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Proposed Counsel to the Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	)	Chapter 11
HOLLANDER SLEEP PRODUCTS, LLC, *et al.*,[1]	)	Case No. 19-11608 (___)
Debtors.	)	(Joint Administration Requested)

DECLARATION OF SAUL BURIAN IN SUPPORT OF THE DEBTORS' DIP FINANCING MOTION AND EXIT FINANCING COMMITMENT MOTION

I, Saul Burian, make this declaration pursuant to 28 U.S.C. § 1746:

1. I submit this declaration in support of the *Debtors' Motion for Entry of Interim and Final Orders (A) Authorizing the Debtors to Obtain Postpetition Financing, (B) Authorizing the Debtors to Use Cash Collateral, (C) Granting Liens and Providing Superpriority Administrative Expense Status, (D) Granting Adequate Protection to Prepetition Secured Parties, (E) Modifying the Automatic Stay, (F) Scheduling a Final Hearing, and (G) Granting Related Relief* (the "DIP Motion") seeking relief for the debtors and debtors in possession in the above-captioned chapter 11

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Dream II Holdings, LLC (7915); Hollander Home Fashions Holdings, LLC (2063); Hollander Sleep Products, LLC (2143); Pacific Coast Feather, LLC (1445); Hollander Sleep Products Kentucky, LLC (4119); Pacific Coast Feather Cushion, LLC (3119); and Hollander Sleep Products Canada Limited (3477). The location of the Debtors' service address is: 901 Yamato Road, Suite 250, Boca Raton, Florida 33431.

cases (collectively, the "Debtors") and in support of the *Debtors' Motion for Entry of an Order (A) Authorizing the Debtors to Enter into Exit Financing Commitment and Fee Letters and (B) Granting Related Relief* (the "Exit Financing Commitment Motion"),[2] each filed contemporaneously herewith.

2. The statements in this declaration are, except where specifically noted, based upon (a) my personal knowledge of the Debtors' operations and financial performance, (b) my involvement in the financing process, as one of the principal advisors to the Debtors since May 2, 2019, including work done by my team members at Houlihan Lokey Capital, Inc. ("Houlihan Lokey"), (c) information learned from my review of relevant financial and operational data regarding the Debtors, (d) information received from members of the Debtors' senior management and their advisors, and (e) my opinions from past experience advising distressed companies and their stakeholders. I am not specifically compensated for this testimony other than through payments received by Houlihan Lokey as a professional whose retention the Debtors will seek to obtain pursuant to an application to be filed with this Court at a later date. I am over the age of 18 years and authorized to submit this declaration on behalf of the Debtors. If I were called upon to testify, I could and would competently testify to the facts set forth herein.

Background and Qualifications

1. Houlihan Lokey is an internationally recognized investment banking and financial advisory firm with 24 offices worldwide and approximately 1,200 employees. Houlihan Lokey provides corporate finance and financial advisory services, as well as execution capabilities, in a variety of areas, including financial restructuring. In 2018, Houlihan Lokey was ranked as the

[2] Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the DIP Motion or the Exit Financing Commitment Motion.

No. 1 M&A advisor for U.S. transactions, according to Thomson Reuters. The firm is one of the leading providers of M&A fairness opinions and has the largest worldwide financial restructuring practice of any investment bank. Houlihan Lokey annually serves more than 1,000 clients ranging from closely held companies to Global Fortune 500 corporations.

2. Houlihan Lokey's Financial Restructuring Group, which has approximately 190 professionals, is one of the leading advisors and investment bankers to debtors, secured and unsecured creditors, acquirers, and other parties-in-interest involved in financially troubled companies based in a variety of industries and requiring complex financial restructurings, both in and outside of bankruptcy. Houlihan Lokey has been and is involved in a number of large restructuring cases in the United States.

3. I am a Managing Director in the Financial Restructuring Group and have been employed by Houlihan Lokey for 17 years. During the course of my career, I have advised both debtors and creditors in financial restructurings and distressed mergers and acquisitions, raised capital for troubled businesses, and represented debtors and creditor constituencies in bankruptcy proceedings. My restructuring experiences include the representation of distressed companies, debtors, official committees of creditors, and other significant stakeholders, in a number of complex financial restructurings, including the following: Toys "R" Us, Nine West Holdings, Sears Holdings, Mark IV Automotive, Extended Stay America, MSR Hotels & Resorts Inc., Buffets Holdings, RCS Capital Corporation, Barneys New York, Kaisa Group Holdings, Lehman Brothers, TI Automotive, Global Power, Magellan Health, among others.

4. Prior to my time at Houlihan Lokey, I was a bankruptcy and restructuring partner at Kramer Levin Naftalis & Frankel, LLP. During my time there, I advised and was involved, on the legal side, on almost all if not all of the types of situations I listed above.

