

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

In re:

PEGASUS HOME FASHIONS, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 23-11235 ()

(Joint Administration Requested)

**DECLARATION OF TIMOTHY BOATES IN SUPPORT OF
CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

I, Timothy Boates, hereby declare under penalty of perjury as follows:

1. I am the president of RAS Management Advisors, LLC (“**RAS**”) and have been appointed to serve and am currently serving as the Chief Executive Officer (“**CEO**”) for Pegasus Home Fashions, Inc. and its affiliated debtors and debtors in possession (collectively, the “**Debtors**”, “**Pegasus**”, or the “**Company**”) in the above-captioned chapter 11 cases (the “**Chapter 11 Cases**”).

2. As President of RAS, I specialize in managing complex financial and operational restructurings. I joined RAS in 2000 and have served as its president since 2008. I have served as Chief Restructuring Officer, Interim CEO, Interim CFO, and Restructuring / Financial Advisor for clients in many different industries (both private and public companies), including manufacturing, distribution, retail and catalog operations, oilfield services, financial services, specialty pharmaceuticals, staffing, equipment rental, real estate development, nutritional supplements technology services, metal recycling, and medical services, among others. I have participated in numerous restructurings and recapitalizations in both in- and out of Court

¹ The Debtors in these chapter 11 cases, along with the last four digits of their federal tax identification numbers, are Pegasus Home Fashions, Inc. (0867); Pegasus Home Fashions Intermediate, Inc. (3275); Pegasus Home Fashions Purchaser Inc. (2857); and Weatherford Cushion Co. (1078). The Debtors’ mailing address for the purposes of these chapter 11 cases is P.O. Box 2019, Ocean, NJ 07712.

proceedings and have extensive financial and operational management experience. I have served as a member of the board of directors of companies in industries including retail and catalog operations, oilfield services, container manufacturing, food packaging and distribution, and commercial printing.

3. Prior to joining RAS, I worked with both private equity and international accounting firms. I am a licensed CPA in the States of Texas (non-practicing) and Alabama (non-practicing) and a graduate of the University of Houston, where I earned a BBA in accounting.

4. I am generally familiar with the day-to-day operations, business, and financial affairs and books and records of the Debtors, having served as CEO since April 18, 2023. I submit this Declaration (this “**Declaration**”) to assist the Court and other parties in interest in gaining an understanding of the circumstances that led to the commencement of these Chapter 11 Cases and in support of the Debtors’ petitions and motions requesting various types of “first day” relief (collectively, the “**First Day Motions**”). I am authorized by the Debtors to submit this Declaration.

5. Except as otherwise indicated herein, the facts set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, my discussions with the Debtors’ senior management members, and information provided to me by the Debtors’ professional advisors. If I were called upon to testify, I would testify competently to the facts set forth herein.

6. On the date hereof (the “**Petition Date**”), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the “**Bankruptcy Code**”) with the United States Bankruptcy Court for the District of Delaware (the “**Court**”). The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. The Debtors

have filed a motion seeking joint administration of the Chapter 11 Cases pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure. No trustee or examiner has been appointed in the Chapter 11 Cases. As of the date hereof, no creditors' committee has been appointed.

7. Part I of this Declaration provides an overview of the Debtors' business, corporate structure, and prepetition indebtedness. Part II discusses the events leading to the commencement of the Chapter 11 Cases. Part III provides an overview of the sale process, which the Debtors intend to conduct during the Chapter 11 Cases. Part IV identifies the First Day Motions and provides support for the relief requested therein. Finally, Part V affirms and incorporates the facts that support the relief requested in the First Day Motions.

I. Business History, Corporate Structure, and Prepetition Indebtedness

A. Business Description

8. Pegasus Home Fashions, Inc. ("**Pegasus Home Fashions**") was founded in 1990 by Carmine and Gail Spinella, and quickly rose to prominence as one of the country's largest poly-filled pillow manufacturers. Indeed, the Debtors have established themselves as significant players in the middle-market home furnishings space, consistently reporting gross sales in excess of \$100 million each year since 2021.

9. Pegasus boasts an extensive line of bedding and home products, which has historically included items such as bed pillows (both poly-filled and memory foam), quilts, bedspreads, blankets, throws, sheet sets, decorative pillows, chair pads, pet beds, furniture protectors, pillow protectors, and mattress pads and protectors. With vast experience in selling to various channels of distribution, the Company specializes in mid-size, big box, discounters, department stores, off-price, television and internet, catalog, wholesale (including manufacturers, branded, and private label), and hospitality. Primary wholesale customers such as Walmart, Sam's Club, Costco, and The TJX Companies further contribute to the Company's broad reach.

