



**Report of
KSV Kofman Inc. as
Proposed Information Officer of
Hollander Sleep Products, LLC,
Hollander Sleep Products Canada Limited,
Dream II Holdings, LLC,
Hollander Home Fashions Holdings, LLC,
Pacific Coast Feather, LLC,
Hollander Sleep Products Kentucky, LLC
and Pacific Coast Feather Cushion, LLC**

May 23, 2019

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COURT FILE NO.: CV-19-620484-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF HOLLANDER SLEEP PRODUCTS, LLC,
HOLLANDER SLEEP PRODUCTS CANADA LIMITED, DREAM II HOLDINGS, LLC,
HOLLANDER HOME FASHIONS HOLDINGS, LLC, PACIFIC COAST FEATHER, LLC,
HOLLANDER SLEEP PRODUCTS KENTUCKY, LLC AND
PACIFIC COAST FEATHER CUSHION, LLC

APPLICATION OF HOLLANDER SLEEP PRODUCTS, LLC UNDER SECTION 46 OF THE
COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

REPORT OF KSV KOFMAN INC.
AS PROPOSED INFORMATION OFFICER

MAY 23, 2019

1.0 Introduction

1. On May 19, 2019, Hollander Sleep Products, LLC (the "Foreign Representative"), Dream II Holdings, LLC, Hollander Home Fashions Holdings, LLC, Pacific Coast Feather, LLC, Hollander Sleep Products Kentucky, LLC, Pacific Coast Feather Cushion, LLC (collectively, the "US Debtors") and Hollander Sleep Products Canada Limited (the "Canadian Debtor" and together with the US Debtors, the "Chapter 11 Debtors"), commenced proceedings by filing voluntary petitions for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "US Court") (the "Chapter 11 Proceedings").
2. The purpose of the Chapter 11 Proceedings and the proposed Canadian recognition proceeding is to provide a stabilized environment for the Chapter 11 Debtors to continue to operate in the normal course while they implement their restructuring plan, including a US Court supervised sale process ("Sale Process") carried out by the Chapter 11 Debtors and their investment banker, Houlihan Lokey Capital, Inc. ("Houlihan").
3. On May 21, 2019, the US Court heard the Chapter 11 Debtors' first day motions and granted numerous orders (collectively, the "First Day Orders").

4. At this time, the Foreign Representative is making an application to the Ontario Superior Court of Justice (Commercial List) (the “Ontario Court”) for recognition of the Chapter 11 Proceedings under Part IV of the *Companies’ Creditors Arrangement Act* (“CCAA”) pursuant to two proposed orders (jointly, the “Recognition Orders”):
 - a) the initial recognition order which, *inter alia*, recognizes the Chapter 11 Proceedings as a “foreign main proceeding” and recognizes the Foreign Representative as the “foreign representative”, as defined in section 45 of the CCAA, and stays all proceedings against the Chapter 11 Debtors; and
 - b) the supplemental order which, *inter alia*, appoints KSV Kofman Inc. (“KSV”) as Information Officer, recognizes the First Day Orders issued by the US Court in the Chapter 11 Proceedings, grants certain stays as set out therein and grants the Administration Charge and the DIP ABL Charge (as defined in the Recognition Orders).
5. This report (“Report”) is filed by KSV in its capacity as proposed Information Officer (the “Information Officer”) in the Canadian recognition proceedings.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide KSV’s qualifications to act as Information Officer;
 - b) provide background information about the Chapter 11 Debtors and the Chapter 11 Proceedings, including a summary of the First Day Orders for which Ontario Court recognition is being sought;
 - c) provide the proposed Information Officer’s commentary on the reasonableness of the \$90 million debtor-in-possession asset based lending credit facility among the Chapter 11 Debtors and Wells Fargo Bank, National Association (the “DIP ABL Agent”), as agent for and on behalf of itself and other lenders (collectively, the “DIP ABL Lenders”) (the “DIP ABL Facility”);
 - d) summarize the potential implications of the Chapter 11 Proceedings, particularly the DIP ABL Facility, on the Canadian Debtor’s stakeholders, including by considering the results of a liquidation analysis of the Canadian Debtor’s business assets (the “Liquidation Analysis”);
 - e) provide the basis on which the proposed Information Officer believes the Liquidation Analysis should be sealed pending further order of the Ontario Court;
 - f) summarize the rationale for the proposed Administration Charge and DIP ABL Charge;

- g) provide an overview of the Chapter 11 Debtors' Joint Plan of Reorganization (the "Plan"); and
- h) recommend that the Ontario Court grant the relief being sought by the Foreign Representative.

