

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:)	
)	Chapter 11
)	
SOFT SURROUNDINGS HOLDINGS, LLC, <i>et al.</i> , ¹)	Case No. 23-90769 (CML)
)	
Debtors.)	(Joint Administration Requested)

**DECLARATION OF CURT KROLL, CHIEF RESTRUCTURING OFFICER OF
SOFT SURROUNDINGS HOLDINGS, LLC IN SUPPORT OF DEBTORS’
CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

I, Curt Kroll, hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer (“CRO”) of Soft Surroundings Holdings, LLC (“SSH”), Soft Surroundings Intermediate Holdings, LLC (“SSI”), Triad Catalog Co., L.L.C. (“Triad Catalog”), and Triad Retail, L.L.C. (“Triad Retail,” and together with SSH, SSI, and Triad Catalog, the “Company” or the “Debtors”) in the above captioned chapter 11 cases (the “Chapter 11 Cases”).

2. I am a Partner employed by SierraConstellation Partners, LLC (“Sierra”) and provide interim management and operational and financial advisory services to underperforming companies and companies in transition. My experience includes CRO roles, interim management, refinancings, distressed acquisitions, and in- and out-of-court restructurings. I have held roles in various industries including retail, industrial manufacturing, real estate, financial services, and

¹ The Debtor entities in these chapter 11 cases, along with the last four digits of each Debtor entity’s federal tax identification number, are: Soft Surroundings Holdings, LLC (2218); Soft Surroundings Intermediate Holdings, LLC (6696); Triad Catalog Co., L.L.C. (3313); and Triad Retail, L.L.C. (2728). The Debtors’ service address is 1100 N. Lindbergh Blvd., St. Louis, MO 63132.

healthcare. I hold both a bachelor's and master's degree in accountancy from the University of Missouri. I am a licensed Certified Public Accountant (CPA Inactive).

3. As CRO, I am generally familiar with the Debtors' day-to-day operations, business affairs, and books and records. I submit this declaration (the "Declaration") to assist the Court and parties in interest in understanding the circumstances that led to the commencement of these Chapter 11 Cases and in support of: (a) the Debtors' petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") filed on the date hereof (the "Petition Date"); and (b) the emergency relief that the Debtors requested from the Court pursuant to the motions filed contemporaneously herewith (each, a "First Day Motion," and collectively, the "First Day Motions").

4. Except as otherwise indicated herein, all facts set forth in this Declaration are based upon my personal knowledge of the Debtors' operations and finances, my discussions with the Debtors' management team and advisors, information learned from my review of relevant documents and information supplied to me by members of the Debtors' management team, and consultation with the Debtors' professional advisors, including other professionals of Sierra, or my opinion based upon my experience, knowledge, and information concerning the Debtors' operations and financial condition. I have obtained this information during my tenure working with the Debtors, and my analysis of and experience with the Debtors' operations and circumstances is ongoing. To the extent that any information provided herein is materially inaccurate, I will act promptly to notify the Court and other parties; however, I believe all information herein to be true to the best of my knowledge. I am authorized to submit this Declaration on behalf of the Debtors, and, if called upon to testify, I could and would testify competently to the facts set forth herein.

* * * * *

Preliminary Statement

5. Operating under the Soft Surroundings® brand, the Debtors are a leading direct-to-consumer nationwide Company, selling women’s apparel, accessories, beauty products, and home goods. The Debtors brand is centered around a direct to consumer business, which includes a robust e-commerce marketplace, which will continue after the Debtors emerge from these Chapter 11 Cases.



6. Like many other retailers, The Company, has faced headwinds due to macroeconomic conditions and high fixed costs that impacted the Company’s margins over the last several years. Shifts in the competitive landscape, a move towards online channels, the COVID-19 pandemic, and increased costs of goods and services due to inflation, among other factors all impacted the Company’s financial position.

7. In 2022, the Company began a multifaceted cost savings and turnaround strategy that included hiring (i) Sierra, and (ii) a new executive team that was experienced in turnaround and restructuring to lead the charge on closing underperforming retail locations, and right-sizing the Company’s inventory. In the summer of 2023, the Company recognized that a sale, new financing or an equity infusion would be needed to address liquidity and continue as a going concern. As such, the Company began a formal marketing process. In June 2023, the Company engaged SSG Capital Advisors, LLC (“SSG”) to further market the Company and consider various restructuring alternatives.