10. Among its diversified offerings, Pegasus not only sells under its proprietary brands like the “Essence Of” collection and America’s Pillow, but also manufactures for an impressive portfolio of licensed brands. This range includes recognizable names such as Martha Stewart, BCBG Max Azria, Panama Jack, Beverly Hills Polo Club, and Beautyrest. However, what has truly aided Pegasus’s ability to remain a key player in its industry, is the innovative and unique technologies embedded within its products. These leading technologies include Latex Plus Fiber Fill, Hypo-Allergenic High Loft Blend 33 Fiber Fill, Cool Touch Technology, Tencel, Quick Dry Wicking, Rayon made from Bamboo, and White Goose Down.

11. Pegasus currently operates in four states: South Carolina, Texas, Pennsylvania, and New Jersey, with primary manufacturing facilities situated in Denmark, South Carolina; Philadelphia, Pennsylvania; and Weatherford, Texas.

B. Ownership History and Current Corporate Structure

12. Effective as of August 5, 2021, a significant corporate transaction led to Pegasus Home Fashions and Weatherford Cushion Company (“Weatherford”, an affiliate of Pegasus Home Fashions via common ownership) becoming wholly-owned subsidiaries of Debtor Pegasus Home Fashions Purchaser, Inc. (“**PHFP**”), itself a subsidiary of H.I.G. Capital, LLC (“**HIG**”). This transaction was achieved through a series of stock transactions (collectively, the “**2021 Transaction**”). The total value of this deal consisted of not only a cash payment, but also the net proceeds from a term loan, a revolver, a promissory note, and seller equity. In exchange, Mr. Spinella transferred all equity holdings in Pegasus Home Fashions to PHFP and an intermediate entity known as Pegasus Home Fashions Intermediate, Inc. (“**Intermediate**”). Additionally, all equity in Weatherford was contributed to the same entity. Upon the completion of the transaction, Intermediate had the following equity ownership structure: HIG (through a subsidiary) owned 85% of the outstanding shares, and Carmine Spinella owned 15% of the outstanding shares.

13. In late 2022, Pegasus began to face significant liquidity issues and needed additional funding. HIG determined that it was unwilling to invest further. Accordingly, to resolve the Debtors' liquidity issues, Blue Torch Finance, LLC ("**Blue Torch**"), the administrative and collateral agent for the Prepetition Term Loan Lenders (as defined below) under the Debtors' prepetition term loan agreement (as described in additional detail below, the "**Prepetition Term Loan Agreement**"), agreed to provide additional financing during the first quarter of 2023. As part of Blue Torch's agreement to increase funding under the Prepetition Term Loan Agreement, HIG transferred its ownership of Intermediate to Pegasus Home Fashions Holdings LLC ("**HoldCo**"). The ownership interests in HoldCo were then divided among Mr. Spinella, his trust, an entity formed by Blue Torch, and an entity formed by HIG (such transaction, the "**2023 Transaction**"). In return, Blue Torch provided Pegasus with much-needed additional liquidity, agreed to waive certain defaults and events of default under the Prepetition Term Loan Agreement, and replaced a \$3 million guarantee from HIG in favor of Webster Business Credit, a division of Webster Bank, N.A, the prepetition agent under the Prepetition ABL Credit Agreement (defined below).

14. Following the 2023 Transaction, the Pegasus enterprise consists of five entities, four of which are debtors in these Chapter 11 Cases. Pegasus Home Fashions and Weatherford are each operating entities that run the Debtors' manufacturing and sales operations. Pegasus Home Fashions and Weatherford are wholly-owned subsidiaries of PHFP, and PHFP is a wholly-owned subsidiary of Intermediate. In turn, Intermediate is a wholly owned subsidiary of HoldCo. HoldCo is owned by BT Pegasus Aggregator LLC (an affiliate of Blue Torch), H.I.G. Pegasus Home Fashions, L.P. (an affiliate of HIG), and Mr. Spinella (in his individual capacity and through

a trust controlled by him). A chart showing the organizational structure of the Debtors is attached hereto as **Exhibit A**.

C. *Prepetition Debt Structure*²

15. The Debtors' current capital structure is generally described as follows

a. Prepetition ABL Credit Agreement

16. Pegasus Home Fashions Purchaser Inc., as borrower, Pegasus Home Fashions Intermediate Inc., designated as "Holdings" therein, and certain other parties (including, without limitation, Holdings) designated as "Guarantors" thereto (such parties, collectively, the "**Prepetition ABL Obligors**"), the financial institutions from time to time party thereto (collectively, the "**Prepetition ABL Lenders**"), and Webster Business Credit, a division of Webster Bank, N.A., as administrative agent and collateral agent (in such capacities, the "Prepetition ABL Agent", and together with the Prepetition ABL Lenders, the "**Prepetition ABL Secured Parties**"), are parties to that certain Revolving Loan Agreement, dated as of August 5, 2021 (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time, the "**Prepetition ABL Credit Agreement**" and, together with all other agreements, documents, and instruments executed and/or delivered with, to or in favor of the Prepetition ABL Agent and the Prepetition ABL Lenders, including, without limitation, all security agreements, deposit account control agreements (including, without limitation, the Control Agreements (as defined below)), control agreements, notes, guarantees, mortgages, Uniform Commercial Code financing statements, documents, and instruments, including any fee letters, executed and/or delivered in connection therewith or related thereto, the "**Prepetition ABL Loan Documents**").