1.2 Currency

1. All currency references in this Report are to US dollars, unless otherwise noted.

1.3 Restrictions

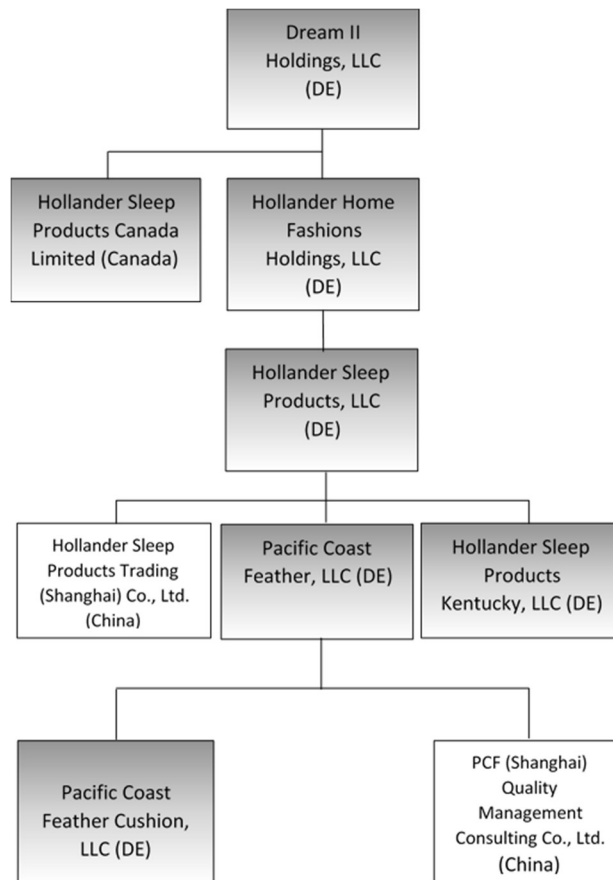
1. In preparing this Report, the proposed Information Officer has relied upon unaudited financial information prepared by the Chapter 11 Debtors' financial advisor, the Chapter 11 Debtors' books and records, including those of the Canadian Debtor, and discussions with the Chapter 11 Debtors' Canadian legal counsel and financial advisor.
2. The proposed Information Officer has not performed an audit or other verification of such information. An examination of the Chapter 11 Debtors' financial forecasts as outlined in the *Chartered Professional Accountants of Canada Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on the Chapter 11 Debtors' assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. The proposed Information Officer expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report or relied upon by the proposed Information Officer in its preparation of this Report.

1.4 KSV's Qualifications to Act as Information Officer

1. KSV is qualified to act as Information Officer. KSV's qualifications include:
 - a) KSV is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). KSV is not subject to any of the restrictions to act as set out in Section 11.7(2) of the CCAA; and
 - b) KSV has extensive experience acting as Information Officer under Part IV of the CCAA in a wide variety of industries.
2. On May 16, 2019, KSV was engaged by the Canadian Debtor to assist to prepare for these proceedings. KSV's engagement letter contemplates that "*in the event the Company files for protection and KSV is appointed as Information Officer, this engagement shall terminate immediately prior to the commencement of those proceedings. In such circumstances, KSV's duties and obligations as Information Officer will be as set out in the order commencing the proceedings, as well as by statute, and KSV would from that date forward be acting as an officer of the court.*"
3. KSV has consented to act as Information Officer in these proceedings should the Ontario Court grant the Recognition Orders. A copy of KSV's consent to act as Information Officer is attached as Appendix "A".

2.0 Background

1. Since their inception in 1953, the Chapter 11 Debtors have grown into a leader in the bedding products market, manufacturing pillows, comforters, mattress pads and other bedding products. The Chapter 11 Debtors produce bedding items for well-known brands, including Ralph Lauren®, Simmons®, Beautyrest®, Nautica® and Waverly®.
2. The Chapter 11 Debtors partner with major retailers and hotel chains, including long-standing relationships with, among others, Target, Kohl's, Costco, Walmart, Hudson's Bay and Marriott. The Chapter 11 Debtors' net revenue for their fiscal year ended December 31, 2018 was approximately \$527 million, of which the Canadian Debtor comprised approximately \$51 million.
3. The Chapter 11 Debtors' ultimate shareholder is Sentinel Capital Partners, LLC ("Sentinel"), a US private equity firm which made its acquisition in October, 2014. The corporate organization chart is provided below (the shaded entities represent the Chapter 11 Debtors).



4. The Chapter 11 Debtors operate thirteen manufacturing facilities in North America, including two Canadian manufacturing facilities (in Toronto and Montreal) from which they assemble raw materials sourced primarily from China, India, Pakistan, Indonesia, South Korea, Vietnam, Malaysia and the United Arab Emirates, into finished products.

5. The Chapter 11 Debtors employ approximately 2,370 employees, of which approximately 240 are employees of the Canadian Debtor. All but four of the Canadian Debtor's employees work at its manufacturing facilities in Montreal and Toronto, while the remainder of the employees work from its sales office in Toronto. The Canadian Debtor's workforce is not unionized and the Canadian Debtor does not maintain any registered pension plans (but it does provide a group RRSP plan).
6. The Chapter 11 Proceedings and the Plan are the result of lengthy negotiations among the Chapter 11 Debtors and their principal secured lenders, being:
 - a) the prepetition ABL agent (i.e. the same party as the DIP ABL Agent), for and on behalf of the prepetition ABL lenders (i.e. the same parties as the DIP ABL Lenders) (collectively, the "Prepetition ABL Lenders"), who are owed approximately \$71 million under a \$125 million ABL facility (the "Prepetition ABL Facility");
 - b) Sentinel, which recently injected \$15 million as the "last-out" component of the Prepetition ABL Facility; and
 - c) a group of term loan lenders represented by Barings Finance LLC, as agent (collectively, the "Term Loan Lenders"), who are owed approximately \$167 million under a \$190 million term loan facility (the "Term Loan Facility").
7. Further information concerning the Chapter 11 Debtors' background, financial position, corporate structure and the reasons the Chapter 11 Debtors require creditor protection to implement their restructuring plan are provided in the Declaration of Marc Pfefferle, the Chief Executive Officer of Dream II Holdings, LLC, sworn May 19, 2019 (the "Pfefferle Declaration"), which is appended to Mr. Pfefferle's Affidavit sworn May 23, 2019 in support of the Foreign Representative's application to the Ontario Court (the "Pfefferle Affidavit").

3.0 The Canadian Debtor

1. The Pfefferle Affidavit sets out the Chapter 11 Debtors' connections to Canada, the integrated nature and reliance of the Canadian Debtor on its US affiliates and the overall basis for the centre of main interest ("COMI") of the Canadian Debtor, being the US. Accordingly, the Canadian Debtor's COMI attributes are not repeated herein.

3.1 Financial Overview

1. A summary of the Canadian Debtor's unaudited¹ financial results for its fiscal year ended December 31, 2018 and four-month period ended April 30, 2019 is provided in the table below.