8. In July 2023, the Board of Managers of SSH (the “Board”) determined that it was in the best interest of the Company and its stakeholders to appoint an independent manager and, as of July 14, 2023, appointed Ivona Smith to serve as independent manager. The Board delegated decision-making authority to Ms. Smith to review, discuss, consider, negotiate, approve, and authorize the Company’s entry into and consummation of any strategic transactions and exclusive decision making authority to review, discuss, consider, negotiate, approve, authorize, and act upon any matter related to a transaction in which a conflict exists or is reasonably likely to exist between the Company and any related party. As part of this mandate, Ms. Smith had oversight on the Company’s marketing process and reviewed all strategic alternatives available to the Company.

9. In late July 2023, facing strained liquidity, the Company undertook a process to find a new lender to support itself through its marketing process. After receiving several proposals, the Company, with the approval of Ms. Smith and the Board, determined that the 1903P Loan (as defined herein) was the best possible financing available. The 1903P Loan provided much-needed bridge financing and allowed the marketing process to continue pursuant to a set of agreed-upon milestones. Additionally, as part of the 1903P Loan, 1903P agreed to act as a back-up bidder to purchase the assets of the Company if the Company could not find a viable purchaser for its assets during the marketing process (the “Purchase Backstop”).

10. Since its engagement, SSG has diligently assisted the Company in its continued marketing efforts. SSG engaged in a robust process, contacting over 300 potentially interested parties, providing those parties who signed a non-disclosure agreement access to a virtual data room and engaging in numerous conversations to discuss, among other things, the assets of the business, the potential opportunity and the Company’s ongoing liquidity needs. SSG also discussed the preferred process for the acquisition with the potential purchasers, including whether

they would be willing to purchase the Company outside of a bankruptcy, assume the Company's debt or consummate the purchase in a chapter 11 process. The Company ultimately received several indications of interest; none of which were immediately actionable but all of which led to a singular result—no parties wanted to purchase any physical stores, but all potential buyers expressed interest in continuing the direct to consumer business (*i.e.*, the e-commerce marketplace and catalogs). As such, any potential buyer would need a partner to assist with the wind-down of the Company's brick and mortar retail business.

11. Seizing upon this opportunity, the Company and SSG introduced their existing lender, 1903P, to Coldwater Creek, a leading American catalog and online retailer of women's apparel, accessories, shoes and home décor in the hopes that a partnership could be forged to save the iconic Soft Surroundings brand. The strategy was successful and, after several weeks of arm's length negotiations, the parties developed a value maximizing transaction to save the Soft Surroundings brand, which transaction forms the foundation of the restructuring support agreement entered into on September 10, 2023 by and among the Debtors, 1903 Partners, LLC and 1903P Loan Agent, LLC (together, "1903P" or the "Plan Sponsor"), BA-MOLAGERS SPV II, LLC (the "Second Lien Lender"), and Brentwood Associates ("Brentwood" or the "Consenting Sponsor"), which agreement is annexed hereto as **Exhibit 1** (the "Restructuring Support Agreement"). The centerpiece of the transaction is the transfer of the Company's direct to consumer business to an affiliate of Coldwater Creek and a subsequent wind-down of the Company's brick and mortar locations through a plan of reorganization. This transaction has the support of the Debtors' existing equity sponsor, Brentwood, and 100% of the Debtors' capital structure (collectively, the "Consenting Lenders"), all of which have signed the Restructuring Support Agreement.

12. This consensual and comprehensive restructuring (the “Restructuring”), is set forth in the plan of reorganization to be filed substantially contemporaneously herewith (the “Plan”). 1903P, the existing first lien lender, has agreed to provide the \$18 million DIP Facility (as defined herein) to ensure liquidity throughout the Chapter 11 Cases and has agreed to backstop these Chapter 11 Cases through the effective date of the Plan ensuring a swift exit from chapter 11.