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the applicable prepetition credit documents described herein.

17. The Prepetition ABL Credit Agreement provided the Prepetition ABL Obligors an asset-based revolving credit facility (the “**Prepetition ABL Facility**”) with \$30,000,000 of maximum aggregate availability to the borrowers thereunder, subject to a borrowing base (as reduced by reserves), as set forth in the Prepetition ABL Credit Agreement. As of the Petition Date, approximately \$15,047,555 in principal was outstanding under the Prepetition ABL Facility in the form of “**Advances**” (as defined under the Prepetition ABL Credit Agreement), plus interest accrued and accruing at the rates set forth in the Prepetition ABL Credit Agreement (together with any other amounts outstanding under the Prepetition ABL Loan Documents, including, without limitation, obligations in respect of fees, expenses, and indemnity the “**Prepetition ABL Obligations**”).³

18. The Prepetition ABL Facility is secured by (a) first priority security interests in and liens (subject only to certain of the liens permitted under the Prepetition ABL Loan Documents) on certain of the Debtors’ property, including (i) all Accounts (other than Accounts which constitute identifiable proceeds of Term Priority Collateral), (ii) cash, money and cash equivalents (other than, in each instance, as set forth in the Prepetition Intercreditor Agreement), (iii) all

³ The defined term “Obligations” in the Prepetition ABL Credit Agreement means “(a) with respect to the Borrower, all obligations (monetary or otherwise, whenever arising, and whether absolute or contingent, liquidated or unliquidated, due or to become due, or matured or unmatured, and including all Bank Product Obligations Letter of Credit Obligations) of the Borrower arising under or in connection with this Loan Agreement, the Revolving Notes, the Fee Letter, or any other Loan Document, or any Bank Product Agreement or Letter of Credit Document, including the principal of, and interest (including interest accruing after the commencement or during the pendency of any proceeding, action or case under the Bankruptcy Code or otherwise of the type described in Section 10.01(j), whether or not allowed in such proceeding, action or case) on the Revolving Loans, and all fees, expenses, costs, indemnities and other sums payable at any time under any Loan Document, any Bank Product Agreement or Letter of Credit Document and (b) with respect to each Loan Party other than the Borrower, all obligations (monetary or otherwise, whenever arising, and whether absolute or contingent, liquidated or unliquidated, due or to become due, or matured or unmatured, and including all Bank Product Obligations and Letter of Credit Obligations) of such Loan Party arising under or in connection with this Loan Agreement or any other Loan Document or any Bank Product Agreement and Letter of Credit Document. Notwithstanding anything to the contrary contained in the foregoing, (a) obligations of any Loan Party under any Bank Product Obligations shall be secured and guaranteed pursuant to the Loan Documents only to the extent that, and for so long as, the other Obligations are so secured and guaranteed, (b) any release of Collateral or Guarantors effected in the manner permitted by this Loan Agreement shall not require the consent of holders of obligations under Bank Product Agreements and (c) the Obligations shall exclude any Excluded Swap Obligation.”

Deposit Accounts, Securities Accounts, Security Entitlements and Securities credited to such a Securities Account and Commodity Accounts and commodity contracts and, in each case, all cash, money, cash equivalents, checks and other property held therein or credited thereto (other than, in each instance, as set forth in the Prepetition Intercreditor Agreement), (iv) all Inventory, (v) to the extent relating to or arising from, evidencing or governing any of the items referred to in clauses (i) through (iv) above constituting ABL Priority Collateral, all Documents, General Intangibles (including all rights under contracts but excluding any Intellectual Property), Instruments (including Promissory Notes other than the Intercompany Note), Chattel Paper (including Tangible Chattel Paper and Electronic Chattel Paper) and Commercial Tort Claims, (other than, in each instance as set forth in the Prepetition Intercreditor Agreement), (vi) all Supporting Obligations and Letter-of-Credit Rights with respect to the ABL Priority Collateral (other than as set forth in the Prepetition Intercreditor Agreement), (vii) all books and Records constituting ABL Priority Collateral as set forth in the Prepetition Intercreditor Agreement, (viii) all collateral security and guarantees with respect to any of the items referred to in the preceding clauses (i) through (vii) and all cash, money, cash equivalents, insurance proceeds, Instruments, Securities and Financial Assets received as proceeds of any of the foregoing constituting ABL Priority Collateral, and (ix) all Proceeds of any of the items referred to in the preceding clauses (i) through (viii) (such property, whether now existing or hereafter arising or acquired, in clauses (i) through (ix), and including for the avoidance of doubt, any such assets that, but for the application of Section 552 of the Bankruptcy Code (or any similar provision of any foreign Debtor Relief Laws), collectively, the **“Prepetition ABL Priority Collateral”**); and (b) second priority security interests in and liens on certain of the Debtors’ property, including all Property of the Borrowers and Guarantors, whenever arising and wherever located, on which a Lien is granted as security for any Prepetition Term Loan