(unaudited; US\$000s;)	Four months ended	
	April 30, 2019	December 31, 2018
Gross revenue	16,242	61,229
Royalties and allowances	(1,805)	(10,394)
Cost of goods sold	(13,709)	(47,874)
Gross profit	728	2,961
Operating expenses	(344)	(4,137)
Interest, taxes, foreign exchange and other	(290)	(1,423)
Net Income / (Loss)	94	(2,599)

2. The above table reflects that, *inter alia*:
 - a) the Canadian Debtor incurred a net loss in its most recent fiscal year ended December 31, 2018 of approximately \$2.6 million after allocation of selling, general and administrative expenses, including royalties and procurement fees, incurred by the US Debtors and allocated across the manufacturing facilities for which they provide these and other shared services (the "US Shared Services");
 - b) the US Debtors allocate approximately \$600,000 per month to the Canadian Debtor, representing approximately 6% of the total costs of US Shared Services incurred by the US Debtors on an annual basis; and
 - c) year-to-date results do not reflect any allocation of US Shared Services given that this allocation is typically performed at year-end. The adjusted year-to-date results would reflect a loss of approximately \$2.3 million after allocation of US Shared Services. Accordingly, the Canadian Debtor's operational losses have increased significantly in fiscal 2019. This increase is partly due to the seasonality of the business as its busy season is in the upcoming "back to school" season.

¹ The Canadian Debtor's standalone financial statements are not audited - they are consolidated with the US Debtors' audited financial statements.

3. The Canadian Debtor's most recent unaudited balance sheet as at April 30, 2019 is provided in the table below.

(unaudited; US\$000s)	April 30, 2019
Accounts receivable	3,642
Inventory	12,955
Prepaid expenses and other	240
Total current assets	16,837
Property and equipment	1,161
Advances to US Debtors	8,300
Total Assets	26,298
Bank indebtedness under Prepetition ABL Facility	5,945
Accounts payable and accrued liabilities	9,928
Total current liabilities	15,873
Shareholder's equity	10,425
Total Liabilities and Equity	26,298

4. The April 30, 2019 balance sheet reflects that, *inter alia*:
- a) the Canadian Debtor does not have sufficient liquidity to normalize its trade payables, which are significantly aged. (As at May 10, 2019, approximately \$7.2 million of accounts payable is past due as detailed in Section 3.2.3 of this Report); and
 - b) if the amount owing from the US Debtors (\$8.3 million) was written down to its realizable value and the Canadian Debtor's allocation of US Shared Services was recorded for the four months ended April 30, 2019 (\$2.4 million), the Canadian Debtor's shareholder's equity would be entirely eroded.
5. If appointed, the proposed Information Officer intends to review the transaction(s) that gave rise to the intercompany balance of \$8.3 million owing from the US Debtors to the Canadian Debtor as at April 30, 2019 and the allocation methodology for the US Shared Services. The results of that review will be provided in a subsequent report to be filed with the Ontario Court. As detailed in Section 5 of this Report, any post-filing intercompany advances made by the Canadian Debtor to the US Debtors under the DIP ABL Facility will be made on a secured basis pursuant to a Court-ordered priority administrative expense claim granted in the Chapter 11 Proceedings, for which the Canadian Debtor seeks recognition in Canada.

3.2 Creditor Composition

1. Based on the Canadian Debtor's books and records, the indebtedness owing by the Canadian Debtor under the Prepetition ABL Facility (approximately \$6 million as at April 30, 2019) represents the only secured claim against the Canadian Debtor.
2. The Canadian Debtor is not a guarantor of the US Debtors' indebtedness under the Prepetition ABL Facility nor is it a borrower or guarantor under the US Debtors' Term Loan Facility.

- The unsecured creditors of the Canadian Debtor are largely its offshore inventory suppliers, who are presently owed approximately \$9 million. The aging of accounts payable as at May 10, 2019 is reflected in the table below.

(US\$000s; unaudited) Supplier	Current	1 – 30 Days Past Due	31 – 60 Days Past Due	Over 60 Days Past Due	Total
Cixi Jiangnan Chemical Fiber	136	482	316	306	1,240
Funing Jincheng Home Textile Co., Ltd.	174	-	882	11	1,067
Zhejiang Liuqiao Industrial Co., Ltd.	-	529	-	191	720
Donfoam Inc.	315	249	27	-	591
Wuxi Jielong Textile Co., Ltd	97	221	247	-	565
Other (148 creditors)	1,070	1,331	1,601	767	4,766
Total	1,792	2,812	3,073	1,275	8,952
% of total	20.1%	31.4%	34.3%	14.2%	100%

- All but seven of the Canadian Debtor's inventory suppliers (owed approximately \$513,000 in total) also supply to the US Debtors and, accordingly, substantially all suppliers and creditors of the Canadian Debtor are also suppliers and creditors of the US Debtors.
- The proposed Information Officer understands that the Canadian Debtor has not paid rent for May, 2019 to the landlords of its Toronto and Montreal manufacturing facilities and its sales office. Monthly rent totals approximately \$129,000. Subject to any extension, the lease for the Toronto manufacturing facility is scheduled to expire on July 21, 2019 and the lease for the Montreal manufacturing facility is scheduled to expire on May 31, 2023.

3.3 Liquidation Analysis

- Immediately upon its engagement, the proposed Information Officer's focus was on the potential impact of the Chapter 11 Proceedings, particularly the DIP ABL Facility and the proposed Plan, on the unsecured creditors of the Canadian Debtor.
- The proposed Information Officer prepared the Liquidation Analysis to estimate what recovery may be available to unsecured creditors of the Canadian Debtor if it did not participate in the Chapter 11 Proceedings, in which case the operations of the Canadian Debtor would immediately be discontinued given that it does not have the liquidity nor the infrastructure to operate on a standalone basis at this time.
- Subject to the assumptions underlying the Liquidation Analysis, as detailed therein, there would be a nominal recovery, if any, available for the Canadian Debtor's unsecured creditors in a liquidation or shutdown scenario. A copy of the Liquidation Analysis is attached as Confidential Appendix "1".

