

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

MOTION RECORD OF
BDO DUNWOODY LIMITED, IN ITS CAPACITY AS MONITOR
FOR SKLAR-PEPPLER FURNITURE CORPORATION
(Motion returnable October 25, 2006)

October 24, 2006

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Raymond M. Slattery
Tel. (416) 369-4119
Fax (416) 864-9223

Solicitors for the Monitor

TO: SERVICE LIST ATTACHED

SERVICE LIST

1. **GOWLING LAFLEUR HENDERSON LLP**

Barristers & Solicitors
1 First Canadian Place, Suite 1600
100 King Street West
Toronto ON M5X 1G5

E. Patrick Shea
416-369-7200
416-369-7250 fax
patrick.shea@gowlings.com

Solicitors for Sklar-Peppler Furniture Corporation

2. **WEIRFOULDS LLP**

Barristers & Solicitors
The Exchange Tower
Suite 1600, PO Box 480
130 King Street West
Toronto ON M5X 1J5

Krista R. Chaytor
416-365-1110
416-365-1876 fax
kchaytor@weirfoulds.com

Solicitors for Lebovic Enterprises Inc.

3. **TORKIN MANES COHEN ARBUS LLP**

Barristers & Solicitors
151 Yonge Street, Suite 1500
Toronto ON M5C 2W7

S. Fay Sulley
416-863-1188
416-863-0305 fax
fsulley@torkinmanes.com

Solicitors for Weyerhaeuser

4. **THORNTON GROUT FINNIGAN LLP**
Barristers & Solicitors
Royal Trust Tower, TD Centre
77 King Street West, Suite 2200
Toronto ON M5K 1K7

Grant B. Moffat
416-304-0599
416-304-1313 fax
gmoffat@tgf.ca

Solicitors for National Bank of Canada

5. **SUPERINTENDENT OF FINANCIAL SERVICES**
Financial Services Commission of Ontario
Pension Plans Branch
5160 Yonge Street, 4th floor
PO Box 85
Toronto ON M2N 6L9

John Graham
416-226-7774
416-226-7777 fax
jgraham@fscsco.gov.on.ca

6. **MINISTRY OF THE ATTORNEY GENERAL**
Legal Services Branch
Financial Services Commission of Ontario
5160 Yonge Street, 7th floor
PO Box 85
Toronto ON M2N 6L9

Mark Bailey
416-590-7555
416-590-7070 fax
m Bailey@fscsco.gov.on.ca

Solicitors for Superintendent of Financial Services

7. **UNITED STEEL WORKERS**

J. O'Conner

joconner@uswa.ca

8. **UNITED STEEL, PAPER AND FORESTRY, RUBBER,
MANUFACTURING, ENERGY, ALLIED INDUSTRIAL AND
SERVICE WORKERS INTERNATIONAL UNION
(UNITED STEEL WORKERS)**

234 Eglinton Ave. E., 8th Floor

Toronto, ON M4P 1K5

Paula Turtle, Canadian Counsel

Tel: (416) 544-5980

Fax: (416) 487-8826

9. **CANADA REVENUE AGENCY**

Toronto East Tax Services Office

200 Town Centre Court, Room 1030

Scarborough, ON M1P 4Y3

G.M. Gotter CD, Complex Case/Resource Officer

Tel: (416) 954-0103

Fax: (416) 954-8263

gary.gotter@cra-arc.gc.ca

10. **CANADA CUSTOMS & REVENUE AGENCY**

Department of Justice

Ontario Regional Office, Exchange Tower

130 King St. W.

Suite 3400, Box 36

Toronto, ON M5X 1K6

Diane Winters

Tel: (416) 973-3172

Fax: (416) 973-0810

11. **2072223 Ontario Limited**
Attention: Bill Malisch
Fax: (905) 686-0903
bmalisch@fixturethis.com

#1117365 | 4056123

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**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

NOTICE OF MOTION

BDO Dunwoody Limited, in its capacity as Monitor ("BDO"), will make a motion to a Judge of the Commercial List on October 25, 2006, at 10:00 a.m., or as soon after that time as a motion can be heard at 330 University Avenue, Toronto, Ontario.

THE MOTION IS FOR:

- a) If necessary, an Order abridging the time for service of this Notice of Motion and declaring that the Motion is properly returnable on October 25, 2006;

- b) Advice and directions of the Court in connection with the role of the Monitor in these CCAA proceedings;
- c) Approval of the Court of the activities and conduct of the Monitor, as described in its reports to the Court;
- d) Approval of the fees and disbursements of the Monitor and its legal counsel through October 20 and October 23, 2006, respectively;
- e) An Order discharging the Monitor effective upon the filing of a proposal under the *Bankruptcy and Insolvency Act* by the Applicant;
- f) Such further and other relief as the nature of this proceeding may require and this Honourable Court deem just.

THE GROUNDS FOR THE MOTION ARE:

- a) BDO was appointed Monitor pursuant to the Initial Order of Justice Campbell dated August 8, 2006 in these proceedings;
- b) There have been fundamental disagreements over the role of the Monitor in reviewing the business and affairs of the Applicant in order to properly discharge its responsibilities under the Initial Order and the provisions of the CCAA;

- c) The Applicant has raised objections to the fees and disbursements of the Monitor and its counsel which have now been resolved;
- d) The Initial Order provides that the Monitor may pass its accounts from time to time and for that purpose the matter is referred to a Judge of the Superior Court of Justice (Commercial List);
- e) The Applicant has said that it will file a Notice of Intention to File a Proposal under the *Bankruptcy and Insolvency Act*;
- f) Such further and other grounds as counsel may advise and this Honourable Court permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

	Date	Description
a)	October 23, 2006	Third Report of the Monitor
b)	August 8, 2006	Initial Order of Justice Campbell
c)	September 5, 2006	Endorsement of Justice Mesbur
d)	September 5, 2006	Order of Justice Mesbur
e)	October 11, 2006	Endorsement of Justice Mesbur

f) Such further and other material as counsel may advise and this Honourable Court permit.