Obligations and that does not constitute Prepetition ABL Priority Collateral, including, without limitation, equipment, real estate, Intellectual Property and Equity Interests (such property, whether now existing or hereafter arising or acquired, the “**Prepetition Term Priority Collateral**” and, together with the Prepetition ABL Priority Collateral, the “**Prepetition Collateral**” and, such liens and security interests in clauses (a) and (b), the “**Prepetition ABL Liens**”).

b. Prepetition Term Loan Agreement

19. Pegasus Home Fashions Purchaser Inc., as borrower, Holdings, and certain of its affiliates designated therein as “**Guarantors**” (such parties, collectively, the “**Prepetition Term Loan Obligors**” and, together with the Prepetition ABL Obligors, the “**Prepetition Obligors**”), each “**Lender**” from time to time party thereto (collectively, the “**Prepetition Term Loan Lenders**” and, together with the Prepetition ABL Lenders, the “**Prepetition Lenders**”), and Blue Torch, as administrative agent and collateral agent (in such capacities, the “**Prepetition Term Loan Agent**” and, together with the Prepetition ABL Agent, the “**Prepetition Agents**”, and, the Prepetition Term Loan Agent together with the Prepetition Term Loan Lenders, the “**Prepetition Term Loan Secured Parties**” and, together with the Prepetition ABL Secured Parties, the “**Prepetition Secured Parties**”), are parties to that certain Financing Agreement, dated as of August 5, 2021 (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time, the “**Prepetition Term Loan Agreement**” and, together with all other agreements, documents, and instruments executed and/or delivered with, to or in favor of the Prepetition Term Loan Secured Parties, including, without limitation, all security agreements, deposit account control agreements (including, without limitation, the Control Agreements (as defined below)), control agreements, notes, guarantees, mortgages, Uniform Commercial Code financing statements, documents, and instruments, including any fee letters, executed and/or

delivered in connection therewith or related thereto, the “**Prepetition Term Loan Documents**” and, together with the Prepetition ABL Loan Documents, the “**Prepetition Documents**”).

20. Pursuant to the Prepetition Term Loan Agreement, the Prepetition Term Loan Lenders made term loans in the aggregate principal amount of \$60,850,000 (the “**Prepetition Term Loans**”). As of the Petition Date, approximately \$64,096,112.30⁴ of indebtedness under the Prepetition Term Loan Agreement was outstanding, which amount is comprised of principal, and accrued and unpaid interest (and, together with any other amounts outstanding under the Prepetition Term Loan Documents, including interest, fees, and expenses, the “**Prepetition Term Loan Obligations**” and, together with the Prepetition ABL Obligations, the “**Prepetition Obligations**”). The Prepetition Term Loans are secured by (a) first priority security interests in and liens (subject only to certain of the liens permitted under the Prepetition Term Loan Documents) on the Prepetition Term Priority Collateral; and (b) second priority security interests in and liens on the Prepetition ABL Priority Collateral (such liens and security interests in clauses (a) and (b), the “**Prepetition Term Loan Liens**” and, together with the Prepetition ABL Liens, the “**Prepetition Liens**”).

c. Subordinated Promissory Note

21. In addition to the Prepetition ABL Credit Agreement and the Prepetition Term Loan Credit Agreement, Pegasus Home Fashions Purchaser, Inc. and Carmine Spinella 2021 GRAT, dated March 15, 2021, and Carmine Spinella, as holders, are parties to that certain Subordinated Promissory Note, dated August 5, 2021 (as amended, restated, supplemented or otherwise

⁴ On August 23, 2023, Blue Torch, on behalf of the Prepetition Term Loan Lenders, notified the Debtors that the entire unpaid principal of and any accrued interest and premium (including the applicable Prepayment Premium) on the Prepetition Term Loans, and all fees, and all other Obligations payable under the Prepetition Term Loan Documents were immediately due and payable to Blue Torch for the benefit of the Prepetition Term Loan Secured Parties. The amount outstanding under the Prepetition Term Loan Documents does not include the applicable Prepayment Premium in the amount of \$7,620,498.99. Blue Torch, on behalf of the Prepetition Term Loan Lenders, hereby reserves all rights with respect to the claim for the applicable Prepayment Premium.

modified from time to time, the “**Subordinated Promissory Note**”). The obligations under the Subordinated Promissory Note are unsecured. As of the Petition Date, Pegasus Home Fashions Purchaser, Inc. owes approximately \$2.1 million under the Subordinated Promissory Note.