5. I have also advised companies and creditor groups in connection with a variety of financing-related issues, including assisting chapter 11 debtors in obtaining and negotiating the terms of debtor-in-possession and exit financing loans. I have submitted declarations and provided expert testimony related to those matters in a number of chapter 11 cases.

The Debtors' Need for DIP Financing

3. Based on discussions with the Debtors' management and other advisors, I understand that without access to new money financing to fund these cases, the Debtors will be unable to cover their operating expenses let alone fund the projected costs of these cases. I understand that this funding need is acute, and that the Debtors need access to financing imminently to ensure their ongoing viability. I believe that the Debtors' ability to continue funding ongoing operations during these chapter 11 cases is essential to the preservation of the Debtors' assets and the Debtors' ability to maximize the value of those assets, either through a sale pursuant to a plan or a reorganization.

4. Moreover, I believe that postpetition funding will send a strong message to the Debtors' key stakeholders that operations are and will continue to be adequately funded throughout the cases and that the Debtors have funding for a path to emergence, which will materially benefit the Debtors. I also believe that debtor-in-possession ("DIP") financing and committed exit financing are vitally important for the Debtors to establish a platform around which to reorganize.

The Debtors' Efforts to Secure DIP and Exit Financing

I. The Proposed DIP Facilities.

5. I understand that the Debtors have sought a holistic balance sheet solution since commencing restructuring discussions with their secured term loan and asset-based loan ("ABL") lenders in late March. As it became clear that the Debtors likely would have to implement a restructuring through chapter 11, the Debtors' focus turned towards both financing their chapter 11

cases and structuring their cases to ensure that they would be able to emerge from chapter 11 and bring finality to the process. The Debtors therefore pursued the support of their funded-debt stakeholders for a chapter 11 plan process that would result in the payment of all priority claims and administrative expenses (including those arising under section 503(b)(9) of the Bankruptcy Code).

6. The Debtors engaged in good faith, arm's-length negotiations with their prepetition ABL lenders, recognizing that the Debtors would need daily access to liquidity to fund their operations. The ABL lenders' worked constructively with the Debtors, indicating that they would be willing to provide a DIP ABL facility on terms reasonably consistent with the prepetition ABL facility and which would allow the Debtors to maintain their existing cash management system centered around bank accounts provided by Wells Fargo, N.A., the agent under the prepetition ABL facility. The Debtors and their advisors negotiated over a number of weeks regarding the structure and economics of the proposed DIP ABL facility. Ultimately, the Debtors and the ABL Agent agreed to a set of terms that will provide the Debtors with necessary access to liquidity during the pendency of these chapter 11 cases at fees and rates that the Debtors and their advisors consider to be reasonable under the circumstances.[3]

7. At the same time, the Debtors engaged in good faith, arm's-length negotiations with their term loan lenders regarding a chapter 11 plan and the funding of that plan process. The term loan lenders ultimately committed to support the plan process and to finance these cases through a new money $28 million DIP term loan facility. This DIP term loan facility is expressly linked

[3] The proposed DIP ABL facility includes a subordinated portion of "last out" loans. The Debtors' existing ABL Lenders required that certain affiliates and funds of Sentinel Capital Partners, LLC, a major equity holder of Dream II Holdings, LLC, purchase participation interests in these loans as part of the DIP ABL Facility. The Last Out DIP Obligations and Last Out Obligations, as applicable, shall include interest at the default rate and reasonable and documented fees and expenses of the Put Purchasers, such amounts not to be paid currently but to accrue as part of the Last Out DIP Obligations and Last Out Obligations, as applicable.

with certain of the term loan lenders' commitment to provide the company with a $58 million exit term loan facility that would roll the $28 million DIP term loan facility into the exit facility and backstop an additional $30 million in new money, as well as their commitment to convert their DIP claims into claims under that exit facility. The term loan lenders also signed a restructuring support agreement documenting their support for the Debtors' proposed plan. This commitment provides a platform for the Debtors to market test the restructuring transactions contemplated by their chapter 11 plan as well as allows for certainty of emergence from chapter 11 if no sale transaction under that plan materializes.

8. The Debtors also sought financing from third-party sources before the commencement of these cases. The Debtors recognized that it would be difficult to secure financing because of limited time and because essentially all of the Debtors' assets are encumbered by existing liens under their prepetition funded debt, and their prepetition lenders indicated that they would not consent to a "priming" DIP financing provided by a third party. Thus, to obtain third party DIP financing, the Debtors might need to engage in a risky and costly "priming" fight with their prepetition lenders. This fight could upset the Debtors' reorganization efforts and/or their efforts to obtain postpetition financing on a junior basis to the existing secured indebtedness. Nonetheless, at the direction of the Debtors, Houlihan Lokey commenced a marketing process for possible DIP financing alternatives beginning in May 2019. Specifically, Houlihan Lokey contacted 15 banks and institutions in the business of extending postpetition financing under similar circumstances, six of which have executed non-disclosure agreements and have access to a data room that was set up by Houlihan Lokey. To date, none of these institutions has proposed competing financing facilities on any terms. Moreover, none of these institutions is willing to lend on a junior or unsecured basis.