October 24, 2006

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Raymond M. Slattery
Tel. (416) 369-4119
Fax (416) 864-9223

Solicitors for the Monitor

TO: SERVICE LIST

#1130890 v1

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

Court File No. 06-CL-6585

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

NOTICE OF MOTION

Minden Gross LLP
145 King St. W.
Suite 2200
Toronto, ON M5H 4G2

RAYMOND M. SLATTERY
LSUC#: 20479L
Tel: (416) 369-4149
Fax: (416) 864-9223

Solicitors for the Monitor

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

**THIRD REPORT OF THE MONITOR
DATED OCTOBER 24, 2006**

MINDEN GROSS LLP
Barristers & Solicitors
145 King Street West
Suite 2200
Toronto ON M5H 4G2

Raymond M. Slattery (LSUC #20479L)
416-369-4149
416-864-9223
rslattery@mindengross.com

David T. Ullmann (LSUC #42357I)
416-369-4148
416-864-9223 fax
dullmann@mindengross.com

Solicitors for the Monitor

TO: SERVICE LIST ATTACHED

**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

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

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1.	Third Report of the Monitor dated October 24, 2006
2.	Exhibit 1 – First Report of the Monitor dated September 1, 2006
3.	Exhibit 2 – Second Report of the Monitor dated October 4, 2006
4.	Exhibit 3 – Endorsement of Justice Lederman dated October 6, 2006
5.	Exhibit 4 – Cash Flow Results (Budget to Actual) for the Weeks August 14 to 18, 2006 and August 21 to 25, 2006 as provided by the Applicant on August 29, 2006
6.	Exhibit 5 – Email of August 30, 2006 re Questions with respect to the Information Provided
7.	Schedule “A” - Comparison of Actual Cash Flow Results Provided by the Applicant to the Monitor on August 29, 2006 versus September 5, 2006
8.	Schedule “B” - Monitor’s Affidavit of Fees and Disbursements to October 20, 2006
9.	Schedule “C” - Monitor’s Counsel’s Affidavit of Fees and Disbursements to October 23, 2006

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

**THIRD REPORT OF THE MONITOR
DATED OCTOBER 24, 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 ("**BDO**") was appointed as the monitor of the Applicant (the "**Monitor**") in this CCAA proceeding.

Purpose

2. The purpose of this third report of the Monitor (the "**Report**") is to:
 - (a) advise the Court and the Applicant with respect to the role of the Monitor;

- (b) seek the approval of the Court of the activities and conduct of the Monitor in fulfilling its mandate as Monitor, as described in this Report, the Monitor's first report dated September 1, 2006 (the "**First Report**") (attached as **Exhibit 1**), the Monitor's second report dated October 4, 2006 (the "**Second Report**") (attached as **Exhibit 2**) and this Report;
 - (c) seek the approval of the Court of the fees and costs of the Monitor to October 20, 2006 and of its legal counsel, Minden Gross LLP, formerly Minden Gross Grafstein & Greenstein LLP ("**Minden Gross**"), to October 23, 2006, and
 - (d) seek the discharge of the Monitor.
3. Capitalized terms not defined in the Third Report are defined in the Initial Order. All references to dollars are in Canadian currency unless otherwise noted.

Background

- 4. As further described in the First and Second Reports, the Applicant is an Ontario corporation and is one of Canada's leading branded suppliers of residential upholstered furniture and occasional tables.
- 5. The Applicant's principal lender is National Bank of Canada ("**National Bank**") which has continued to extend credit facilities both directly, and through a factoring facility provided by NatExport/Sodex ("**Sodex**"), a division of National Bank

Court Proceedings since the Initial Order

6. On September 5, 2006 the Applicant sought and received an Order, which extended the Stay Period under the Initial Order for effectively two weeks to September 21, 2006. This shorter than normal extension was sought, according to the Applicant, in order to ensure that concerns raised by National Bank with respect to the failure of the Applicant to meet the reporting of the Applicant to the Bank under its forbearance arrangements were addressed.
7. At the September 5, 2006 hearing, Weyerhaeuser Company Limited (“**Weyerhaeuser**”), a significant creditor and supplier of the Applicant, expressed their concern with the apparent friction between the Monitor and the Applicant and reserved its rights with respect to its concerns over the role of the Monitor. The Applicant subsequently advised, through counsel, that the concerns raised by Weyerhaeuser had been addressed and Weyerhaeuser has not raised any further issues.
8. None of the Applicants trade creditors or suppliers, aside from Weyerhaeuser, has appeared in the current proceedings.
9. On September 20, 2006, the Applicant attended at 9:30 a.m. before the Court to seek an interim extension of the Stay Period to the next available 10:00 a.m. open Court appointment at which time the Applicant’s Motion for a further extension of the stay until November 30, 2006 could be heard on a full record. The Monitor attended Court on September 20, 2006 and consented to the proposed interim

extension to October 6, 2006, which was granted by the endorsement of Justice Lederman.

- 10. The Monitor prepared and filed the Second Report in connection with the extension sought by the Applicant of the Stay Period to November 30, 2006. Although the Second Report recommended that the stay extension be granted, it also expressed the Monitor's concerns about the proceedings, requested that a hearing be scheduled at which the fees of the Monitor could be approved and an administrative charge in favour of the Monitor and its counsel could be granted.
- 11. On October 6, 2006 Justice Lederman extended the Stay Period under the Initial Order to November 30, 2006 (the "**Second Extension Period**"), directed that the outstanding fees and disbursements of the Monitor be paid by the Applicant (subject to disgorgement in the event that the fees and disbursements were not approved) and provided a schedule for the hearing requested by the Monitor. A copy of the endorsement is attached hereto as **Exhibit 3**. The payment of the fees has now been received. The Applicant complied with the direction that outstanding fees and disbursements be paid subject to disgorgement.
- 12. The Applicant has advised the Monitor that it has prepared a proposal (the "**Proposal**") to its creditors that will be filed pursuant to Part III of the *Bankruptcy and Insolvency Act* and that the current proceedings under the CCAA will be terminated. The Monitor has been further advised that the Proposal will name A. Farber & Partners Inc. ("**Farber**") as trustee under the Proposal. The Monitor does not object to the naming of Farber as trustee under the Proposal