4. The proposed Information Officer recommends that the Liquidation Analysis be filed with the Ontario Court on a confidential basis and remain sealed pending further order of the Ontario Court as the availability of such information may negatively impact the Sale Process that will be undertaken in the context of the Chapter 11 Proceedings, including for the business and assets of the Canadian Debtor. In addition, the proposed Information Officer does not believe that any stakeholder will be prejudiced if the Liquidation Analysis is sealed. Keeping this information sealed pending further order of the Ontario Court is consistent with value maximization and in the best interest of the Canadian Debtor's stakeholders.

4.0 First Day Orders

1. The Foreign Representative is seeking recognition of the following First Day Orders by the Ontario Court:
 - a) Foreign Representative Order;
 - b) Joint Administration Order;
 - c) Employee Wages Order;
 - d) Cash Management Order;
 - e) Interim DIP Order;
 - f) Critical Vendors and Shippers Order; and
 - g) Customer Programs Order.
2. The Pfefferle Declaration and the Pfefferle Affidavit provide further background in support of each First Day Order. The proposed Information Officer has reviewed the First Day Orders and the related motions and discussed the rationale for them, particularly as it relates to the Canadian Debtor, with Canadian counsel to the Foreign Representative.
3. The First Day Orders are consistent with the integrated nature of the Chapter 11 Debtors' operations in the US and Canada, and in particular:
 - a) the Foreign Representative Order authorizes the Foreign Representative to act as the "foreign representative" under the CCAA in order to seek the relief sought in its application;
 - b) the Joint Administration Order authorizes the joint administration of the various Chapter 11 cases filed by the Chapter 11 Debtors and related procedural relief;
 - c) the Employee Wages Order permits the payment of pre-filing wages and employee benefits (if any) in the US and Canada, as well as remittance of payroll deductions and taxes (if any);

- d) the Cash Management Order provides for the ongoing use of an integrated network of bank accounts and cash management system in both the US and Canada and permits intercompany advances;
 - e) the Interim DIP Order authorizes the advances under the DIP ABL Facility and DIP Term Loan Facility (defined below) to be used to finance the integrated operations of the Chapter 11 Debtors for working capital, general corporate purposes and their US and Canadian restructuring proceedings and contemplates that advances under the DIP ABL Facility would be secured by a super-priority charge in both the US and Canada whereas advances under the Term Loan Facility would be secured by a super-priority charge in the US only. The attributes and reasonableness of the DIP ABL Facility (from the perspective of creditors of the Canadian Debtor) are summarized in Section 5 of this Report;
 - f) the Critical Vendors and Shippers Order permits the payment of prepetition amounts to critical third-party vendors; and
 - g) the Customer Programs Order authorizes the continuation, in the discretion of the Chapter 11 Debtors, of various customer programs, including markdown allowances, discounts, returns and cooperative marketing programs. This is required to maintain customer loyalty and goodwill throughout the Chapter 11 Proceedings.
- 4. The proposed Information Officer notes that the creditors of the Canadian Debtor are proposed to receive the same treatment as creditors of the US Debtors in the First Day Orders, including ascribing “administrative claim” status for post-filing goods or services provided to the Chapter 11 Debtors during the Chapter 11 Proceedings.
 - 5. The Chapter 11 Debtors anticipate bringing further motions before the US Court in the coming weeks for the approval of additional orders, including an order setting forth the bidding procedures in connection with the Sale Process.

5.0 The DIP ABL Facility²

- 1. As set out in the Pfefferle Declaration and the Pfefferle Affidavit, the Chapter 11 Debtors, including the Canadian Debtor, require financing during the Chapter 11 Proceedings to provide the necessary liquidity to maintain their business, preserve the value of their assets for all stakeholders and for the Chapter 11 Debtors, with the assistance of Houlihan, to conduct the Sale Process.
- 2. Based on the Pfefferle Declaration and Pfefferle Affidavit, there are no other viable funding options available to the Chapter 11 Debtors except for the DIP ABL Facility with the existing Prepetition ABL Lenders, and the DIP Term Loan Facility with the existing Term Loan Lenders. The Canadian Debtor is not a borrower or guarantor under the DIP Term Loan Facility and, accordingly, the Recognition Orders do not contemplate any charges or approvals in respect thereof.

² Capitalized terms not otherwise defined in this section of the Report are as defined in the DIP ABL Facility.

3. Included in the First Day Orders is the Interim DIP Order approving, among other things, the DIP ABL Facility. The granting of the DIP ABL Charge and recognition of the Interim DIP Order are conditions precedent to the Canadian Debtor drawing on the DIP ABL Facility.
4. A copy of the DIP ABL Facility is appended to the Foreign Representative's application materials and summarized in the Pfefferle Affidavit. A summary of the key attributes of the DIP ABL Facility is provided in the table below.