9. The fees to be paid under the proposed DIP facilities were the subject of arm's-length and good faith negotiation between the Debtors and the DIP lenders, and they are an integral component of the overall terms of the proposed DIP facilities. Also, as a condition to providing postpetition financing, the DIP agents and lenders required the exit financing commitments. In exchange, the Debtors required that the term lenders sign the restructuring support agreement ("RSA") documenting their commitment to the Debtors' restructuring. The RSA is important to the Debtors because it will reassure customers and vendors of the business' continued viability and protect on-going operations, thereby maximizing value for creditors. The DIP term loan facility also is the only postpetition term facility offered to the Debtors before filing. Absent this financing, the only alternative course may be liquidation in a very compressed timeline that could gravely injure employees, vendors, and customers, as well as jeopardize recoveries for the ABL and term loan lenders. The DIP term loan facility is also important to the Debtors because it includes a clear path to emergence.

10. The DIP credit agreements contain milestones the Debtors must meet throughout their chapter 11 cases. The milestones were negotiated by the DIP agents and the DIP lenders as a condition to providing the DIP facilities and provide the Debtors with adequate time to implement a value-maximizing restructuring. Given the financial and operating condition of the Debtors, the timing, cost, and risk of attempting to manage the Debtors to profitability, and the expected range of value of the Debtors, I believe these fees and milestones are appropriate under the circumstances, and are the best terms available to the Debtors.

II. The Proposed Exit Term Loan Backstop Commitment.

11. The Debtors have focused on ensuring that they will have the ability to fund their emergence from chapter 11. To that end, they pressed their term loan lenders for committed financing that would be available upon confirmation of the proposed plan to fund emergence costs

and provide the reorganized Debtors with sufficient liquidity to fund future operations. The term loan lenders "stepped up" and have provided these commitments, agreeing to roll the $28 million DIP term loan facility into the exit facility and committing to backstop a $30 million new money exit facility, for a total facility of $58 million. Over the course of negotiations, the term loan lenders made it clear that the DIP term loan and the exit term loan are strongly linked—the agreement to provide the DIP term loan on the negotiated terms would not have been possible without the exit financing component. This committed exit financing is critical to the Debtors' chapter 11 cases and provides certainty to their reorganization. The proposed exit lenders also have agreed to commit this financing for a period of 120 days, tying up capital while the Debtors are also marketing their assets for a potential sale transaction during that time period. The Debtors therefore have agreed to seek approval of the proposed exit financing commitment in connection with the entry of the final order approving the Debtors' proposed DIP term loan facility.

12. While Houlihan Lokey was surveying banks and alternative lenders for their interest in providing DIP financing to the Debtors, it also discussed the possibility of an exit facility. None of these institutions has submitted any postpetition financing proposals as of the Petition Date.

III. The Proposed Exit Term Loan Backstop Fees.

13. In exchange for the term lenders commitment to roll the $28 million DIP term loan facility into the exit facility and backstop a $30 million new money exit facility, the Debtors will pay a fee that will be earned and payable in cash on the business day following the date the Final DIP Order is entered, provided that each participating term lender shall have to refund the fee if the restructuring support agreement is terminated on account of a breach by one or more of the participating term lenders. The fee is otherwise non-refundable. The Debtors have agreed to pay the reasonable and documented out-of-pocket expenses incurred by the participating term lenders.

Additionally, the exit term loan lenders will receive 40.0% of the equity of the reorganized Debtors.

14. The fees to be paid under the proposed exit financing commitment were the subject of extensive and hard fought good faith, arm's-length negotiation between the Debtors and the exit lenders and were required by the exit lenders as consideration for their significant commitments to the Debtors' reorganization process. The fees and rates ultimately agreed upon are reasonable under the circumstances in light of, among other things, the fact that the proposed DIP term loan facility was available only in conjunction with the proposed exit facility, the length of the commitment, the Debtors' current business performance, and the certainty such commitments provide to the Debtors' plan process. It was critical to the Debtors to have a committed exit strategy at the time of filing these chapter 11 cases to signal to the market that the Debtors' had sufficient liquidity to fund the go-forward business. Moreover, the exit financing commitment is part of a holistic value-maximizing restructuring transaction that will provide a clear path to emergence and result in a substantial deleveraging of approximately $166.5 million. To date, no other institution has proposed a competing exit financing facility on any terms and, notwithstanding all attempts to the contrary, the term loan lenders have refused to modify or reduce these fees. Accordingly, I believe these fees are the best terms available to the Debtors and should be approved.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge.

New York, New York
May 19, 2019

By:

Saul Burian
Managing Director
Houlihan Lokey Capital, Inc.