Activities of the Monitor

13. BDO was appointed as Monitor on August 8, 2006 pursuant to the Initial Order. Since a few days after its appointment, there has been conflict between the Applicant and the Monitor. This conflict has related to the proper role and the amount of involvement the Monitor should have in these proceedings and the quantum of the fees charged by the Monitor.
14. The conflict between the Monitor and the Applicant has impacted the Monitor's ability to perform the role that it believes it is obliged to play in the process. While no stakeholders other than Weyerhaeuser have complained about the role that the Monitor is playing, the Monitor believes that it is obliged to play a larger role than the Applicant is prepared to allow.
15. In light, however, of the impending Proposal and appointment of Farber, the Applicant and the Monitor have reached an agreement to facilitate the approval of the Monitor's fees and disbursements, the approval of the Monitor's activities and the discharge of the Monitor.

Monitor's Activities – Financial Reporting

16. The Monitor attended at the Applicant's premises on August 23, 2006 to collect and review required financial information. Upon that review it was determined that much of the information received was disorganized and inaccurate. Much information was missing, such as budget to actual cash flow schedules, current financial statements or general ledger trial balance, and the like.

17. On August 29, 2006 the Monitor received budget to actual cash flow schedules for the weeks of August 14 to 18, 2006 and August 21 to 25, 2006 (the “**Initial Cash Flow Results**”); missing was the budget to actual cash flow schedule for the week of August 7 to 11, 2006. Attached as **Exhibit 4** to this Report are copies of the Initial Cash Flow Results.
18. Attached as **Exhibit 5** to this Report, is a copy of an email dated August 30, 2006 sent by the Monitor to the Applicant listing various questions the Monitor had following its review of the package of information received and the Initial Cash Flow Results.
19. As a consequence of the Monitor’s concerns, on September 5, 2006 the Applicant provided reformatted actual cash flow results for the weeks August 7 to 11, 2006, August 14 to 18, 2006 and August 21 to 25, 2006, such that the actual figures now reconciled with bank statements. Attached as **Schedule “A”** is a comparison of the Initial Cash Flow Results to the reformatted actual cash flow results for the two weeks described in paragraph 17 above.
20. An additional deficiency identified in the reformatted actual cash flow results was that the spreadsheets did not reflect outstanding (issued and uncashed) cheques, and therefore a true picture of the Applicant’s cash position could not be determined. Accordingly, on September 7, 2006 and again on September 15, 2006, the Monitor requested that the Applicant provide weekly bank reconciliations, or at least weekly listings of outstanding cheques.

21. In response, on September 15, 2006 Mr. William Malisch, who the Monitor is advised is the Applicant's acting Chief Operating Officer, advised by email that he would not be sending weekly lists of outstanding cheques, as such information was, in his view, not relevant.

22. Also, on September 7, 2006 when the Monitor inquired as to the cut-off procedures taken by the Applicant at the date of the Initial Order, and specifically regarding the issuing of "stop payment" orders on cheques outstanding at that date, the Applicant advised:

"There were no stop payments made on outstanding cheques. Plant was shut down two weeks (Jul 17 to Jul 30) prior to CCAA filing, therefore there were hardly any cheques issued in that period of time. Also, at the point in time we were at the maximum credit limit with a majority of our suppliers, therefore we were on COD with most of our suppliers prior to CCAA filing."

23. On October 5, 2006, however, the Monitor started to receive such listings of outstanding cheques. The next day, the Monitor reviewed a listing of outstanding cheques as at the week ended September 29, 2006, and determined that the listed outstanding cheques, dated pre-filing, still totaled CDN \$186,529 and US \$61,380. The Monitor is unaware of the amount of pre-filing cheques which may have cleared National Bank before that week and has questioned whether these cheques were held, or in fact issued and still outstanding; no response has yet been received to this inquiry.

24. As commented on in the Second Report, the information provided in September 2006 started to improve; however, the timeliness of the provision of certain of the information continues to be an issue. For example, the Monitor was furnished

with the August financial statements only on October 5, 2006, and is currently unaware of operating results for the month of September 2006. No operating budgets were ever prepared.

Professional Accounts

- 25. As indicated herein, a substantial amount of the time charges expended, of both the Monitor and its Counsel, have related to the disagreements over the role and obligations of the Monitor in these CCAA proceedings. Further, the difficulties in obtaining information have added significantly to the Monitor's time.
- 26. Attached as **Schedule "B"** is the Monitor's Affidavit of Fees and Disbursements to October 20, 2006 totaling \$79,665.58, exclusive of GST and the professional fees and disbursements of its legal counsel.
- 27. Attached as **Schedule "C"** are the Fees and Disbursements of the Monitor's legal counsel, Minden Gross, to October 23, 2006 totaling \$49,535.05, inclusive of GST.
- 28. The Monitor is of the view that its fees and those of its counsel are reasonable in the circumstances of this proceeding and that same should be approved by the Court. However, in the interest of avoiding further conflict with the Applicant which may further distract from the Applicant's restructuring efforts, the Monitor and the Applicant have agreed that the Applicant will withdraw its opposition to the fees of the Monitor and its Counsel provided that the fees of the Monitor are discounted by 20% and that the fees of its Counsel are discounted by 15%.