13. Pursuant to the Plan, substantially all of the Debtors assets will be transferred to 1903P through a combination of a credit bid of the obligations under the DIP Facility and a cash payment to the Company. 1903P will then designate the purchased assets into two primary baskets – a group of assets that will be designated for purchase by Coldwater Creek that will form the basis of the “go-forward” Company (primarily the Company’s direct to consumer business) and a group of assets that will be designated for orderly wind-down by an affiliate of 1903P, Gordon Brothers Retail Partners, LLC (primarily the Company’s brick and mortar retail stores). The go forward assets will be transferred upon confirmation of the Plan and the retail stores will be closed in an orderly fashion in the time period between the confirmation date and the plan effective date.

14. Significantly, the holiday season—during which the Debtors historically generate 30% of their revenue—begins in six weeks. It is vitally important to the Debtors go-forward business that this transaction is consummated prior to this important sales season in order to hit targets. Accordingly, the Debtors, Brentwood, and Consenting Lenders have coalesced around a streamlined and efficient chapter 11 process as set forth in the Plan and Disclosure Statement Motion, filed contemporaneously herewith, so that the restructuring can be consummated before the revenue driving holiday season.

15. Simply stated, the Plan allows Soft Surroundings to continue as a going concern and provides a guaranteed recovery to the Debtors’ stakeholders that was extremely unlikely to be

achieved through an auction. The Restructuring allows for a confirmable Plan at a time when such a result is far from guaranteed in the context of this case (or any retail case). In fact, no prepetition proposal even ensured full payment of the Company's first lien debt, let alone a confirmable plan. So, the Company took the bird in hand that actually achieved what few retail cases have in recent history – a clear path towards a confirmable plan of reorganization. The Company is confident that the pre-bankruptcy process afforded all potential interested parties ample opportunity to put their best foot forward and submit proposals and does not believe that further marketing in the context of these Chapter 11 Cases would yield a better result than the one embodied in the Plan. The Company believes that the Restructuring Support Agreement and the Plan is their best path to maximize stakeholder recoveries and start a new chapter in what will be Soft Surroundings' bright future.

* * * * *

16. In order to enable the Debtors to minimize the adverse effects of the commencement of these Chapter 11 Cases on their business operations and set the Debtors on a path towards timely confirmation of the Plan, the Debtors have requested various types of relief in the First Day Motions aimed at, among other things, (a) preserving customer relationships; (b) maintaining vendor confidence and employee morale; (c) ensuring the continuation of the Debtors' cash management system and other business operations without interruption; (d) securing postpetition financing necessary to continue the Debtors' operations; (e) establishing certain administrative procedures to facilitate a smooth transition into, and uninterrupted operations throughout, the chapter 11 process; and (f) continuing the process of closing the Debtors' stores so that they can focus on the go-forward direct to consumer enterprise. Gaining and maintaining the support of the Debtors' employees, customers, vendors and suppliers, lenders, creditors, and

certain other key constituencies, as well as maintaining the Debtors' day-to-day business operations with minimal disruption, will be critical to the success of these Chapter 11 Cases.

17. This Declaration is divided into four parts. **Part I** provides an overview of the Debtors' business operations and describes the Debtors' business, organization structure, and prepetition indebtedness. **Part II** describes the circumstances precipitating the commencement of these chapter 11 cases. **Part III** describes the Company's prepetition marketing efforts leading to the entry into the Restructuring Support Agreement. **Part IV** summarizes the First Day Motions and explains why the relief requested therein is appropriate and necessary.

I. OVERVIEW OF THE DEBTORS

A. The Debtors' Business

18. Headquartered in St. Louis, Missouri, the Company is a nationwide chain of retail stores and a direct-to-consumer e-commerce platform that offers customers a unique shopping experience with eye-catching women's apparel in an inviting "home-designed" environment. The Company's merchandise assortment represents a diverse and balanced mix of primarily elegant apparel and accessories, as well as certain top of the line beauty and home products. Most of the Debtors' stores can be found within upscale shopping malls and lifestyle shopping centers.

19. Founded in 1999 as a catalog company, Soft Surroundings originally specialized in comfortable women's apparel and select home goods items. In the following years, the Company expanded its product selection to include more apparel choices, beauty and home. The Company opened its first retail store in 2005.