II. Events Leading to Chapter 11 Cases

22. Notwithstanding Pegasus’s historic success, the Company’s recent history has been challenging.

23. Specifically, up until the 2023 Transaction, Mr. Spinella had been a regular presence as chief executive officer of the Company. His knowledge of the industry had been a key factor in the business’s development and growth. Accordingly, after he abruptly resigned from the Company earlier this year, the Debtors were left with a leadership void at a critical juncture, creating uncertainty and instability within the organization. Around the same time as Mr. Spinella’s departure, Webster informed the Company that it would not renew a \$6 million unsecured line of credit that Pegasus had relied on to finance some of its trade debt. Furthermore, Webster demanded a full payoff of that line of credit by the end of April, 2023. This decision exacerbated the Company’s liquidity problems, particularly at a time when significant capital expenditures have been identified as being necessary to keep the business competitive

24. Recognizing that changes needed to be made, the Debtors first took steps to stabilize operations and repair the organizational harm that had occurred as a consequence of the abrupt departure of Mr. Spinella. In connection therewith, in April 2023, the Debtors retained RAS to provide an interim chief executive officer (“**CEO**”) and other associated personnel. On April 18, 2023, each Debtor board authorized my appointment as CEO.

25. Upon assuming the role of CEO, I immediately embarked on a comprehensive review of the Debtors’ operational and financial structures. The most pressing item that needed

my attention was working with the Prepetition Secured Parties to address the liquidity issues created by, among other things, Webster's decision not to renew the unsecured line of credit. Following negotiations with the Prepetition Secured Parties, an agreement was reached with Blue Torch whereby Blue Torch agreed to provide additional funding to the Company under the Prepetition Term Loan to replace not only the unsecured line, but also to provide the working capital which the Company needed to continue operating.

26. In addition, I made the decision to shut down the Company's facility in Phoenix, Arizona, as it generated high costs, but yielded little return on investment. This necessary step helped reduce a financial strain on the Company. Further, I authorized a program to monetize "dead" inventory, a process that involved careful evaluation of what needed be sold to generate immediate cash flow, and the coordination of related sales and manufacturing efforts.

27. In sum, my efforts focused on conducting a thorough examination of all Company expenses and cash flow needs, including those related to its workforce, identifying areas where cost reduction / cash conservation was imperative.

28. Despite these efforts, we continue to face unanticipated challenges. Market fluctuations and an increasingly competitive environment led to the loss of revenue streams from one of our major customers beginning late in the second quarter of 2023. This loss further tightened the Debtors' liquidity, which was already constrained. Nevertheless, the measures implemented subsequent to my joining the Company ensured that we were expending less cash and moving closer to a sustainable business model.

29. Even with the changes implemented beginning with my joining the Company, it became increasingly evident that the Company's sustainability was unlikely to be long-term absent significant capital investment. While we addressed immediate concerns, underlying issues

remained that would inhibit the Company's go-forward viability. The industry landscape is continuing to shift, and the Debtors are facing a critical challenge. Much of their existing equipment is tailored to manufacture fiber-based products, yet market demand for these products is in decline. This trend poses a serious threat to the Company's market position, revenue streams, and future growth prospects. To remain competitive and responsive to market demands, the Debtors need to significantly expand their production of foam-based products. However, transitioning from fiber-based to foam-based production is not merely a strategic shift. It requires a substantial investment in new equipment and machinery, and in some cases the expansion or replacement of existing operating facilities, a complex process involving evaluation, acquisition, installation, and integration. This investment will be vital for Pegasus to maintain its industry standing, but comes at a time when financial resources are already strained.

30. Accordingly, it became clear to me and to the Company's Board of Directors that if Pegasus is to retain its standing in the industry, and regain its financial footing, a more substantial and far-reaching restructuring is necessary. The initial steps I implemented were essential, but they were just the beginning of the effort required to navigate what remains a challenging road to recovery for the Debtors. To that end, working with Blue Torch, the Debtors identified a strategic buyer (the "**Strategic**") whom they believed would be interested in a sale transaction. After speaking with the Strategic, it was apparent that there was mutual interest in pursuing a transaction, and the parties began negotiations regarding the structure of a sale. Although the parties worked diligently over a period of several months to negotiate the terms of a sale transaction, it eventually became apparent that an agreement would not come to fruition on a timeline that was acceptable to the Debtors. Accordingly, the Debtors quickly pivoted toward pursuing a value-maximizing transaction through a chapter 11 process with an affiliate of Blue Torch as the stalking horse

purchaser (the “**Stalking Horse Purchaser**”). This shift in focus is a strategic move designed to ensure the best possible outcome for the Debtors, our stakeholders, and the future of the Company.

