASES,
AND (C) GRANTING CERTAIN RELATED RELIEF**

Pursuant to 28 U.S.C. § 1746, Cory J. Sindelar declares as follows:

1. I am the Chief Financial Officer of Violin Memory, Inc. (“**Violin**” or the “**Debtor**”) and am duly authorized to make this declaration (the “**Declaration**”). I submit this Declaration in support of the bidding procedures (the “**Bidding Procedures**”) proposed in the *Motion of the Debtor For Entry Of (I) An Order (A) Approving Bidding Procedures For The Sale of Substantially All Of The Debtor's Assets, (B) Approving Procedures For The Assumption And Assignment Of Executory Contracts And Unexpired Leases In Connection With The Sale, (C) Scheduling A Sale Hearing, And (D) Granting Certain Related Relief, And (II) An Order (A) Approving The Sale Of The Debtor's Assets, (B) Approving The Assumption and Assignment Of Certain Executory Contracts*

¹ The Debtor's tax identification number is 20-3940944 and its business address is 4555 Great America Parkway, Suite #150, Santa Clara, CA 95054.

and Unexpired Leases, And (c) Granting Certain Related Relief [D.I. 9] (the “**Motion**”), filed on December 14, 2016.

2. Except as otherwise indicated, all facts set forth in this Declaration are based on my personal knowledge, upon information supplied to me by people who report to me or are officers or employees with the Debtor, upon information supplied to me by the Debtor’s professionals and consultants, or upon my opinion based on my experience and knowledge with respect to the Debtor’s business, finances and operations. If I were called upon to testify, I could and would testify competently to the facts set forth herein.

General Background

3. As more fully described in my *Declaration in Support of the Debtor’s Chapter 11 Petition and Requests for First Day Relief* [D.I. 10] (the “**First Day Declaration**”),² beginning in 2014, the Debtor experienced a decline in sales due to, among other things, increased competition in its market segment. In 2015, declining sales were compounded by certain performance challenges with the Debtor’s products. While Violin worked to resolve the issues with its products throughout 2015 and 2016, the cash burn it suffered during that period left it with extremely limited liquidity. In response, the Debtor, with the aid of its advisors at Jefferies LLC (“**Jefferies**”) and, subsequently, at Houlihan Lokey Capital, Inc. (“**Houlihan Lokey**”), embarked upon an extensive search for strategic alternatives, including a potential sale of the Debtor’s assets.

4. In particular, since October 2015, the Debtor has conducted two distinct sales processes, the first run with the assistance of Jeffries and the second with Houlihan

² The First Day Declaration is incorporated as if fully set forth herein.

Lokey. Collectively, the sale processes prior to the petition date involved over 200 potential buyers being contacted, of which no less than 124 conducted business in or related to the Debtor's industry. To date, both processes have failed to identify a committed buyer or stalking horse purchaser.

5. In October 2016, as market prices for the Debtor's publicly-traded debt and equity continued to decline, the NYSE delisted the Debtor for failure to maintain the minimum market capitalization. At this point, it is apparent to me based on my experience with and involvement in the prior processes that raising new debt or equity capital or achieving meaningful improvements by restructuring operations is not feasible. As of January 2, 2017, Violin has \$4.0 million cash on hand, and based on my projections, lacks sufficient liquidity to continue operations beyond February 10, 2017.

6. The Bidding Procedures, as modified after consultation with the Official Committee of Unsecured Creditors, contemplate an auction on January 23, 2017, and a sale hearing on January 30, 2017, for a total process length of 47-days. In light of the Debtor's two prior sales processes and the Debtor's inability to raise additional capital, in my opinion a longer sales process would not be beneficial for the Debtor or its estate. A prompt sale of the Debtor's assets, in my opinion, is the only viable option that would enable the Debtor to potentially survive as a going concern. Violin simply does not have the financial resources for a protracted chapter 11 process beyond what is proposed in the Bidding Procedures and, similarly, a reorganization of the Debtor is not viable given the Debtor's liquidity crisis and its inability to access capital and satisfy creditor claims.

The Solicitation Processes

7. After a difficult quarter ending October 31, 2015, Violin engaged Jefferies as its financial advisor and investment banker to review strategic alternatives and explore a potential sale of the company. Beginning in November 2015, Jefferies contacted 39 strategic parties and eight (8) financial sponsors to market Violin and its assets in a process that ultimately included nine (9) parties executing confidentiality agreements and ten (10) parties conducting initial management meetings. The process did not result in any offers or other promising indications of interest, however, and it was concluded in March 2016, with Violin announcing restructuring plans intended to reduce expenses in line with revenue expectations.

8. As 2016 progressed, Violin failed to meet its reduced revenue expectations and, despite effectuating numerous cost-saving initiatives, faced increasingly constrained liquidity as it moved towards planned new product launches.