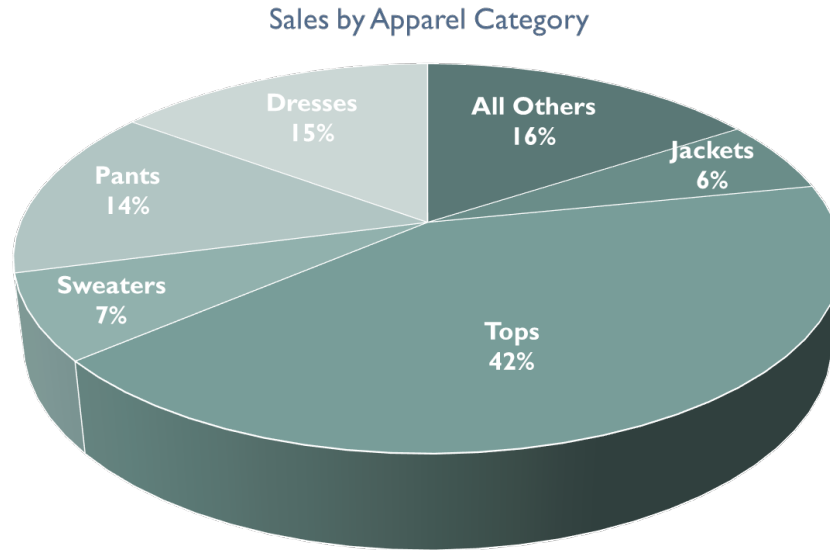
20. In August 2012, Brentwood purchased a majority stake in the Company. Since Brentwood's acquisition, the Company has enhanced its e-commerce platform. Specifically, the Company operates two e-commerce websites—SoftSurroundings.com and

SoftSurroundingsOutlet.com—which, during the 12 months ended December 2022, generated \$141.6 million in sales (*i.e.*, 65.4% of the Company’s overall sales). Additionally, the Company currently operates 44 stores in 24 states across the United States. During the 12 months ended December 2022, the Company’s retail stores generated \$74.8 million in sales (*i.e.*, 34.6% of the Company’s overall sales).

(i) Merchandise

21. The Company sells primarily sophisticated apparel and accessories. It designs its products to be chic yet practical, as most items are made from soft fabrics and feature comfortable, relaxed silhouettes. The Company’s offerings are intended to be stylish, generally featuring unique prints and details. The Company’s core customer base is upper middle-class women near the age of 60. The Company estimates that 70% of its sales are to repeat customers.

22. Historically, the Company carried large selections of beauty products, such as fragrances and skin care products, as well as home furnishings, including bedding, furniture, window treatments, and rugs. In recent years, the Company has scaled back its beauty and home collections and is currently selling only select top-selling beauty and home products. Overall, approximately 90% of the Company’s merchandise consists of apparel and accessories, approximately 9% consists of home goods, and less than 1% consists of beauty products.



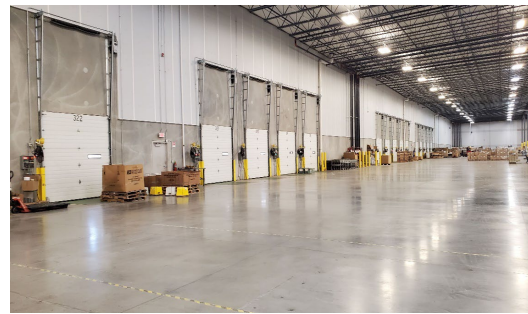
23. Nearly all merchandise is sold under the Soft Surroundings label, while a small portion (primarily comprising beauty and accessory products) carries a third-party name. The Company introduces new seasonal goods throughout the year and has core items that it carries year-round, which include basic items such as shapewear and a certain selection of pants.