III. Sale Process

31. The Debtors have commenced these Chapter 11 Cases to maximize the value of their estates through a court-supervised sale for the benefit of all parties in interest (the “**Sale Process**”). The Debtors negotiated the terms of a stalking horse asset purchase agreement (the “**Stalking Horse APA**”) with the Stalking Horse Purchaser for the purchase of the Pegasus enterprise. In addition, the Debtors have retained SSG Capital Advisors, LLC to serve as their investment banker to assist with the Sale Process.

32. Under the Stalking Horse APA, the Stalking Horse Purchaser would acquire substantially all of the Debtors’ assets (the “**Assets**”). The purchase price under the Stalking Horse APA is (a) the assumption of the assumed liabilities (as defined in the Stalking Horse APA), (b) the assumption of (subject to the consent of Webster), or payment in cash of, all obligations outstanding under the Prepetition Revolving Facility, if any, and the DIP Revolving Facility as of the Closing Date; and (c) a credit bid of the Term Loan Obligations and obligations under the DIP Term Loan Facility pursuant to Section 363(k) of the Bankruptcy Code, subject to higher and better offers.

33. Shortly after filing the Chapter 11 Cases, the Debtors will file a motion (the “**Bidding Procedures Motion**”) seeking approval of the Stalking Horse APA and the Stalking Horse Purchaser’s bid set forth therein, as well as an expense reimbursement in the event the Stalking Horse Purchaser is ultimately not the successful purchaser of the Assets. Importantly, the Stalking Horse APA benefits the Debtors by serving as a floor for an overbid process to ensure that the Debtors receive the highest or otherwise best offer for the sale of their assets. If the Debtors were to continue to market their assets without the benefit of the Stalking Horse Bidder serving as

the floor, the Debtors might encounter greater challenges in their pursuit of the highest or otherwise best offer for their assets.

34. With the Stalking Horse Purchaser's bid in hand, the Debtors, with the assistance of their professionals, will continue to engage with potential purchasers of the Assets to ensure a robust and competitive sale process that maximizes value for the Debtors' stakeholders.

35. At the outset of these proceedings, the Debtors will seek the Court's approval of an auction and sale timeline for the sale of the Assets, allowing the Debtors to implement bidding procedures designed to maximize value for all interested parties efficiently and effectively.

36. Given the nature of the Assets, the Debtors and their professional advisors are confident that interested parties will be able to assess the sale opportunity in an expeditious and thorough manner. Accordingly, the Debtors are pursuing a value-maximizing transaction in the first approximately 75 days of these Chapter 11 Cases. The Sale Process has been designed in accordance with the milestones for these Chapter 11 Cases, in keeping with the Debtors' liquidity position and as contemplated by the Stalking Horse APA and the DIP Facilities (as defined below).

37. Subject to Court approval and under the supervision of the Court, the proposed Sale Process will allow the Debtors to move their Chapter 11 Cases forward with much needed certainty provided by the contemplated sale, and with a clear message to the Debtors' employees, customers, vendors, and the marketplace, all of which the Debtors believe is necessary and critical to the success of their chapter 11 efforts and the preservation of their business operations.

IV. DIP Motion and Other First Day Motions

38. Concurrently herewith, the Debtors filed the First Day Motions seeking relief related to the administration of the Chapter 11 Cases, the Debtors' operations, and the Debtors' financing needs, to ensure a smooth entry into chapter 11. I am familiar with the contents of each First Day Motion (including the exhibits to such motions) and believe that the relief sought in each

First Day Motion: (i) will enable the Debtors to operate in chapter 11 with minimal disruptions; (ii) is critical to the Debtors' chapter 11 efforts; and (iii) best serves the interests of the Debtors' estates and creditors. Further, I believe that the relief sought in the First Day Motions is, in each case, narrowly tailored and necessary to achieve the goals identified above.

39. Following the realization that a sale transaction would need to be conducted within the context of a chapter 11 proceeding, the Debtors and their advisors attempted to identify financing sources that would provide sufficient liquidity so that the Debtors could continue operations in the ordinary course and fund the additional expenses that would be incurred during a bankruptcy process. However, finding no alternatives to the Prepetition Secured Parties, the Debtors engaged with them regarding terms of a potential post-petition financing facility.

40. As a result of their negotiations, the Debtors and the Prepetition Secured Parties reached agreement on a proposed DIP financing package consisting of (i) a secured asset-based revolving credit facility (the "**DIP Revolver Facility**") in an aggregate principal amount of \$20.0 million, and (ii) a secured term loan that will provide approximately \$5.0 million in new money for the Debtors' estates and access to necessary Cash Collateral (the "**DIP Term Loan Facility**," and together with the DIP Revolver Facility, the "**DIP Facilities**"). Upon Court approval, the DIP Facilities will be secured by a lien on substantially all of the Debtors' assets, the vast majority of which were previously collateral of the Prepetition Secured Parties.