Recommendation

29. The Monitor respectfully recommends that the Court:
- (a) approve the activities and conduct of the Monitor, as described in this Report, the Monitor's First Report, the Monitor's Second Report and this Report;
 - (b) approve the fees and disbursements of the Monitor to October 20, 2006 and of its legal counsel, Minden Gross to October 23, 2006; and
 - (c) order that the Monitor be discharged.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY

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



Per:
Matthew Lem, CIRP
Vice-President

#1130066

EXHIBIT "1"

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Court File No. 06-CL-6585

**ONTARIO
SUPERIOR COURT OF JUSTICE
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IN THE MATTER OF THE *COMPANIES' CREDITORS
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APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT
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**FIRST REPORT OF THE MONITOR
DATED SEPTEMBER 1, 2006**

**MINDEN GROSS GRAFSTEIN &
GREENSTEIN LLP**

Barristers & Solicitors
111 Richmond Street West
Suite 700
Toronto ON M5H 2H5

Raymond M. Slattery (LSUC #20479L)

416-369-4149

416-864-9223

rslattery@mindengross.com

David T. Ullmann (LSUC #42357I)

416-369-4148

416-864-9223 fax

dullmann@mindengross.com

Solicitors for the Monitor

TO: SERVICE LIST ATTACHED

SERVICE LIST**1. GOWLING LAFLEUR HENDERSON LLP**

Barristers & Solicitors
1 First Canadian Place, Suite 1600
100 King Street West
Toronto ON M5X 1G5

E. Patrick Shea
416-369-7200
416-862-7661 fax
patrick.shea@gowlings.com

Solicitors for Sklar-Peppler Furniture Corporation

2. WEIRFOULDS LLP

Barristers & Solicitors
The Exchange Tower
Suite 1600, PO Box 480
130 King Street West
Toronto ON M5X 1J5

Krista R. Chaytor
416-365-1110
416-365-1876 fax
kchaytor@weirfoulds.com

Solicitors for Lebovic Enterprises Inc.

3. TORKIN MANES COHEN ARBUS LLP

Barristers & Solicitors
151 Yonge Street, Suite 1500
Toronto ON M5C 2W7

S. Fay Sulley
416-863-1188
416-863-0305 fax
fsulley@torkinmanes.com

Solicitors for Weyerhaeuser

4. **THORNTON GROUT FINNIGAN LLP**

Barristers & Solicitors
Royal Trust Tower, TD Centre
77 King Street West, Suite 2200
Toronto ON M5K 1K7

Grant B. Moffat

416-304-0599
416-304-1313 fax
gmoffat@tgf.ca

Solicitors for National Bank of Canada

5. **SUPERINTENDENT OF FINANCIAL SERVICES**

Financial Services Commission of Ontario
Pension Plans Branch
5160 Yonge Street, 4th floor
PO Box 85
Toronto ON M2N 6L9

John Graham

416-226-7774
416-226-7777 fax
jgraham@fsco.gov.on.ca

6. **MINISTRY OF THE ATTORNEY GENERAL**

Legal Services Branch
Financial Services Commission of Ontario
5160 Yonge Street, 7th floor
PO Box 85
Toronto ON M2N 6L9

Mark Bailey

416-590-7555
416-590-7070 fax
mbailey@fsco.gov.on.ca

Solicitors for Superintendent of Financial Services

7. UNITED STEEL WORKERS

J. O'Conner

joconner@uswa.ca

#1117365; 4056123

Court File No. 06-CL-6585

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

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TAB DOCUMENT

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
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IN THE MATTER OF THE *COMPANIES' CREDITORS
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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:



Uwe Manski, FCA, FCIRP
President

BETWEEN:

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

Court File No. 06-CL-6585

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at TORONTO

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**

**MINDEN GROSS GRAFSTEIN & GREENSTEIN
LLP**

Barristers and Solicitors
111 Richmond Street West, Suite 700
Toronto ON M5H 2H5

Raymond M. Slattery (LSUC #20479L)
416-369-4149
416-864-9223 fax

David T. Ullmann (LSUC #423571)
416-369-4148
416-864-9223 fax

Solicitors for the Monitor

EXHIBIT "2"

**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

**SECOND REPORT OF THE MONITOR
DATED OCTOBER 4, 2006**

**MINDEN GROSS GRAFSTEIN &
GREENSTEIN LLP**
Barristers & Solicitors
111 Richmond Street West
Suite 700
Toronto ON M5H 2H5

Raymond M. Slattery (LSUC #20479L)
416-369-4149
416-864-9223
rslattery@mindengross.com

David T. Ullmann (LSUC #42357I)
416-369-4148
416-864-9223 fax
dullmann@mindengross.com

Solicitors for the Monitor

TO: SERVICE LIST ATTACHED

**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

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TAB DOCUMENT

- 1. Second Report of the Monitor dated October 4, 2006
- 2. Cumulative Cash Flows (Projected to Actual) of the Applicant for the period of August 7, 2006 to September 22, 2006
- 3. Projected Cash Flows of the Applicant for the period of October 2, 2006 to December 1, 2006 (As prepared by Management – September 29, 2006)

**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

**SECOND REPORT OF THE MONITOR
DATED OCTOBER 4, 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 Second Report of the Monitor (the "Second Report") is to advise the Honourable Court with respect to:

- (a) the activities of the Applicant from September 1, 2006, the date of the Monitor's First Report (the "First Report") to the date of the Second Report;
- (b) the activities of the Monitor from September 1, 2006, the date of the First Report to the date of the Second Report, to request a hearing for the approval of the Monitor's fees and costs and those of its legal counsel, and to request an administrative charge on the assets of the Applicant as security for such fees and costs;
- (c) the Applicant's cash flows for the period of October 2, 2006 to December 1, 2006; and,
- (d) the Applicant's request for an extension of the Stay Period to November 30, 2006.

3. Capitalized terms not defined in this Second 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 Second Report, the Monitor has relied upon unaudited Applicant prepared financial information, Applicant records and discussions with management of the Applicant, as represented by Mr.

Robert Tweedy, the Applicant's President and sole director, Mr. Bill Malisch, the acting Chief Operating Officer, and Ms. Karima Alarakhia, the acting Controller. 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 Second 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 primarily manufactures "Sklar-Peppler" branded products for the Applicant. 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.

8. The Applicant's principal lender is National Bank of Canada ("National Bank") which has continued to extend credit facilities to the Applicant during this restructuring. In addition, NatExport/Sodex ("Sodex"), a division of National Bank, has also continued to provide an accounts receivable factoring facility to the Applicant during these CCAA proceedings.

