

Court File No. 06-CL-6585

**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 A PLAN OF COMPROMISE AND
ARRANGEMENT OF SKLAR-PEPPLER FURNITURE CORPORATION

APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT
ACT*, R.S.C. 1985, c. C-36, AS AMENDED

**FIRST REPORT OF THE MONITOR
DATED SEPTEMBER 1, 2006**

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1. First Report of the Monitor dated September 1, 2006

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**FIRST REPORT OF THE MONITOR
DATED SEPTEMBER 1, 2006**

1. On August 8, 2006, Sklar-Peppler Furniture Corporation (the "Applicant") filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") pursuant to the Order of this Honourable Court dated August 8, 2006 (the "Initial Order"). Pursuant to the Initial Order, BDO Dunwoody Limited was appointed as the monitor of the Applicant (the "Monitor") in this CCAA proceeding.

Purpose

2. The purpose of this First Report of the Monitor (the "First Report") is to advise the Honourable Court with respect to:

- (a) the activities of the Monitor from the date of the Initial Order to the date of this report (the "First Report"); and,
 - (b) the Applicant's request for an extension of the Stay Period to September 21, 2006.
3. Capitalized terms not defined in this First Report are defined in the Initial Order. All references to dollars are in Canadian currency unless otherwise noted.

Terms of Reference

4. In developing this First Report, the Monitor has relied upon unaudited Applicant prepared financial information, Applicant records and discussions with management of the Applicant. The Monitor has not performed an audit or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook has not been performed. Future oriented financial information relied upon in this First Report is based upon management's assumptions regarding future events and actual results achieved will vary from this information and the variation may be material.
5. The Monitor assumes no responsibility or liability for loss or damage occasioned by any party as a result of the circulation, publication,

reproduction or use of this report and any use which any party, other than a Court, makes of this report or any reliance on or decision taken based upon it, is the responsibility of such party. The Monitor is relying on the accuracy of the representations made to it by the Applicant. The Monitor is further relying on the accuracy of the books, records and reports of the Applicant which have been supplied to the Monitor by the Applicant in these proceedings.

Background

6. The Applicant is a corporation incorporated pursuant the *Business Corporations Act (Ontario)*. It is one of Canada's leading branded suppliers of residential upholstered furniture and occasional tables. The Applicant supplies retailers both in Canada and the United States of America.
7. The Applicant owns 100% of Sklar-Peppler of America Inc. ("SPA"). SPA is a U.S. holding company that owns 100% of the shares of Associated Furniture Manufacturers Inc. ("AFM") in Portland, Oregon. AFM also manufactures "Sklar-Peppler" branded products. AFM has a smaller plant but it conducts the same operations as are conducted by the Applicant in Canada. SPA and AFM are not included in the reorganization under the

CCAA and we understand they are to continue to carry on business in the ordinary course.

Activities of the Monitor

8. The scope of the powers of the Monitor as set out in the Initial Order are more limited than those usually assigned to a Monitor under such an order. The Monitor's responsibilities were essentially restricted to those set out in section 11.7 of the CCAA. Accordingly, the Monitor has had less involvement with the Applicant or with respect to overseeing the business and affairs of the Applicant than is typically done by a Monitor in a CCAA proceeding.
9. The Monitor has met with senior management of the Applicant and is in communication with them. The Monitor has made a number of visits to the Applicant's place of business and has requested various financial and other information from the Applicant.
10. There have been some difficulties in the flow of communication between the Monitor and the Applicant since the commencement of these CCAA proceedings, including with respect to questions concerning the scope of the oversight to be exercised by the Monitor. The Monitor is hopeful, given the most recent communications and correspondence, that these issues may resolve themselves hereafter.

11. The Monitor has recently been provided with some of the information it has requested from time to time from the Applicant, and has asked for and is awaiting certain other items or information. The Monitor is in the process of completing its review of these materials and resolving certain questions which arise therefrom.
12. Pursuant to paragraph 24 of the Initial Order and in keeping with the request of the Applicant, the Monitor is relaying all requests it receives for information from creditors to the Applicant's counsel. The Monitor understands that these requests are being met by the Applicant.
13. In accordance with paragraph 40 of the Initial Order, the Monitor notes that the application materials from the Applicant's initial application in these proceedings (the "Initial Application") and the Initial Order have been posted on the website of Gowlings, counsel to the Applicant.
14. Pursuant to paragraph 38 of the Initial Order the Monitor was relieved of the responsibility under paragraph 11(5) of the CCAA to attend to the distribution of the Initial Order to creditors. Rather the Applicant was tasked with this responsibility.
15. The Applicant attended to this distribution on August 15, 2006. When the Monitor became aware of the distribution, the Monitor reviewed same and noted that certain creditors had not been provided with copies of the Initial

Order. The Monitor advised the Applicant of this concern and is advised that those parties were then provided with the Initial Order.

16. The Monitor has not received any material complaints about the operation of the business of the Applicant since its appointment at the commencement of these CCAA proceedings.
17. The Monitor is advised that the Applicant is in discussions with its trade union with respect to how various outstanding concerns of that trade union will be dealt with in these CCAA proceedings.
18. The Monitor has not been asked by either the Applicant or the trade union to participate in these negotiations at this time. The Monitor has asked the Applicant to provide it with notice of any material developments arising from these meetings.

The Applicant's Request for an Extension of the Stay Period

19. The Monitor has reviewed the application of the Applicant to extend the Stay Period under the Initial Order to September 21, 2006, including a draft of the Affidavit to be sworn by Robert J. Tweedy, a director of the Applicant.

20. The cash flows prepared by the Applicant and provided by the Applicant to the Court in the Initial Application indicate that the Applicant will have sufficient cash with which to operate up to the proposed date.
21. The Monitor is unaware of any objection to the proposed extension.
22. The draft affidavit of Robert Tweedy attests that the Applicant is proceeding in good faith and with due diligence.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY

BDO DUNWOODY LIMITED
in its capacity as Court Appointed
Monitor of the Applicant

Per:

A handwritten signature in black ink, appearing to read 'Uwe Manski', written over a horizontal line.

Uwe Manski, FCA, FCIRP
President

B E T W E E N :

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Proceeding commenced at TORONTO

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