



**Fourth Report to Court of
KSV Kofman Inc. as Proposal
Trustee of Danier Leather Inc.**

March 18, 2016

Contents

	Page
1.0 Introduction.....	1
1.1 Purposes of this Report.....	2
1.2 Currency	2
1.3 Restrictions	2
2.0 Background	2
2.1 SISP.....	3
3.0 Bankruptcy and Receivership	4
3.1 Employees	5
4.0 Conclusion and Recommendation	6

Appendices

Appendix	Tab
KSV Consent	A
Term and Task Letter	B



ESTATE FILE NO.: 31-CL-2084381

COURT FILE NO.: 31-CL-2084381

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.,
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE
PROVINCE OF ONTARIO, WITH A HEAD OFFICE IN THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO

FOURTH REPORT OF KSV KOFMAN INC. AS PROPOSAL TRUSTEE OF
DANIER LEATHER INC.

MARCH 18, 2016

1.0 Introduction

1. This report ("Report") is filed by KSV Kofman Inc. ("KSV") in its capacity as proposal trustee ("Proposal Trustee") in connection with a Notice of Intention to Make a Proposal ("NOI") filed by Danier Leather Inc. (the "Company") on February 4, 2016 ("Filing Date") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended ("BIA").
2. The NOI proceedings provided the Company with the stability it required to conduct a sale and investor solicitation process ("SISP") and to consider whether it would be able to file a proposal based on the outcome of the SISP. The Company conducted the SISP with the assistance of its financial advisor, Consensus Advisory Services LLC and Consensus Securities LLC (collectively, the "Financial Advisor"), and the Proposal Trustee.
3. On March 7, 2016, the Court made an Order extending the time for the Company to file a proposal with the Official Receiver to April 15, 2016.
4. The Proposal Trustee understands that the Company has determined that it is unable to make a viable proposal to its creditors. As a result, the Company intends to file an assignment in bankruptcy imminently.

5. The Proposal Trustee also understands that the Company intends to make an application to the Ontario Superior Court of Justice (the “Court”) for an Order (the “Receivership Order”) appointing KSV as receiver (the “Receiver”) over all of the property, assets, and undertaking of the Company pursuant to section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended. It is contemplated that the appointment of the Receiver would become effective immediately after the Company becomes bankrupt.
6. This Report should be read in conjunction with the affidavit of Brent Houlden, the Chief Financial Officer of the Company, sworn March 17, 2016 filed in support of the Company’s application for the appointment of a receiver.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company;
 - b) discuss the rationale for the appointment of a receiver; and
 - c) recommend that the Court issue the Receivership Order.

1.2 Currency

1. Unless otherwise noted, all currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company’s representatives, the Company’s books and records and discussions with its representatives. The Proposal Trustee has not performed an audit or other verification of such information. An examination of the Company’s financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on the Company’s representatives’ assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.

2.0 Background

1. The Company was founded in 1972. It is Canada’s largest retailer of leather apparel and accessories. The subordinated voting shares of the Company are listed on the Toronto Stock Exchange (the “TSX”) and, until the Filing Date, traded under the symbol “DL”. On the Filing Date, the Investment Industry Regulatory Organization of Canada issued a cease trade order in respect of the shares. On March 17, 2016, the Company’s shares were delisted from the TSX.

2. The Company leases its Toronto based head office (the “St. Clair Facility”). The St. Clair Facility also serves as the Company’s manufacturing, warehouse and distribution center. The Company also leases a distribution facility in Toronto. The Company contracts production from vendors located in China, India and Pakistan.
3. The Company’s merchandise is predominantly marketed under the “Danier” brand name and is currently sold in 78 leased stores across Canada, as well as online through the Company’s website: www.danier.com.
4. As at the date of this Report, the Company employs 961 individuals, including 796 store-level employees, 95 employees in manufacturing and distribution and 70 employees in its head office and administration. The Company’s workforce is not unionized and the Company does not maintain a pension plan.