Court Proceedings

9. On September 5, 2006 the Applicant sought and received an Order, which extended the Stay Period under the Initial Order to September 21, 2006.
10. On September 20, 2006, the Applicant attended at 9:30 a.m. before the Court to seek an interim extension of the Stay Period to the next available 10:00 a.m. open Court appointment at which time the Applicant's Motion for a further extension of the stay until November 30, 2006 could be heard on a full record. The Monitor attended Court on September 20, 2006 and consented to the proposed interim extension to October 6, 2006, which was granted by the endorsement of Justice Lederman.

Activities of the Applicant

11. Attached hereto as **Schedule "1"** to this Report is the Applicant's cumulative cash flow (Projected to Actual) for the period from August 7, 2006 to September 22, 2006.
12. For the 7 weeks ended September 22, 2006, the Applicant reports a positive cash flow of approximately \$267,000. However, this positive cash flow includes \$475,000 advanced under the Subdebt loan facility. Accordingly, the Applicant's net cash flow from operations for this period is in fact negative by approximately \$208,000.

13. Although the Applicant's cash receipts have been lower than had been projected, cash disbursements have also been lower despite unanticipated chargebacks by Sodex totaling approximately \$171,000, and the payment of pre-filing vacation pay, Goods and Services Tax ("GST") and Retail Sales Tax reportedly totaling approximately \$33,000.
14. The Monitor has been advised by the Applicant's management that the lower cash disbursements can be attributed to lower inventory purchases than had been projected, and to a deferral of certain payments such as pension benefit contributions and rent at the Ajax facility, which facility is owned by a corporation controlled by Mr. Malisch.
15. On September 27, 2006 Canada Revenue Agency ("CRA") completed an audit of the Applicant's source deductions and determined an indebtedness of approximately \$276,000.
16. The Monitor is advised that the discussions between the Applicant and its trade union with respect to how various outstanding concerns of that trade union will be dealt with in these CCAA proceedings, continue with some progress being made.

Activities of the Monitor

17. Pursuant to the Initial Order, the Monitor's responsibilities were essentially restricted to those set out in section 11.7 of the CCAA. Accordingly, the Monitor has had limited involvement with the Applicant or with respect to overseeing the business and affairs of the Applicant.
18. As previously reported, the Monitor continues to relay 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.
19. 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.
20. 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.
21. In addition, the Monitor has set up weekly appointments with the management of the Applicant at which time the Monitor reviews outstanding issues and seeks additional information from the Applicant.

22. As reported in the First Report, there have been some inadequacies in the flow of financial information from the Applicant to the Monitor since the commencement of these CCAA proceedings. During the month of August, the information provided was incomplete and inaccurate. However, information provided during September has improved, so as to address concerns raised previously. Accordingly, the quality of financial information provided to the Monitor, on a weekly basis, has continued to improve during the month of September; however, the timeliness of its provision still continues to be an issue.
23. The Monitor is advised that the Applicant collects the accounts receivable of AFM, purchases inventory from AFM and funds the operations of AFM; however, the Monitor has not been fully provided with the particulars of such receipts, inter-company purchases and transfer payments, so as to make a determination as to the net cost or benefit of such transactions to the Applicant.
24. The Monitor continues to seek further financial information from the Applicant. At the time of drafting this report, the Monitor has not been furnished with any operating forecasts of the Applicant, for the post-filing period, and has not been furnished with any Statements of Income and Expenses, or any Statements of Assets and Liabilities, for the post-filing period, although the Monitor has requested same (The Monitor is advised

that August 2006 internal Financial Statements have recently been prepared and are to be sent to the Monitor shortly). Accordingly, the Monitor is unaware as to the profits earned, or losses incurred by the Applicant, in the period after August 8, 2006.

25. The Monitor has reviewed the Affidavit sworn by Robert Tweedy dated September 14, 2006 (the "Tweedy Affidavit"). The Monitor is encouraged by the acknowledgment contained therein that the Applicant must supply adequate financial reporting to the Monitor in order to enable the Monitor to perform its mandate. The Monitor endorses Mr. Tweedy's statement that the Applicant will ensure that the Monitor is fully informed of the reorganization process and the Applicant's financial situation.
26. While the Monitor has enjoyed the full cooperation of Mr. Tweedy, there has regrettably been continuous friction with Mr. Malisch pertaining to what he perceives to be excessive professional fees and costs of the Monitor and its Counsel. The Monitor and its Counsel billed an aggregate of \$42,703.53, plus GST, to the end of August 2006 (to August 25, in the case of Monitor's Counsel). At present, \$5,265.74 of that amount remains unpaid. Further, billings totaling \$39,265.51 plus GST, comprising billings of the Monitor to September 22, 2006, and of the Monitor's Counsel to September 12, 2006, were recently forwarded to the Applicant, and have not been paid. Mr. Malisch requested on September 23, 2006 that the

Monitor review operations only on a monthly basis rather than a weekly basis, so as to curtail costs. Further, Mr. Malisch requested that an estimate of costs to be incurred hereinafter be prepared. Accordingly, the Monitor and its Counsel have provided cost estimates to Mr. Malisch on a go-forward basis, and have pointed out that the Monitor has a duty to the Court and the Applicant's stakeholders to properly review the information provided, and to satisfy itself that there are no material adverse changes that need to be reported to this Honourable Court.

27. In the view of the Monitor, the constant frictions pertaining to what the Monitor should or should not do in carrying out its obligations, and the costs related thereto, have noticeably increased the fees and costs beyond what one would normally expect them to be under the circumstances.

28. Paragraphs 26 and 27 of the Initial Order read as follows:

26. THIS COURT ORDERS that the Monitor, counsel to the Monitor and counsel to the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant as part of the costs of these proceedings.

27. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

Relying on the above, the Monitor requests that this Honourable Court schedule a hearing for the passing of the Monitor's and its Counsel's accounts.