US Borrowers	The US Debtors other than Dream II Holdings LLC
Canadian Borrower	Hollander Sleep Products Canada Limited
Guarantor	Dream II Holdings, LLC
Nature of Liability	Canadian Debtor and US Debtors are to be jointly and severally liable for their respective obligations under the DIP ABL Facility
Postpetition Lenders	The DIP ABL Lenders, being the same parties as the Prepetition ABL Lenders
Postpetition Agent	Wells Fargo Bank, National Association
Commitment	up to \$90 million; Canadian Debtor sublimit of \$20 million
Interest Rate	Base Rate plus 2% for certain advances or LIBOR plus 4% on others (the DIP Budget contemplates an effective interest rate of 6.5%)
Expenses and Fees	Closing fee of \$1.35 million (1.5% of committed amount)
Budget	The Chapter 11 Debtors must operate in accordance with the DIP Budget

5. In assessing the reasonableness of the DIP ABL Facility and the proposed recognition of the Interim DIP Order, the proposed Information Officer was cognizant that the DIP ABL Facility potentially increases the liability of the Canadian Debtor relative to the Prepetition ABL Facility. While it is a borrower under the Prepetition ABL Facility, the Canadian Debtor is not a guarantor of, nor is it jointly or severally liable for, the US Debtors' obligations under the Prepetition ABL Facility (approximately \$65 million). The DIP ABL Facility, on the other hand, contemplates that the Canadian Debtor would be liable, on a joint and several basis, for the US Debtors' obligations, which, given the "roll up" nature of the DIP structure upon the issuance of the Final DIP Order, would include the US Debtors' prepetition obligations owing to the Prepetition ABL Lenders.
6. The proposed Information Officer was cognizant of concerns expressed by the Ontario Court in circumstances in which unencumbered Canadian assets are used as collateral for priming DIP obligations to benefit US operations. It is for this reason that the proposed Information Officer and the Chapter 11 Debtors carefully considered the needs of the Canadian Debtor, the alternatives available to it and the commercial terms of the DIP ABL Facility.

7. Immediately following its engagement on May 16, 2019, the proposed Information Officer and its legal counsel supported the Canadian Debtor's efforts to negotiate additional protections into the DIP ABL Facility and the Plan that would mitigate the potential implications of the DIP ABL Facility on the Canadian Debtor and its stakeholders. This was particularly important in this case given the Canadian Debtor's creditor composition, consisting largely of offshore vendors who may be unfamiliar with formal insolvency proceedings, priming charges and the like. There are no large creditor groups (such as unions, pensioners and/or landlords) who are commonly involved in these cases. Accordingly, the protective measures and provisions that were agreed to between the Chapter 11 Debtors and the DIP ABL Agent in the days leading up to the commencement of the Chapter 11 Proceedings include:
- a) a "quasi-marshalling" concept, whereby the DIP ABL Agent is obligated to: (i) first recover on the US assets to satisfy the outstanding obligations of the US Debtors; (ii) similarly, first look to proceeds from the Canadian assets to satisfy the outstanding obligations of the Canadian Debtor; and (iii) with respect to the proceeds of the assets of the Canadian Debtor, only apply such proceeds to reduce the obligations of the US Debtors if the assets of the US Debtors have been exhausted; and
 - b) the Interim DIP Order ascribes priority in the form of a Court ordered administrative expense claim to any advances the Canadian Debtor makes under the DIP ABL Facility to the US Debtors during the Chapter 11 Proceedings. This priority item is referred to in the Interim DIP Order as the "Canadian Intercompany Super-priority Administrative Claim".³
8. In addition to the foregoing, the proposed Information Officer considered the following to assess the reasonableness of the DIP ABL Facility:
- a) the results of the Liquidation Analysis, which not only reflects that there would be nominal recoveries, if any, available for creditors of the Canadian Debtor ranking subordinate to the Prepetition ABL Lenders, but would also result in:
 - i. the loss of employment for approximately 240 Canadian employees;
 - ii. the loss of a major supplier of bedding products to Canadian retailers in the midst of the upcoming "back to school" season;
 - iii. the loss of a customer for its offshore vendor base; and
 - iv. the loss of an opportunity for the Canadian Debtor to be marketed for sale by Houlihan in the Sale Process. In this regard, the proposed Information Officer ensured that the Sale Process does not preclude bids to be submitted and considered for the business and assets of the Canadian Debtor (i.e. as opposed to only soliciting interest from prospective purchasers interested in both US and Canada);

³ Pursuant to the Interim DIP Order, the Canadian Intercompany Super-priority Administrative Claim ranks junior to the DIP ABL Lenders and the Prepetition ABL Lenders but senior to the DIP Term Loan Lenders and the Term Loan Lenders on the ABL Priority Collateral and junior to the DIP Term Loan Lenders, the Term Loan Lenders, the DIP ABL Lenders and the Prepetition ABL Lenders on the Term Priority Collateral (as each such term is defined in the Interim DIP Order).

- b) the DIP Budget was prepared on a consolidated basis and as such, does not reflect on a standalone basis the projected funding requirements of the Canadian Debtor. The proposed Information Officer extracted from the DIP Budget an estimated cash flow forecast for the Canadian Debtor to understand its projected funding requirements during the Chapter 11 Proceedings. This analysis reflects that the Canadian Debtor is projected to generate negative cash flow until at least July 1, 2019. Absent draws being available under the DIP ABL Facility, the Canadian Debtor would not be able to continue to operate in the normal course and its operations would need to be immediately discontinued;
- c) there is no assumption in the DIP Budget or otherwise that further credit would be extended to the Canadian Debtor by its vendors. In this regard, the DIP Budget was premised on cash-on-delivery or cash-in-advance supply terms;
- d) based on the Pfefferle Declaration and the Pfefferle Affidavit, there are no other funding sources available to the Canadian Debtor except from the DIP ABL Lenders pursuant to the DIP ABL Facility;
- e) the extent to which the Canadian Debtor's operations are centrally managed, controlled by and integrated with the US Debtors;
- f) funding from the DIP ABL Facility is required to, among other things, maintain existing operations, pay employees, secure and insure the Chapter 11 Debtors' assets located in the US and Canada and fund these proceedings while Houlihan conducts the Sale Process. It appears that the value of the Canadian Debtor's assets and the success of the Sale Process would be jeopardized absent the DIP ABL Facility;
- g) KSV compared the pricing of the DIP ABL Facility (interest and fees, including the closing fee of \$1.35 million (being 1.5% of the committed amount)) to other DIP facilities approved by Canadian courts in CCAA proceedings in recent years. The comparison is attached as Appendix "B". Based on KSV's analysis, the cost of the proposed DIP ABL Facility is consistent with other recent DIP financings approved by Canadian courts;
- h) the DIP ABL Facility is the result of arm's-length negotiations between the Chapter 11 Debtors, the DIP ABL Agent and the DIP ABL Lenders. The proposed Information Officer understands that the DIP ABL Agent and the DIP ABL Lenders were not willing to provide the interim financing required to fund these cross-border insolvency proceedings other than on the terms and conditions of the DIP ABL Facility; and
- i) the DIP ABL Facility contemplates that the Chapter 11 Debtors' receipts will first be applied against outstanding amounts under the Prepetition ABL Facility and, upon issuance of a final order in respect of the Interim DIP Order, any amount outstanding under the Prepetition DIP Facility will be repaid with the proceeds of the DIP ABL Facility. Given this proposed "roll-up" treatment, the proposed Information Officer determined that an independent opinion on the validity and enforceability of the security held by the Prepetition ABL Lenders was required in the context of its review of the DIP ABL Facility. The results of the security opinion are discussed in Section 5.1 of this Report.