9. On September 14, 2016, Violin launched a new flash storage platform. While the Debtor's platform was industry leading in regards to latency, density, scalability, affordability and performance, it did not lead to immediate revenue increases. As a result, the Debtor continued to suffer from constrained liquidity and, later in September 2016, retained Houlihan Lokey to conduct a renewed search for strategic alternatives.

10. Houlihan Lokey's efforts prior to the petition date were substantial, and included tasks such as (i) developing with management a 55-page confidential information memorandum describing the Debtor's history, brand attributes, intellectual property, and strategic opportunities, (ii) compiling, managing and revising an online data

room where interested parties who signed confidentiality agreements could review pertinent information, and (iii) developing and contacting a list of approximately 204 potentially interested parties, consisting of 124 potential strategic buyers, of whom four (4) executed confidentiality agreements and five (5) conducted management interviews, and 80 financial sponsors, of whom 21 executed confidentiality agreements and four (4) of whom conducted management interviews. This sale process included a deadline disclosed to all participants to submit a letter of interest on or before November 18, 2016. Unfortunately, no such letters or other promising indications of interest were received by the deadline.

11. With no reasonably likely transaction at its disposal and insufficient liquidity to continue as a going concern, Violin commenced preparations for a bankruptcy proceeding. It is my opinion that the value of Violin's assets is closely tied to and is greatly enhanced by its employees and the greatest value will be realized for creditors in a going-concern sale of substantially all assets.

Chapter 11 Filing

12. After extensive negotiations with the ad hoc group of holders of the Debtor's Convertible Senior Notes (the "**Ad Hoc Group**"),³ a review of various liquidation and sale recovery scenarios and discussions with the Debtor's professionals, Violin's board of directors ultimately determined in the exercise of its reasonable business judgment that the most effective way to preserve and maximize value was to seek bankruptcy protection. Violin's board of directors authorized the filing of this case

³ Violin issued \$120 million aggregate principal amount of Convertible Senior Notes (CUSIP# 92763AAB7, the "**Notes**"). The Notes are not secured and accrue interest at a rate of 4.25% per annum, payable semi-annually on April 1 and October 1 of each year. The Debtor has not made any principal payments on the Notes since issuance and the aggregate principal amount is due on October 1, 2019.

at a meeting conducted on December 13, 2016, and this case was commenced thereafter on December 14, 2016.

13. In the weeks leading up to the petition date, I, with the assistance of the Debtor's advisors, explored debtor-in-possession financing options for this case. After no parties expressed an interest in providing such financing, the Debtor approached the Ad Hoc Group to discuss alternatives. These discussions ultimately proved unsuccessful. Separately, the Debtor engaged in discussions with a potential stalking horse bidder who also expressed preliminary interest in supplying financing for this case. Those discussions also failed to result in a commitment.

14. The Debtor, with the assistance of its advisors, has diligently attempted to obtain a debtor-in-possession financing facility that would support a longer process than what is currently proposed in the Bidding Procedures, but to date has been unable to obtain such financing on commercially reasonable terms, particularly as no stalking horse bidder has emerged for the Debtor's assets. Absent financing, as indicated above the Debtor will run out of cash and be unable to continue operations beyond February 10, 2017.

15. Consistent with the unfortunate reality of the Debtor's financial projections, the Debtor is forced to seek a sale hearing on January 30, 2017. As described above, the Debtor's assets have been extensively marketed over the last year to a broad group of strategic and financial buyers, and substantial information regarding the Debtor's business and operations was made available during the process. Indeed, many parties that may have an interest in bidding on the Debtor's assets will not be starting from scratch. Therefore, in my opinion, a sale hearing by January 30, 2017, is not only

reasonable under the circumstances, but also necessary as the only means available to maximize value for the Debtor's estate without an additional capital infusion or new financing. Given the Debtor's current liquidity limitations, any delay in the proposed process is unnecessary in light of the extensive marketing to date and would jeopardize the Debtor's continued survival as a going concern in this case. Put simply, absent a material change in circumstances, the continued operation of the Debtor's business without a sale hearing by January 30, 2017, is not a viable alternative given the Debtor's current financial condition.

16. If the Debtor does not obtain this Court's approval of the proposed Bidding Procedures, the Debtor will undoubtedly face a conversion to chapter 7 and an attendant piecemeal liquidation of its assets. In my opinion, a chapter 7 process would lead to increased uncertainty amongst interested parties and, more likely than not, result in less consideration flowing to the estate for the Debtor's assets.

CONCLUSION

In summary, for the reasons set forth herein, I believe that the proposed Bidding Procedures represent the only path forward by which the Debtor can, with any degree of certainty, maximize value for this estate absent an immediate and material change in circumstances. Therefore, in my opinion, approval of the Bidding Procedures is in the best interests of the Debtor, its estate and its creditors.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on January 4, 2017

By: /s/ Cory J. Sindelar
Cory J. Sindelar