(ii) Supply Chain

24. The Debtors maintain an integrated supply chain aimed at ensuring the uninterrupted flow of renewed merchandise to customers' homes and retail locations for sale and customer pickup. The Company's supply chain typically begins at one of its international vendors, primarily located in China, Vietnam, and India. A small amount of merchandise is also purchased from domestic vendors. Goods are then shipped to the Company's distribution center. It generally takes 25 weeks from the time an inventory order is placed to the time merchandise is available on the sales floor. The life cycle of the Company's merchandise begins with the design phase, 53 weeks prior to actual goods arriving on the sales floor.

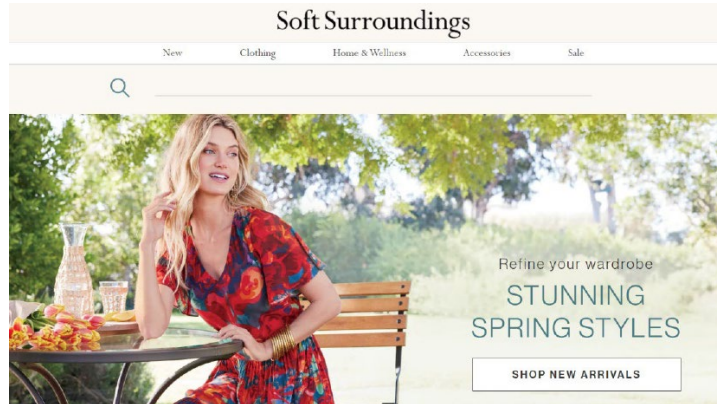
25. The majority of the Debtors' merchandise is distributed through the Company's distribution center in Tijuana, Mexico. The Company fulfills customer e-commerce orders and distributes inventory to its retail stores from the distribution center.

26. The Company uses proprietary software for its distribution center management system. Shipments from vendors are received daily at the distribution center. Approximately 90% of the vendor shipments are shipped in ocean containers, approximately 9% are shipped in full-truckload and less-than-truckload shipments, and less than 1% is shipped by small parcel carriers. When a shipment arrives, warehouse personnel scan the received goods into the inventory system using radio-frequency scanners. Goods received are typically verified by the case against the purchase order using vendor carton labels. Cases that are verified are moved to a staging area to be put away. A quality-control employee completes random audits of received cases.



(iii) E-Commerce and Retail Stores

27. As noted above, the Company sells directly to customers through its two websites: SoftSurroundings.com and SoftSurroundingsOutlet.com, the latter of which is used to sell through Company merchandise at discounts. The Company's primary website, SoftSurroundings.com, generally features the same merchandise offered in stores, although certain select items are exclusively available on the website. The Company uses proprietary software for its e-commerce platform, with website coding and maintenance completed internally.



28. In the second half of calendar year 2022, the Company held store-closing events at 25 of its retail locations. As part of these store closings, the Company held events, offering exclusive in-store only promotions. The Company has begun the process of conducting store-closing events at the remainder of its 44 retail locations as it transitions to a direct to consumer only model that will be effectuated through the Restructuring.

Typical Soft Surroundings In-Store Display



29. The Company currently uses FedEx and Pitney Bowes to ship online orders to customers. Through the Debtors' integrated processing and shipping system with FedEx, the

Debtors can ship e-commerce orders from the Company's distribution center directly to customers or to a store where the customer can pick up the order.

(iv) Marketing

30. As part of its marketing efforts, the Company regularly utilizes catalogs, eCRM and social advertising mediums. The Company sends emails to contacts on file in its customer list (which includes approximately 2.3 million contacts) and markets its brand and products on its social media accounts, including on Facebook and Instagram. The Company also has a call center from which Company representatives, among other things, occasionally make outbound calls to customers to encourage purchases.

31. The Debtors conduct sales promotions in the ordinary course of business on their e-commerce websites or at selected brick-and-mortar locations. The Debtors notify customers of such sales promotions via box/bag stuffers, postcards, signage, mail, email, text messages, catalog, and digital media, among other things. Promotions include, among others, holidays (e.g., Black Friday, Mother's Day, etc.), customer birthdays, bounce back offers, gift card incentives, purchase with purchase incentives, and company-created promotional events such as the "Semi-Annual Sale" and "Retail Try-On" events.

32. In addition, the Company distributes 10 catalogs each year: six for the Spring/Summer season and four for the Fall/Winter season. In the 2022 calendar year, the Company circulated 48.9 million catalogs.