9. Based on the foregoing, the proposed Information Officer does not believe that any creditor with an economic interest in the Canadian Debtor's assets in a liquidation scenario will be materially prejudiced by the recognition of the Interim DIP Order and/or the granting of the DIP ABL Charge.

5.1 Security Opinion

1. In anticipation of these proceedings, KSV retained Norton Rose Fulbright Canada LLP ("Norton Rose") to act as its legal counsel in the event that the Recognition Orders are granted and KSV is appointed as Information Officer. Norton Rose provided an opinion⁴ dated May 22, 2019 which, subject to the standard assumptions and qualifications contained therein, concludes that the security granted by the Canadian Debtor in favour of the Prepetition ABL Agent, as registered under the PPSA and at the Register of Personal and Movable Real Rights, creates a valid and perfected security interest and hypothec in the Canadian Debtor's assets situated in British Columbia, Ontario and Quebec, respectively.

6.0 Court Ordered Charges

1. In addition to the DIP ABL Charge, the proposed Recognition Orders contemplate an Administration Charge.
2. The Foreign Representative is seeking an Administration Charge in an amount not to exceed \$200,000 to secure the fees and expenses of the Information Officer and its counsel.
3. The Administration Charge is a customary provision in recognition orders under Part IV of the CCAA - it is required by certain of the professionals engaged to assist a debtor company and to protect those professionals in the event it is unable to pay their fees and costs during the insolvency process.
4. KSV believes that the quantum of the Administration Charge is reasonable and appropriate in the circumstances given the complexities of the cross-border proceedings and the services to be provided by the professionals involved.

7.0 The Plan

1. The Chapter 11 Debtors entered into a restructuring support agreement dated as of May 19, 2019 with the Term Loan Lenders and Sentinel (the "RSA"). The RSA contemplates the Plan, which the Chapter 11 Debtors have filed in the Chapter 11 Proceedings.

⁴ A copy of the security opinion will be made available to the Ontario Court should it wish to review it.

2. The details of the Plan and RSA are provided in the Pfefferle Declaration and the Pfefferle Affidavit and, accordingly, are not repeated herein. A summary of the key provisions vis-à-vis the Canadian Debtor and its stakeholders is as follows:
 - a) the Chapter 11 Debtors have secured an agreement to have the DIP Term Loan Facility converted into a \$58 million exit term loan facility upon emergence from the Chapter 11 Proceedings, which provides an additional \$30 million in incremental liquidity to fund go-forward operations;
 - b) the RSA contemplates that the Term Loan Lenders would convert their existing secured debt into equity pursuant to a credit bid. However, the Plan includes a sale “toggle” feature allowing for a potential sale to a third party which may result from the Sale Process to be carried out by the Chapter 11 Debtors and Houlihan. As noted above, Houlihan’s process will not preclude prospective purchasers from submitting bids for the Canadian Debtor’s business and assets on a standalone basis; and
 - c) given that the Canadian Debtor is not a borrower or guarantor under the Term Loan Facility, the Chapter 11 Debtors, the DIP ABL Agent and the DIP Term Loan Agent negotiated and incorporated certain protections into the Plan to consider the treatment of the Canadian Debtor’s creditors. In this regard, the Plan provides that:
 - i. if there is a sale to a third party, the Information Officer has consultation rights into the value allocation methodology that will be used to allocate the purchase price between the US Debtors and the Canadian Debtor; and
 - ii. if the winning bid is the transaction with the Term Loan Lenders contemplated by the RSA, there may be a “Canadian Acquisition Transaction”, pursuant to which the Term Loan Lenders may acquire the assets, undertakings and properties of the Canadian Debtor. In that scenario, the Canadian Acquisition Transaction shall be acceptable to the Chapter 11 Debtors, the required Term Loan Lenders and the Information Officer. In addition, any Canadian Acquisition Transaction will be subject to the approval of the Ontario Court.
3. At the conclusion of the Sale Process, the proposed Information Officer intends to file a report with the Ontario Court that will, *inter alia*:
 - a) comment on the reasonableness of the value allocation or the Canadian Acquisition Transaction, as the case may be; and
 - b) provide the Ontario Court with a recommendation thereon.

8.0 Conclusion and Recommendation

1. Based on the foregoing, the proposed Information Officer recommends that this Honourable Court grant the Recognition Orders sought by the Foreign Representative.

* * *

All of which is respectfully submitted,

A handwritten signature in blue ink that reads "KSV Kofman Inc". The signature is written in a cursive, flowing style.

KSV KOFMAN INC.