41. I believe that the terms and amount of the proposed DIP Facilities will permit the Debtors to meet their business and other obligations in connection with these Chapter 11 Cases in accordance with the Approved Budget, the Interim Order, and the DIP Documents, which are expressly premised on approval of the DIP Facilities on an interim and final basis.

42. The Debtors have a critical need to use the DIP Facilities' proceeds, as well as Cash Collateral, to operate their business and preserve their going-concern value. Specifically, access to the DIP Facilities and Cash Collateral will permit the Debtors to: (a) continue to serve their customers and generate revenue during these chapter 11 cases; (b) provide working capital for their business; (c) fund payments to their workforce; (d) fund other general corporate purposes; (e) fund the payments authorized by the Court pursuant to the First Day Motions filed contemporaneously with the *Debtors' Motion For Entry Of Interim And Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364, 503 and 507 (i) Authorizing the Debtors to Obtain Senior Secured Superpriority Postpetition Financing; (ii) Granting (a) Liens and Superpriority Administrative Expense Claims and (b) Adequate Protection to Certain Prepetition Lenders; (iii) Authorizing Use of Cash Collateral; (iv) Scheduling a Final Hearing; and (v) Granting Related Relief* (the “**DIP Motion**”); (f) operate the Cash Management System as described in the Cash Management Motion; and (g) satisfy administrative costs and expenses of the Debtors incurred in these Chapter 11 Cases. Additionally, as demonstrated by the Approved Budget, the need for access to the DIP Facilities is further underscored by the fact that I do not believe it would be prudent, or even possible, to administer these Chapter 11 Cases solely on a “cash collateral” basis with no access to additional capital.

43. As set forth more fully in my Declaration in support of the DIP Motion, the Debtors could not obtain post-petition financing from another source, including a facility that would be on an unsecured, administrative expense basis. Under the circumstances, including the nature and amount of the Prepetition Liens and the Debtors' other outstanding prepetition debt obligations, obtaining the financing needed by the Debtors as unsecured debt, or even debt secured by liens junior to the liens of the Prepetition Secured Parties, was simply not a realistic option. No other

lender would be willing to provide the financing necessary to pay the Prepetition Obligations and fund the Debtors' business and the contemplated sale process on terms more favorable than those provided in the DIP Facilities, which includes certain Milestones that I believe are reasonable under the circumstances of these Chapter 11 Cases, and will allow the Debtors to conduct a fulsome sale process.

44. It is important to note that the Debtors negotiated with the DIP Lenders in good faith and otherwise to ensure that the terms of the DIP Facilities and related interim order are customary, consistent with what I believe (based on my own experience as well as discussions with counsel for the Debtors and the investment banker retained by the Debtors) are reasonable to the Debtors and their estates given the current circumstances. To that end, the Debtors, on the one hand, and the DIP Lenders, on the other hand, each had separate professional advisors negotiating the DIP Facilities.

45. Based on my experience, and in my business judgment, I believe that the terms of the DIP Facilities are reasonable to the Debtors and appropriate under the circumstances, and that good and sufficient cause exists to grant the relief requested in the DIP Motion. As explained above, the DIP Facilities are necessary as they will provide the Debtors with liquidity to administer these Chapter 11 Cases and conduct the contemplated sale process, without which the Debtors' ability to successfully prosecute these Chapter 11 Cases will be jeopardized, to the detriment of all of the Debtors' stakeholders. Further, I believe that the absence of the DIP Facilities and access to Cash Collateral would cause immediate and irreparable harm to the Debtors' estates, their creditors, and other stakeholders by compromising the Debtors' ability to, among other things, maintain business relationships and pay vendors that are providing necessary goods and services.