(v) Workforce

33. The Debtors' employees, or associates, are crucial to the Company's operations at headquarters, its former distribution center in Missouri, its call center, and retail stores across the

United States. As of the Petition Date, the Debtors employ approximately 646 employees, of whom approximately 477 are hourly and approximately 169 are salaried.

34. More than 450 of the employees work at the Debtors' retail stores in a variety of sales and supervisory positions. Approximately 140 employees work at the Debtors' headquarters in a variety of operational, finance, and logistics positions. The Debtors operate a call center, with approximately 15 employees, at which representatives are primarily responsible for accepting call-in orders from customers and occasionally making outbound calls to customers to encourage purchases. Finally, approximately 50 employees work at the Debtors' former distribution center in Mexico, Missouri.

35. Additionally, in the ordinary course of business, the Debtors engage independent contractors, either directly via contracts or indirectly through staffing agencies. These independent contractors provide a host of services including, among other things, IT logistics and procurement, marketing, financing, and administrative services.

(vi) *Real Estate Obligations*

36. As of the Petition Date, the Debtors' lease all of their 44 retail stores, which are primarily located at upscale shopping malls and shopping centers. Additionally, the Company has a lease for its headquarters and former distribution center in Missouri.

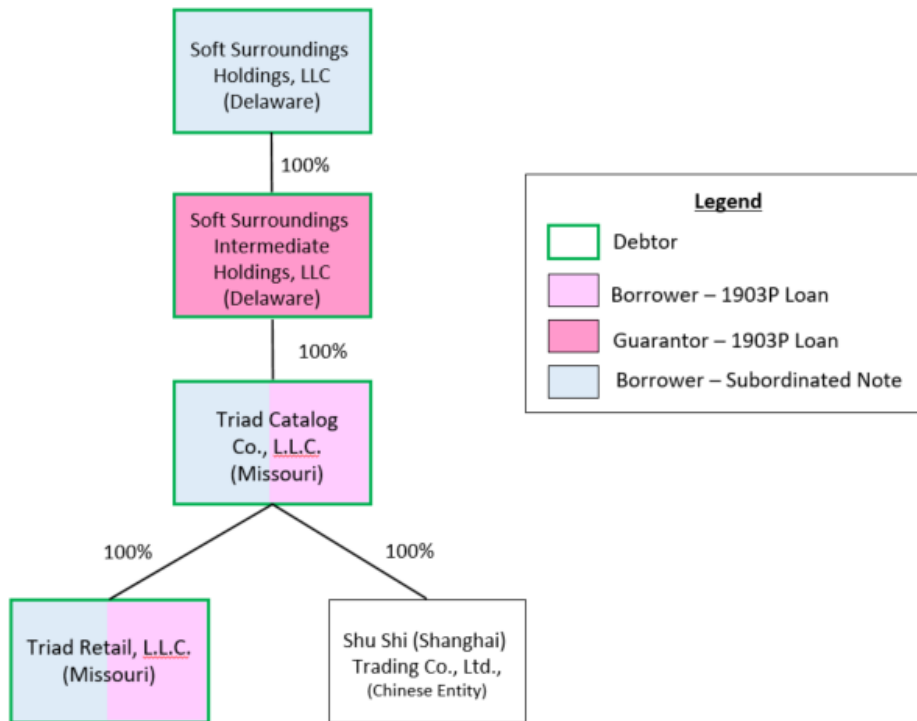


B. Organizational Structure

37. The Debtors' parent company, SSH, is a holding company incorporated in Delaware and owned, primarily, by funds affiliated with Brentwood. As set forth on the diagram below, SSH has four direct and indirect wholly owned subsidiaries. SSH's direct subsidiary, SSI, is a holding company with no operations. Triad Catalog is the Debtors' main operating entity. Most of the Company's vendor contracts, and other operating relationships are with Triad Catalog. Additionally, each of the Debtors' nine bank accounts are under Triad Catalog's name. Triad Catalog's direct subsidiary, Triad Retail, is the retail store lease counterparty and executes other store-level operations.