**IN ITS CAPACITY AS PROPOSED INFORMATION OFFICER OF
HOLLANDER SLEEP PRODUCTS, LLC, HOLLANDER SLEEP PRODUCTS CANADA
LIMITED, DREAM II HOLDINGS, LLC, HOLLANDER HOME FASHIONS HOLDINGS, LLC,
PACIFIC COAST FEATHER, LLC, HOLLANDER SLEEP PRODUCTS KENTUCKY, LLC AND
PACIFIC COAST FEATHER CUSHION, LLC
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF HOLLANDER SLEEP PRODUCTS, LLC, HOLLANDER
SLEEP PRODUCTS CANADA LIMITED, DREAM II HOLDINGS, LLC, HOLLANDER
HOME FASHIONS HOLDINGS, LLC, PACIFIC COAST FEATHER, LLC,
HOLLANDER SLEEP PRODUCTS KENTUCKY, LLC AND PACIFIC COAST
FEATHER CUSHION, LLC

APPLICATION OF HOLLANDER SLEEP PRODUCTS, LLC UNDER SECTION 46 OF
THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS
AMENDED

CONSENT TO ACT AS INFORMATION OFFICER

KSV Kofman Inc. hereby consents to act as information officer in the above noted proceedings pursuant to the *Companies' Creditors Arrangement Act* and to the terms of the form of Supplemental Order (Foreign Main Proceeding) filed in respect of same

DATED this 21st day of May, 2019.

KSV KOFMAN INC.

By: 

Name: David Sieradzki

Title: Managing Director

Appendix “B”

Select Debtor-in-Possession Facilities Approved in 2017 and 2018 CCAA Proceedings
As at May 23, 2019

Debtor	Jurisdiction	Monitor/Information Officer	Filing Date	Industry	Lender	Commitment (Notes 1 and 2)	Fees	Interest Rate
Dream II Holdings, LLC, Hollander Home Fashions Holdings, LLC, Pacific Coast Feather, LLC, Hollander Sleep Products Kentucky, LLC, Pacific Coast Feather Cushion, LLC, Hollander Sleep Products, LLC and Hollander Sleep Products Canada Limited	Ontario	KSV Kofman Inc.	23-May-19	Manufacturing	Wells Fargo Bank	\$90,000,000	\$1,350,000 closing fee (1.5% of committed amount), plus all DIP ABL Lender's costs and expenses.	(i) If a US Revolving Loan or Canadian obligation is a Base Rate Loan, Base Rate + 2.00% and (ii) if a US Revolving Loan or Canadian obligation is a Non-Base Rate Loan, LIBOR + 4.00%.
Discovery Air Inc.	Ontario	KSV Kofman Inc.	21-Mar-18	Aviation	Clairvest Group Inc.	\$12,000,000 (Note 3)	The DIP Lender's reasonable out of pocket expenses including legal expenses incurred in connection with these CCAA proceedings.	10%
Société en commandite Tilly de Laval et Promotions Anne Delisle Inc.	Quebec	Lemieux Nolet Inc.	14-Feb-18	Excavation	La Financiere Transcapitale Inc.	\$750,000	(Note 4)	(Note 4)
Banro Corporation, Banro Group (Barbados) Limited, Banro Congo (Barbados) Limited, Namoya (Barbados) Limited, Lugushwa (Barbados) Limited, Twangiza (Barbados) Limited, Kamituga (Barbados) Limited	Ontario	FTI Consulting Canada Inc.	22-Dec-17	Mining	Gramercy Funds Management LLC, Baiyin International Investment Limited	US\$20,000,000	All DIP lender's costs and expenses (Note 5)	12%
Copper Sands Land Corp.	Saskatchewan	Deloitte Restructuring Inc.	20-Dec-17	Mining	Staheli Construction Co. Ltd.	\$1,250,000	\$30,000 Facility Fee \$15,000 fee if the DIP Facility is repaid prior to January 31, 2018	15%
Azzimov Inc., Azzimov Mobile Inc.	Quebec	PricewaterhouseCoopers Inc.	18-Dec-17	Technology	ACG S.E. LP	\$1,000,000	Facility Fee: 4% applicable to each tranche	15%
669699 N.B. Ltd., MP Atlantic Wood Ltd. and New Future Lumber Ltd.	New Brunswick	Powell Associates Ltd.	29-Nov-17	Lumber Manufacturing	Kindred Financial Inc.	\$500,000	Commitment fee: \$25,000	12%
RCR International Inc. and WJ Dennis & Company	Quebec	Ernst & Young Inc.	21-Nov-17	Manufacturing	Bank of Montreal	\$3,000,000	All legal expenses incurred by the DIP Lender for the preparation, negotiation and performance of the DIP Financing.	11%
BuildDirect.com Technologies Inc.	British Columbia	PricewaterhouseCoopers Inc.	31-Oct-17	Technology	Pelecanus Investments Ltd., Lyrta Growth Partners Inc., Beedie Capital Partners Fund 1 Limited Partnership	US\$15,000,000	Costs of the DIP Lenders including the costs of a financial advisor Administration Charge: to the maximum amount of \$500,000	12%
Java-U Group Inc., Java-U Food Services Inc., Café Java-U Inc. and Java-U RTA Inc.	Quebec	Raymond Chabot Inc.	06-Oct-17	Retail	3070352 Canada Inc.	\$400,000	(Note 4)	(Note 4)
Toys "R" Us (Canada) Ltd. Toys "R" Us (Canada) Ltee ("Toys Canada")	Ontario	Grant Thornton Limited	19-Sep-17	Retail	JPMorgan Chase Bank, N.A.	Canadian DIP Term Loan: US\$200 million Canadian DIP Revolving Loan: US\$300 million (Note 6)	US\$20.7 million (estimated fees as per the CCAA cash flow projection) Closing Fee: \$150,000 Unused Line Fee: monthly fee of 0.25%/annum LC Facility Fees: monthly fee of 7%/annum and all customary charges in respect of the letters of credit	(Note 7)
WD Navarre Canada, ULC	Ontario	KSV Kofman Inc.	18-Sep-17	Distribution	Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., SunTrust Robinson Humphrey Inc., and Sun Trust Bank	US\$15,000,000	Field Exam Fees: as detailed in the Report	10.25% - US Revolving Loan (6% plus Agent's prime rate of 4.25%) 9.2% - Canadian Revolving Loan (6% plus prime rate of 3.2%) Default Interest: 2% plus applicable Interest Rate
Index Energy Mills Corporation	Ontario	Grant Thornton Limited	16-Aug-17	Energy	Index Equity US LLC	\$5,000,000	All DIP lender's costs and expenses (Note 5)	6%
Canada North Group Inc., Canada North Camps., Campcorp Structures Ltd., D.J. Catering Ltd., 816956 Alberta Ltd., 1371047 Alberta Ltd.	Alberta	Ernst & Young Inc.	06-Jul-17	Oil and Gas	Business Development Bank of Canada	\$2,500,000	Administration fee of \$250 per month Loan Processing Fee of \$15,000	9% (Floating Base Rate per BDC (4.8%) plus 4.2%)
Sears Canada Inc.	Ontario	FTI Consulting Canada Inc.	22-Jun-17	Retail	Wells Fargo	DIP ABL: \$300,000,000 DIP Term Loan: US\$150,000,000 (Note 8)	Structuring Fee: DIP ABL Facility: 1.25% Unused Line Fee: DIP ABL Facility: 0.375% Commitment Fee: DIP Term Loan Facility: 3.5% Exit Fee: DIP Term Loan Facility: 1.5%	DIP Term Loan Facility: LIBOR + 11% (1% LIBOR floor) or USPR+10% (4% USPR Floor) DIP ABL Facility: BA/LIBOR+4.5% or PR/BR+3.5% DIP ABL L/C Fees: (a) 4.5% per annum for Standby L/C and (b) 4% per annum for Commercial L/C.
Gestion Eric Savard Inc., et al.	Quebec	Raymond Chabot Inc.	18-May-17	Medical	Fiera Capital Corporation	\$5,400,000	(Note 4)	(Note 4)
Express Fashion Apparel Canada Inc. and Express Canada GC GP Inc.	Ontario	Alvarez & Marsal Canada Inc.	04-May-17	Retail	N/A	N/A	N/A	N/A
Walton International Group Inc. et al.	Alberta	Ernst & Young Inc.	28-Apr-17	Real Estate	Century Services Corp.	\$7,000,000	Facility Fee: up front fee of 2% of the available advances Break Fee: \$250,000	12.75%
Orbite Technologies Inc. ("Orbite")	Quebec	PricewaterhouseCoopers Inc.	28-Apr-17	Industrial Technology	Orbite's debenture holders	\$6,800,000	Engagement fee: 1% of the DIP	9.25%
Alliance Hanger Inc.	Quebec	KPMG Inc.	16-Feb-17	Manufacturing and Distribution	9170-9402 Quebec Inc.	\$5,000,000	N/A	Interest free
Grafton-Fraser Inc.	Ontario	Richter Advisory Group Inc.	25-Jan-17	Retail	GSO Capital Partners	\$5,500,000	Facility Fee: \$55,000 Annual Administration Fee: US\$15,000	Approximately 15% (CDOR+14%)
Developpement Lachine Est Inc.	Quebec	Raymond Chabot Inc.	13-Jan-17	Real Estate	(Note 4)	(Note 4)	(Note 4)	(Note 4)