2.1 SISP

1. Prior to the commencement of the NOI proceedings, the Company entered into an agency agreement (“Stalking Horse Agreement”) with GA Retail Canada, ULC, or an affiliate thereof (the “Stalking Horse”). Pursuant to an Order made on February 8, 2016 (the “SISP Order”), the Court, *inter alia*: (i) approved the SISP; and (ii) approved and accepted the form of the Stalking Horse Agreement for purposes of being the stalking horse under the SISP.
2. In accordance with the SISP Order, the Company carried out the SISP, with the assistance of the Financial Advisor and the Proposal Trustee.
3. Pursuant to the terms of the SISP, the Company received two liquidation bids for substantially all of the Company’s inventory (the “Merchandise”) and furniture, fixtures and equipment (“FF&E”) (in addition to the bid received from the Stalking Horse) (collectively, the “Liquidation Bids”).
4. On February 29, 2016, all three parties that submitted Liquidation Bids participated in an auction conducted by the Proposal Trustee for the Merchandise and FF&E. At the conclusion of the auction, a bid by a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the “Agent”) was determined to be the best and highest bid. On March 1, 2016, the Company entered into an agency agreement with the Agent (the “Agency Agreement”). The Agency Agreement was approved pursuant to an Order made by the Court on March 7, 2016 (the “Approval Order”). Pursuant to the terms of the Agency Agreement, the Agent is selling substantially all of the Merchandise and FF&E located at the Company’s store locations (the “Sale”). The Agency Agreement provides that the Sale will be completed by June 30, 2016.
5. Based on the early results of the Sale, the Agent confirmed on March 15, 2016 that the Sale will be completed by no later than June 20, 2016.

6. Additional information about the Company and its background is available in the materials filed in these proceedings, which can be found on the Proposal Trustee's website at: <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc/>.

3.0 Bankruptcy and Receivership

1. The SISP provided a wide marketing of all of the Company's business and assets, including its intellectual property. Despite these efforts, no party has been identified that intends to support a restructuring of the Company. While SISP efforts continue, it is likely that a resulting transaction, if any, would be completed through a sale of assets. Accordingly, the Proposal Trustee understands that the Company has determined that it will not be able to make a viable proposal and as such it intends to imminently file an assignment in bankruptcy.
2. The Company is party to the Agency Agreement, which is binding on any trustee in bankruptcy or receiver pursuant to paragraph 19 of the Approval Order. The business is likely to continue to operate until no later than June 20, 2016; however, the bankruptcy provisions of the BIA do not provide the flexibility required to deal with complex, operating companies. Accordingly, the Company is of the view that the operation of the business will be best facilitated by the appointment of a receiver.
3. The benefits of a receivership in the context of these proceedings include:
 - a) the Receivership Order requires vendors to continue to provide goods and/or services, provided such parties are not required to extend additional credit;
 - b) the Receivership Order permits the Receiver to continue to utilize the Company's cash management system, which is complex given its cross-Canada network of stores¹. In the context of a bankruptcy, the BIA's banking provisions are generally more suited for non-operating companies;
 - c) there are a myriad of operational and other issues that will need to be addressed on a daily basis, and in the context of a bankruptcy, resolution of those issues would commonly first require inspector approval, including operating the business, retaining hundreds of employees, selling the assets outside the normal course and terminating contracts. Inspectors are not appointed until the First Meeting of Creditors; and
 - d) the appointment of the Receiver will facilitate the orderly carrying out of the Sale by the Agent, which will assist to maximize recoveries and reduce costs.

¹ The Company has 14 bank accounts, which are maintained for various purposes, including to deposit receipts, to consolidate receipts and to make US dollar and Canadian dollar disbursements.

4. The Company's cash balance is sufficient to fund the Company's operations and other receivership costs. Accordingly, no creditor is prejudiced by the appointment of a receiver.
5. KSV has consented to act as the Receiver. A copy of the consent is attached as Appendix "A".
6. A copy of the Receivership Order is provided in the Company's application materials.
7. Based on the foregoing, the Proposal Trustee recommends that the Court issue the Receivership Order.