29. Under the circumstances described in this Report, the Monitor requests an administrative charge be instituted for its fees and costs and those of its Counsel. Initially, the Monitor was led to believe that these CCAA proceedings would be of a short duration and that accordingly, the professional fees would be limited. The Monitor received a retainer towards its fees and costs, and those of its Counsel, from 2072223 Ontario Limited, a company related to the Applicant's current landlord and Mr. Malisch, which retainer has now been exhausted. It now appears that these CCAA proceedings will be more protracted than expected. Although the Monitor and its Counsel are Unaffected Creditors, pursuant to paragraph 41 of the Initial Order, the recurring complaints about professional fees and the apparent extension to the term of this engagement lead the Monitor to now seek the security of an administrative charge.

30. The Monitor requests that the Initial Order be amended to include an administrative charge in favour of the Monitor and its Counsel. It is proposed that the following paragraph, based on the language set-out in paragraph 32 of the model "Long" form of CCAA Initial Order, be inserted as paragraph 27A to the Initial Order:

27A. THIS COURT ORDERS that the Monitor, counsel to the Monitor, if any, and the Applicant's counsel shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of \$●, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall constitute a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person.

Projected Cash Flows for the period of October 2, 2006 to December 1, 2006

- 31. Attached hereto as **Schedule "2"** to this Report, is the Applicant's projected cash flow for the period of October 2, 2006 to December 1, 2006 (the "Extended Cash Flows") as provided to the Monitor by the Applicant on September 29, 2006.
- 32. Based on our review and discussions with the Applicant's management, the Extended Cash Flows reflect assumptions that the Applicant believes to be reasonable.
- 33. Despite lower than projected cash receipts during the 7 weeks up to September 22, 2006, the Applicant is projecting higher weekly cash receipts for the next 9 weeks ending December 1, 2006 than had been projected in the earlier cash flow projections. Mr. Malisch has advised the

Monitor that these collection figures represent best estimates, given the ramped up production in September at the Applicant's Ajax facility.

- 34. In general, the cash disbursement figures projected appear reasonable and consistent with the disbursement activities of the first 7 weeks following the date of the Initial Order.
- 35. It appears that based on the cash flow projections prepared by the Applicant, and given the indebtedness to National Bank at September 22, 2006, the Applicant will have sufficient cash available so as to operate during the proposed stay extension period, provided that the value of marginable assets continues to support the borrowing amounts.

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

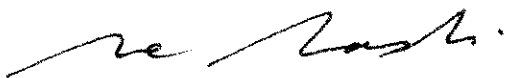
- 36. The Monitor has reviewed the application of the Applicant to extend the Stay Period to November 30, 2006.
- 37. The Monitor is unaware of any objection to the proposed extension.
- 38. The Tweedy Affidavit of September 14, 2006, attests that the Applicant is proceeding in good faith and with due diligence.

Recommendation

39. Notwithstanding the concerns set out herein, the Monitor recommends that the proposed extension of the Stay Period to November 30, 2006 be granted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY

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



Per:
Uwe Manski, FCA, FCIRP
President

SCHEDULE 1.

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SCHEDULE 1.

SKLAR PEPPLER FURNITURE CORPORATION
CUMULATIVE - PROJECTED TO ACTUAL (in Canadian Dollars)
August 7, 2006 to September 22, 2006

Week of:	Projected	Actual [1]	Variance
	Sep18-22	Sep18-22	Sep18-22
	Week 8	Week 8	Week 8
Cash Outflow:			
Payroll-Whitby(Includes source deductions) [2]	682,100	921,674	(239,574)
Payroll-Portland(Includes source deductions)	316,000	280,945	35,055
Pension benefits	33,000	2,070	30,930
Priority Payables(GST & PST)	100,000	48,125	51,875
Benefits (Portland)	16,000	44,964	(28,964)
Wires(Tables and Cut & Sew)	455,000	159,968	295,032
Raw Materials (includes fabric)	1,800,000	1,693,406	106,594
Freight Cost-Canada & US	77,000	159,894	(82,894)
Freight Cost-Overseas	119,000	55,069	63,931
Miscellaneous Payables	105,000	116,829	(11,829)
Rent & Overhead (Portland)	35,000	52,409	(17,409)
Rent & Overhead (Whitby) [2]	71,000	-	71,000
Rent & Overhead (Ajax)	71,000	92,087	(21,087)
Direct Payments	70,000	31,045	38,955
Loan Interest	35,000	36,583	(1,583)
Professional Fees(National Bank)	13,000	-	13,000
Sodex-Charges	-	170,953	(170,953)
Mgmt fees	-	17,742	(17,742)
Total Cash Outflow	3,998,100	3,883,763	114,337
Cash Inflow:			
Projected Cash Receipts	4,375,000	-	4,375,000
Cash Receipts	-	1,475,662	(1,475,662)
Sodex	-	2,198,409	(2,198,409)
Cr memo	-	1,548	(1,548)
Subdebt loan [3]	-	475,000	(475,000)
Total Cash Inflow	4,375,000	4,150,619	224,381
Net Cashflow	376,900	266,856	110,044
Opening Bank Position as at August 7, 2006 [4]		(3,985,009)	
Adjustment for Changes in Foreign Exchange Rates		44,455	
Closing Bank Position as at September 22, 2006 [4]		(3,673,698)	

NOTES

[1] - Based on the information supplied by the Applicant.

[2] - The "Whitby" description is incorrect, the item relates to the Ajax, Ontario facility.

[3] - Excludes a total of \$125,000 paid as a retainer to the Applicant's legal counsel and the Monitor, as well as consulting fees that are being accrued (\$20,000/mth) for day-to-day managerial services performed by Mr. Malisch.

[4] - Excludes the Subdebt loan and the contingent indebtedness to Sodex relating to factored accounts receivable balances.

SCHEDULE 2.

Sklar Peppler Furniture Corp.