46. The First Day Pleadings, other than the DIP Motion, include:

- a. *Debtors' Motion for an Order, Pursuant to Bankruptcy Rule 1015 and Local Rule 1015-1, Authorizing the Joint Administration of the Debtors' Chapter 11 Cases*
- b. *Debtors' Application for the Retention and Appointment of Epiq Corporate Restructuring, LLC as Claims and Noticing Agent*
- c. *Debtors' Motion for Entry of Interim and Final Orders, Pursuant to Sections 105(a), 363(b), 507(a)(4), and 507(a)(5) of the Bankruptcy Code, (A) Authorizing (I) Payment of Accrued Prepetition Employee Wages, Salaries, and Other Compensation; (II) Payment of Accrued Prepetition Obligations Owed to Independent Contractors; (III) Continuation of Bonus Obligations to be Paid in the Ordinary Course; (IV) Payment of Prepetition Employee Business Expenses; (V) Contributions to Prepetition Employee Benefit Programs and Continuation of Such Programs in the Ordinary Course; (VI) Payment of Workers' Compensation Obligations; (VIII) Payments for Which Prepetition Payroll Deductions Were Made; (IX) Payment of all Costs and Expenses Incident to the Foregoing Payments and Contributions; and (X) Payment to Third Parties of all Amounts Incident to the Foregoing Payments and Contributions; and (B) Authorizing Banks to Honor and Process Check and Electronic Transfer Requests Related Thereto*
- d. *Debtors' Motion for Interim and Final Orders, Pursuant to Sections 105(a) and 366 of the Bankruptcy Code, (A) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Utility Services, (B) Deeming Utility Companies Adequately Assured of Future Payment, (C) Establishing Procedures for Determining Additional Adequate Assurance of Payment, and (D) Setting a Final Hearing Related Thereto*
- e. *Debtors' Motion for Interim and Final Orders (I) Authorizing Payment of Certain Prepetition Shipping, Warehousing, Delivery, and Customs Charges, and (II) Authorizing Banks to Honor All Related Checks and Electronic Payment Requests*
- f. *Debtors' Motion for Interim and Final Orders, Pursuant to Sections 105(a), 363, and 364 of the Bankruptcy Code, (A) Authorizing (I) Payment of Prepetition Obligations Incurred in the Ordinary Course of Business in Connection with Insurance Programs, Including Payment of Policy Premiums and Broker Fees, and (II) Continuation of Insurance Premium Financing Programs; (B) Authorizing Banks to Honor and Process Check and Electronic Transfer Requests Related Thereto, and (III) Scheduling A Final Hearing*
- g. *Debtors' Motion for Entry of Interim and Final Orders (A) Authorizing the Debtors to Maintain and Honor Certain Prepetition Customer Programs, (B) Authorizing Banks to Honor and Process Check and Electronic Transfer Requests Related Thereto, and (C) Granting Related Relief*
- h. *Debtors' Motion for Interim and Final Orders, Pursuant to Sections 105(a), 345, 363, 1107(a) and 1108 of the Bankruptcy Code, Bankruptcy Rule 2015, And Local*

Rule 2015- 2, (A) Authorizing And Approving Continued Use Of Cash Management System, (B) Authorizing Use Of Prepetition Bank Accounts And Business Forms, (C) Waiving The Requirements Of Section 345(B) On An Interim Basis, And (D) Granting Certain Related Relief

- i. *Debtors' Motion for Entry of Interim and Final Orders (A) Authorizing the Debtors to Pay Certain Prepetition Claims of Critical Vendors and Service Providers; (B) Authorizing Banks to Honor and Process Check and Electronic Transfer Requests Related Thereto; and (C) Granting Related Relief*

47. I have reviewed and discussed with counsel each of the First Day Motions (including the exhibits thereto), and I believe the facts stated therein to be accurate and correct to the best of my knowledge, with appropriate reliance on corporate officers, business records, and advisors. I incorporate by reference the factual statements set forth in each of the First Day Motions as though set forth herein.

48. I believe that the relief sought in each of the First Day Motions is necessary for the success of the Debtors' chapter 11 efforts and the maximization of the value of the Debtors' estates. It is my further belief that, with respect to those First Day Motions requesting the authority to pay specific prepetition claims or continue selected prepetition programs, the relief requested is essential to the Debtors' chapter 11 efforts and necessary to avoid immediate and irreparable harm to the Debtors' estates. The success of the Chapter 11 Cases depends upon the Debtors' ability to maintain operations in the ordinary course post-petition and maximize estate value. The relief requested in the First Day Motions is critical to preserving uninterrupted business operations and the confidence of key constituencies necessary to implement a successful sale.

V. Conclusion

49. In conclusion, for the reasons stated herein and in each of the First Day Motions, I respectfully request that each First Day Motion be granted in its entirety, together with such other and further relief as this Court deems just and proper.

I certify under penalty of perjury that, based upon my knowledge, information, and belief, as set forth in this Declaration, the foregoing is true and correct.

Executed: August 24, 2023

/s/ Timothy Boates
Timothy Boates
Chief Executive Officer

EXHIBIT A

Organization Chart

Case 23-11235
Carmine Spinella
2021 GRAT, dated
March 15, 2021

Doe 3
Carmine Spinella

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BT Pegasus
Aggregator LLC
(DE)

H.I.G.
Pegasus Home
Fashions, L.P. (DE)

12.375%

0.125%

74.375%

13.125%

Pegasus
Home Fashions
Holdings LLC (DE)

Pegasus Home
Fashions
Intermediate Inc.
(DE)

Pegasus Home
Fashions Purchaser
Inc. (DE)

Pegasus Home
Fashions, Inc.
(NJ)

Weatherford Cushion
Co.
(TX)