General Notes:

- This analysis is based on information available on the website of the applicable Monitor or Information Officer. All currency references are in Canadian dollars, unless otherwise noted.
- All or substantially all of the DIP facilities detailed above were granted on a super priority status.

Specific Notes:

- This DIP Facility did not prime any secured creditor ranking in priority to Clairvest.
- The terms of the DIP facilities, if any, were not available on the applicable Monitor's website.
- The public information did not specify the fees associated with this DIP facility other than the DIP lender's costs.
- The DIP lender provided funding of up to US \$2.3 billion to the direct parent of Toys Canada as the principal borrower and to Toys Canada as the Canadian borrower which includes a Canadian DIP Term Loan of US\$200 million and a Canadian DIP Revolving Loan of US \$300 million. Given the magnitude of these DIP facilities relative to the DIP ABL Facility, the proposed Information Officer did not consider them relevant in its assessment of the DIP ABL Facility in the context of these proceedings.
- The public information did not specify the interest rate associated with this DIP facility other than that it will bear interest at a slightly higher marginal interest rate than the existing ABL Credit Facility.
- Given the magnitude of the DIP facilities relative to the DIP ABL Facility, the proposed Information Officer did not consider them relevant in its assessment of the DIP ABL Facility in the context of these proceedings.

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, C. C-36, AS AMENDED

Court File No.: CV-19-620484-00CL

AND IN THE MATTER OF HOLLANDER SLEEP PRODUCTS LLC, HOLLANDER SLEEP PRODUCTS CANADA LIMITED, DREAM II HOLDINGS, LLC, HOLLANDER HOME FASHIONS HOLDINGS, LLC, PACIFIC COAST FEATHER, LLC, HOLLANDER SLEEP PRODUCTS KENTUCKY, LLC, AND PACIFIC COAST FEATHER CUSHION, LLC

APPLICATION OF HOLLANDER SLEEP PRODUCTS LLC UNDER SECTION 46 OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**REPORT OF KSV KOFMAN INC., IN ITS CAPACITY
AS PROPOSED INFORMATION OFFICER
(May 23, 2019)**

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