Week of:	Oct 2-7	Oct 9-14	Oct 16-20	Oct 23-27	Oct 30-Nov 3	Nov 6-10	Nov 13-17	Nov 20-24	Nov 27-Dec 1	Total
Cash Challenge:	Week 10	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	
Payroll: Ajax (includes source deductions)	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	810,000
Hourly Salary	65,000	65,000	65,000	70,000	65,000	65,000	65,000	70,000	65,000	325,000
Commission Management	45,000	45,000	60,000	45,000	45,000	45,000	45,000	60,000	45,000	140,000
Payroll: Portland (includes source deductions)				100,000				100,000		200,000
Pension benefits- grouped payroll				20,000				20,000		180,000
Profit Payables (GST & PST)	20,000	20,000	326,000	326,000	338,000	338,000	340,000	340,000	340,000	3,016,000
Benefit (vacation)- grouped in Payroll	293,000	315,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	360,000
Wire Transfer (includes fabric)	40,000	40,000								
Freight Cost-Canada & US										
Freight Cost-Overseas (grouped with Freight)										
Miscellaneous Payables	25,000									25,000
Rent & Overhead (Portland)	35,000									105,000
Rent & Overhead (Ajax)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	142,000
Direct Payments	10,000	5,000	5,000	35,000	10,000	5,000	10,000	10,000	5,000	90,000
Loan Interest and Bank charges	10,000	5,000	90,000							120,000
Sears & Fred CUYP Advertising	30,000									60,000
Professional Fees	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
Sales and marketing expenses	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
Office and Admin expenses	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
Total Cash Outflow	683,000	616,000	726,000	771,000	673,000	598,000	821,000	820,000	690,000	6,398,000
Cash Inflow:										
Projected Cash Receipts	650,000	675,000	675,000	700,000	750,000	750,000	750,000	750,000	800,000	6,500,000
Total Cash Inflow	650,000	675,000	675,000	700,000	750,000	750,000	750,000	750,000	800,000	6,500,000
Net Cashflow Increase (Decrease)	(33,000)	59,000	(51,000)	(71,000)	77,000	152,000	(71,000)	(70,000)	110,000	102,000
End of Week Bank Balance	(4,405,404)	(4,346,404)	(4,397,404)	(4,468,404)	(4,391,404)	(4,239,404)	(4,310,404)	(4,380,404)	(4,270,404)	
Operating Line, Margining and Demand Loan	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	
Total Availability On Line	(405,404)	(346,404)	(397,404)	(468,404)	(391,404)	(239,404)	(310,404)	(380,404)	(270,404)	
Add:										
WAM Account	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	
Demestic Loan	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	
Total Availability	394,596	453,596	402,596	331,596	408,596	560,596	489,596	419,596	529,596	
Tables sales	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	
Units produced a week on average	800	800	850	850	900	900	1000	1000	1000	
Ajax	500	600	600	600	600	600	600	600	600	
Portland	450	450	450	450	450	450	450	450	450	
Unit sales	585,000	630,000	652,500	652,500	675,000	675,000	720,000	720,000	720,000	
Total sales excluding freight and taxes	635,000	680,000	702,500	702,500	725,000	725,000	770,000	770,000	770,000	

Accounts receivable collection
 Collectives are based on immediate funding from Soles for Brock and Sears
 Collectors for independents are net 60 day terms at max
 Since sales are increasing its independent cash receipts will be lagged behind which is why collections don't match sales.

EXHIBIT "3"

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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

**ENDORSEMENT OF JUSTICE LEDERMAN
OCTOBER 6, 2006**

Extension of stay to November 30/06 is approved. I have signed the Order. Company is ordered to pay the Monitor's outstanding accounts forthwith subject to assessment and approval by the Court and disgorgement, if necessary. Counsel to reattend on a 9:30 on October 11, 2006 to set schedule for passing of accounts, consideration of an administrative charge and directions as to further role of Monitor.

"Lederman, J."

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Commercial List Court File No. 06-CL-6585

ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST

9:30 A.M. HEARING REQUEST FORM

sept 20/06

A. PLEASE NOTE: The 9:30 hearing procedure is only for "ex parte, urgent, scheduling and consent matters which will take no more than 10 minutes" (Practice Direction, (1995), 24 O.R. (3d) 455; paragraph 24). This restriction will be enforced. This matter is (check one or more):

ex parte X urgent X scheduling consent other (explain):

B. Short Title of Proceedings:

In the Matter of a Plan of Compromise or Arrangement of Sklar-Pepler Furniture Corporation

C. Date(s) Requested:

WEDNESDAY, September 20, 2006

D. The following is a brief description of the matter to be considered at the 9:30 appointment:

Interim CCAA Extension to allow for scheduling of appointment

E. The following materials will be necessary for the matter to be considered. (It is the responsibility of counsel to confirm that the proper materials are available for the Court.)

This form and a Motion Record to be filed.

Counsel for Applicant/Creditor: Sklar-Pepler
Counsel: E. Patrick Shea
Address: Gowling Lafleur Henderson LLP
1 First Canadian Place, Suite 1600
100 King Street West
Toronto, Ontario M5X 1G5
Phone: (416) 369-7359
Fax: (416) 369-7258

Counsel for applicant:
Counsel:
Address:
Phone: ()
Fax: ()

(If more than 2 parties involved, add additional signatures and particulars on reverse or separate page)

To be submitted to: Commercial List/Bankruptcy Court Office
393 University Avenue, 10th Floor
Toronto, Ontario
Telephone No. 416-327-5043
Fax No. 416-327-6228

Form Revised: Sept. '97

Endorsement/disposition
Sept 20/06.
The stay is extended until Oct. 6/06

when the motion is to be heard in Court (est. 1 1/2 hr). on a full record.

TOR_LAW_63908801

SEP 20 2006

Oct 6/06
Extension of stay to Nov 30/06 is approved. I have signed the Order. Company is ordered to pay the Monitor's outstanding accounts further to subject to assessment and approval by the Court and disbursement, if necessary. Counsel to reattend on a 9:30 on Oct 11/06 to schedule for passing of accounts, consideration of an administrative change to monitor role of Monitor Federman.