3.1 Employees

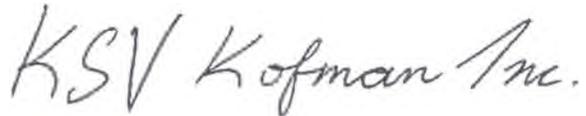
1. The Company presently has 961 employees. Their continued employment is required for the Company to perform its obligations under the Agency Agreement. The bankruptcy of the Company automatically terminates the employment of all employees and, as such, employees will need to be retained for varying periods of time until operations come to an end. It is contemplated that each employee will be provided with the term and task employment letter found in Appendix "B" ("Employee Letter"). Given the number and location of the employees, it is not practicable in the circumstances for each employee to execute and return a term and task letter.
2. The Receivership Order provides that each individual employed by the Company immediately prior to the bankruptcy who provides services after the bankruptcy will be deemed to have been engaged on a temporary and day-to-day basis pursuant to the terms of the Employee Letter. These employees will be paid the same rate as they were paid prior to the bankruptcy.
3. The Employee Letter is to be provided by store managers to each employee, and will be handed out at the head office. There is no requirement in the Employee Letter or in the Receivership Order that the employees execute or return the Employee Letter.

4.0 Conclusion and Recommendation

1. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1(c) of this Report.

* * *

All of which is respectfully submitted,

A handwritten signature in cursive script that reads "KSV Kofman Inc.".

**KSV KOFMAN INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DANIER LEATHER INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

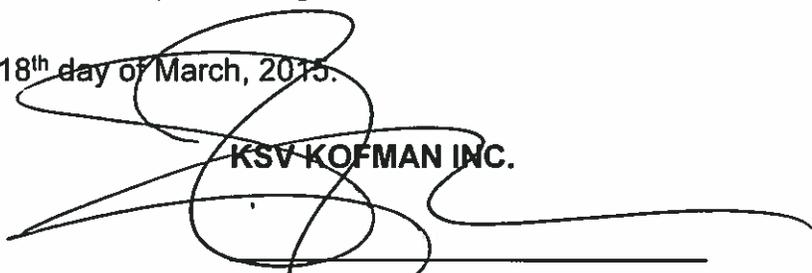
**IN THE MATTER OF an application under section 101 of the *Courts of Justice Act*,
R.S.O. 1990, c. C.43, as amended**

**AND IN THE MATTER OF THE RECEIVERSHIP OF DANIER LEATHER INC., a
corporation incorporated pursuant to the laws of the Province of Ontario, with a
head office in the City of Toronto, in the Province of Ontario**

CONSENT

The undersigned, KSV Kofman Inc. ("KSV"), hereby consents to the appointment of KSV as receiver, without security, of all of the assets, undertakings and properties of Danier Leather Inc. (the "Debtor") acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof, pursuant to section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended, and the terms of an order substantially in the form filed in the above proceeding.

DATED at Toronto, this 18th day of March, 2015.


KSV KOFMAN INC.

Name: Robert Kofman
Title: Managing Director and President

**IN THE MATTER OF an application under section 101 of the Courts of Justice Act,
R.S.O. 1990, c. C.43, as amended
AND IN THE MATTER OF THE RECEIVERSHIP OF DANIER LEATHER INC., a
corporation incorporated pursuant to the laws of the Province of Ontario, with a
head office in the City of Toronto, in the Province of Ontario**

Court File No: CV16-11322-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

CONSENT

BENNETT JONES LLP
3400 One First Canadian Place
Toronto, ON M5X 1A4

Sean Zweig (LSUC #573071)
Tel: (416) 777-6254
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Counsel to the Proposed Receiver, KSV
Kofman Inc.

Appendix “B”



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March 21, 2016

TO THE EMPLOYEES OF DANIER LEATHER INC.

Re: Danier Leather Inc. (the “Company”)

On February 4, 2016 the Company filed a Notice of Intention to Make a Proposal (“NOI”) under the *Bankruptcy and Insolvency Act* and KSV Kofman Inc. (“KSV”) was appointed as the proposal trustee in the NOI proceedings.

Pursuant to an Order made by the Ontario Superior Court of Justice (“Court”) on March 7, 2016, the Court approved a transaction (“Transaction”) between the Company and a contractual joint venture comprised of Merchant Retail Solutions, ULC and Gordon Brothers Canada ULC (jointly, the “Agent”). Pursuant to the terms of the Transaction, the Agent is selling substantially all of the Company’s inventory and furniture, fixtures and equipment at most of the Company’s store locations (the “Sale”).

On March 21, 2016, the Company made an assignment in bankruptcy and KSV was appointed as trustee in bankruptcy (“Trustee”) of the Company’s bankrupt estate. On that same date, KSV became the receiver (“Receiver”) of the property, assets and undertaking of the Company pursuant to an order of the Court (“Receivership Order”).

A copy of the Receivership Order and all other Court materials filed in connection with the Company’s insolvency proceedings are available at <http://www.ksvadvisory.com/insolvency-cases-2/danier-leather-inc/>.

Termination

As a result of the bankruptcy, your employment with the Company was automatically terminated. Your Record of Employment and T4 for the period up to March 21, 2016 will be prepared and sent to you shortly.

Your accrued wages and vacation pay to March 21, 2016 will be paid in the ordinary course. You will be able to file a proof of claim for any additional amounts that may be owing to you by the Company. Instructions for filing the proof of claim will be provided at the relevant time. You may also be eligible to file a claim against the government sponsored *Wage Earner Protection Program Plan Act* (“WEPPA”). You will be provided with information on the WEPPA claims process shortly.

Engagement

The Receiver would like to engage your services to assist with the Sale on a temporary and day-to-day basis in accordance with the terms of the Receivership Order. The purpose of this letter is to set out the terms under which the Receiver is prepared to do so.

Pursuant to paragraph 14 of the Receivership Order, you will be deemed to have accepted your engagement on the terms set out in the Receivership Order if you provide services to the Receiver after March 21, 2016.

You will be paid on an hourly or daily basis at the same rate as your most recent compensation from the Company. The Receiver will be making the usual payroll deductions required by law, (i.e., income tax, CPP, EI) and will remit these deductions to the appropriate government authority on your behalf through the Company's payroll service provider. The Receiver is attempting to continue your existing benefit plans without any disruption.

The Receiver will notify you when this engagement is being terminated. You shall not be entitled to any other notice of termination, or pay in lieu thereof, or any other payments or other entitlements whatsoever in connection with the termination, whether pursuant to any contracts, policies, letters of understanding, employment offers, common law or otherwise.

The Receiver is not bound by the terms of any prior employment agreements, written or verbal, express or implied, to which the Company is or was a party, including, but not limited to, contracts, policies, letters of understanding, or employment offers.

Your continuing to provide services pursuant to the terms of this letter is i) a waiver of any claims, suits, actions or causes of action (collectively, the "Claims") against the Receiver and the Trustee and ii) a release and discharge of the Receiver and the Trustee from any Claims for arrears of wages or salary, overtime, bonuses, loss of benefits, funding of benefits plans or policies, vacation pay, severance pay or termination pay whether arising by statute, common law or otherwise, owing by virtue of your employment with the Company for the period prior to your engagement by the Receiver. However, for greater certainty, nothing herein constitutes a waiver or release by you of any Claims you may have against the Company itself.

In making this offer, the Receiver is acting solely in its capacity as Receiver and without personal or corporate liability. By continuing to provide services during the Sale you acknowledge that the Receiver is not: (a) a successor employer to, related employer or common employer with the Company within the meaning or contemplation of the *Ontario Employment Standards Act, 2000*, the *Ontario Labour Relations Act* or other similar federal or provincial legislation; or (b) an employer, sponsor or payor within the meaning or contemplation of the *Ontario Pension Benefits Act* or other similar federal or provincial legislation.

Please seek independent legal advice with respect to this offer if you wish to do so.

If you have any questions, please contact Noah Goldstein at 416-932-6207.

Yours very truly,

A handwritten signature in black ink that reads "KSV Kofman Inc". The letters are cursive and somewhat stylized.

KSV KOFMAN INC.

IN ITS CAPACITY AS COURT-APPOINTED RECEIVER OF

DANIER LEATHER INC.,

AND NOT IN ITS PERSONAL CAPACITY

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF DANIER LEATHER INC., a corporation incorporated pursuant to the
laws of the Province of Ontario, with a head office in the City of Toronto, in
the Province of Ontario**

Court File No. 31-CL-208438

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

**FOURTH REPORT OF THE PROPOSAL TRUSTEE
MARCH 18, 2016**

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