EXHIBIT "4"

Sklar Peppler Furniture Corp.
Weekly Cashflow

Week of:	Aug 21-25-Budget	Aug 14-18-Actual	Variance
Cash Outflow:			
Payroll-Whitby(Includes source deductions)	100,000	100,000	-
Payroll-Portland(Includes source deductions)	40,000	40,000	-
Pension benefits	33,000	33,000	-
Priority Payables(GST & PST)	-	-	-
Benefits (Portland)	-	-	33,886
Wires(Tables and Cut & Sew)	65,000	31,114	-
Raw Materials (includes fabric)	250,000	250,000	-
Freight Cost-Canada & US	11,000	5,923	5,077
Freight Cost-Overseas	17,000	17,000	-
Miscellaneous Payables	15,000	4,220	10,780
Rent & Overhead-AFM	8,208	-	8,208
Rent & Overhead-Sklar	71,000	71,000	-
Direct Payments	10,000	8,484	1,516
Loan Interest	35,000	35,000	-
Professional Fees(National Bank)	13,000	13,000	-
Total Cash Outflow	668,208	608,741	59,467
Cash Inflow:			
Projected Cash Receipts			(70,143)
Cash Receipts-Aug 17	625,000	695,143	-
Cash Receipts-Aug 18		(17,663)	(65,783)
Sodex-Sears Rebate-Not Applied by Sodex yet	(83,446)		-
Sodex-Aug 18			-
Total Cash Inflow	541,554	677,480	(135,926)
Net Cashflow Increase (Decrease)	(126,654)	68,739	(195,393)

Will be processed this Week

Sklar Pepler Furniture Corp.

Weekly Cashflow

Week of:	Aug 14-18-Budget	Aug 14-18-Actual	Variance
Cash Outflow:			
Payroll-Whitby(Includes source deductions)	122,300	122,300	-
Payroll-Portland(Includes source deductions)	58,000	58,000	-
Pension benefits	13,000	-	13,000
Priority Payables(GST & PST)	-	-	-
Benefits (Portland)	-	-	-
Wires(Tables and Cut & Sew)	65,000	56,968	8,032
Raw Materials (includes fabric)	250,000	233,163	16,837
Freight Cost-Canada & US	55,000	55,000	-
Freight Cost-Overseas	17,000	17,000	-
Miscellaneous Payables	15,000	10,914	4,086
Rent & Overhead (Portland)	8,208	-	8,208
Rent & Overhead (Ajax)	71,000	-	71,000
Direct Payments	10,000	8,124	1,876
Loan Interest	-	-	-
Professional Fees(National Bank)	13,000	-	13,000
Total Cash Outflow	697,508	561,469	136,039
Cash Inflow:			
Projected Cash Receipts			
Cash Receipts-Aug 17	625,000	371,997	253,003
Cash Receipts-Aug 18			-
Sodex-Sears Rebate-Not Applied by Sodex yet	(83,446)	(17,663)	(65,783)
Sodex-Aug 18			-
Total Cash Inflow	541,554	354,334	187,220
Net Cashflow Increase (Decrease)	(155,954)	(207,135)	51,181

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EXHIBIT "5"

Re: Sklar-Peppler

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Lem, Matthew

From: Lem, Matthew
Sent: Wednesday, August 30, 2006 11:49 AM
To: 'Bill Malisch'
Cc: btweedy@sklarpeppler.com; pattoon@suren.net; Pritchard, Brian; patrick.shea@gowlings.com; 'RSlatery@mindengross.com'; David Ullmann; Manski, Uwe
Subject: RE: Sklar-Peppler

Bill,

Thank you for your email and additional information. Having very recently received certain of the information requested (on the 23rd, 24th and 29th of August), we have now had a chance to review it, including the Company's Cash Flow Budget to Actual spreadsheets. At this time, we have several questions:

1. We understand that the Company has not assembled "Budget" to "Actual" figures for the period of August 8th to 11th. Please provide same.

2. Most of the "Budget" figures presented in the cash flow Budget to Actual spreadsheets are not the same as those that were reflected in the Cash Flow Projections included as part of the Affidavit of Robert J. Tweedy filed with the Court. For example, for Week 3 (August 14-18) the Cash Flow Projections showed a Total Cash Outflow of \$548,300 versus the new "Budget" figure of \$697,508. This discrepancy relates to differences/additions of amounts for Freight Cost - Canada & US, Rent & Overhead (Portland), Rent & Overhead (Ajax), and Professional Fees (National Bank). Please explain.

3. In the Company's Cash Flow Budget to Actual spreadsheets we find it surprising that the "Actual" figures coincide precisely with the "Budget" figures for certain of the Cash Outflow categories. For example, for Week 3 (August 14-18) there is no variance between the "Budget" and "Actual" figures for Payroll - Whitby, Payroll - Portland, Freight Cost - Canada & US, and Freight Cost - Overseas. Additionally and as an example, when we looked at the Company's payroll bank account activity, as well as the bank reconciliations for this same period, we were unable to reconcile to the "Actual" figure. Please explain and provide supporting documentation for these "Actual" figures.

4. Although we received listings of the cheques issued and of accounts receivable collections, we are unable to reconcile these to the "Actual" figures reported to us. Please provide reconciliations.

5. From our review of the disbursements/cheque register, we noticed that there were 4 payments made to Associated Furniture Manufacturing ("AFM") on August 10th in the amounts of US\$100,000, US\$130,000, US\$62,000 and US\$145,000 (total \$437,000) for apparently pre-CCAA filing amounts. We question whether the Company is entitled to make payments to AFM on account of its pre-filing indebtedness, and ask you to obtain Patrick Shea's views on this issue.

6. Although we received from Ms. Alarakhia copies of the Bank Activity reports (up to August 18th) for the Company's CDNS bank accounts, we noticed that we are still missing such reports for the US\$ accounts.

7. For those creditors who were missed when the original mailing was done on the August 15th, please provide us with the names, and addresses and the date(s) on which the Company mailed copies of the Initial Order.

8. We noticed that there was a payment on August 17th to 2062847 Ontario Limited, the Ajax landlord, in the amount of \$224,000. Please provide the reason for the payment.

9. We previously requested from Ms. Alarakhia a copy of the lease between the Company and the Ajax landlord. Please provide us with a copy of same.

Your attention to this matter would be greatly appreciated.

Matthew E. Lem, CIRP
BDO DUNWOODY LIMITED
123 Front Street West, Suite 1200

10/12/2006