38. The Debtors' non-debtor affiliate, Shu-Shi (Shanghai Trading) Co., Ltd. ("Shu-Shi"), is a foreign invested commercial enterprise organized under the laws of the People's Republic of China. Shu-Shi is party to a services agreement with Triad Catalog, whereby Shu-Shi provides consulting services regarding the selection of components and raw materials, serves as the Company's exclusive purchaser of merchandise from manufacturers and component providers, and performs quality control and inspection services prior to merchandise leaving China.

Soft Surroundings Corporate Structure



C. Debtors’ Prepetition Capital Structure

39. As of the Petition Date, the Debtors have approximately \$68.9 million in total funded debt, the holders *of which all support the Restructuring and are parties to the Restructuring Support Agreement.* The funded debt consists of the following:

Funded Debt	Stated Maturity	Outstanding Principal Amount as of the Petition Date
Prepetition Senior Term Loan	July 24, 2024	\$14.7 million
Prepetition Second Lien Secured Loans	June 30, 2026	\$54.2 million
Total Funded Debt		\$68.9 million

(i) *Prepetition Senior Term Loan*

40. Three of the Debtors are party to that certain Credit Agreement, dated as of July 20, 2023 (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time the “1903P Loan”), by and among Triad Catalog and Triad Retail, as borrowers, SSI, as guarantor, 1903P Loan Agent, LLC, as agent, and 1903 Partners, LLC, as lender. The 1903P Loan

comprises two term loan tranches: (i) a closing date term loan of \$10,000,000, which was immediately payable upon closing; and (ii) a delayed draw term loan of up to \$7,000,000, which would become available if certain metrics were met, including the Company's borrowing base. As of the Petition Date, the 1903P Loan has an outstanding principal balance of \$14.7 million.

41. The obligations under the 1903P Loan are secured by substantially all the assets of SSI, Triad Catalog, and Triad Retail, including, among other things, all accounts, goods, equipment, inventory, fixtures, and intangible assets including intellectual property.

(ii) Prepetition Second Lien Secured Loans

42. Three of the Debtors are party to that certain Secured Promissory Note, dated as of July 8, 2022 (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time the "Second Lien Secured Loans"), by and among Triad Catalog, Triad Retail, and SSH, as borrowers, and the Second Lien Lender, as lender. The Second Lien Lender is a joint venture among Brentwood and the Missouri Local Government Employees Retirement System ("MOLAGERS"). The Second Lien Secured Loans, which were amended and restated five times prior to the Petition Date, currently have an aggregate outstanding principal balance of \$54.2 million as of the Petition Date.²

43. The obligations under the Second Lien Secured Loans are secured on a second lien basis by substantially all the assets of SSH, Triad Catalog, and Triad Retail, including, among other things, all accounts, goods, equipment, inventory, fixtures, and intangible assets including intellectual property.

² The aggregate outstanding principal amount does not include accrued amounts of the 2.0% deferred exit fee.

(iii) Subordination Agreement

44. On July 20, 2023, in connection with the execution of the 1903P Loan, SSI, Triad Catalog, and Triad Retail entered into that certain subordination agreement (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time the “Subordination Agreement”) with 1903P Loan Agent, LLC and the Second Lien Lender. By the Subordination Agreement, the Second Lien Lender agreed that 1903P’s security interests in and liens on the secured collateral are senior to and have priority over the Second Lien Lender’s security interests and liens. The Second Lien Lender further agreed that the 1903P Loan is senior to and prior in right of payment to the Subordinated Note.³

45. On September 10, 2023, in connection with the Restructuring Support Agreement 1903P Loan Agent, LLC, 1903P, Brentwood and the Second Lien Lender are parties to an Intercreditor Support Agreement pursuant to which they have made certain agreements related to their support of the Restructuring.

II. EVENTS LEADING TO THESE CHAPTER 11 CASES

46. A convergence of factors contributed to the Debtors’ need to commence these Chapter 11 Cases. Internal factors have constrained the Debtors’ liquidity, including, significant cash needs to support the Company’s operations. Macroeconomic factors that have disrupted the retail industry generally have also impacted the Company, including shifts in the competitive landscape, a move towards online channels, the COVID-19 pandemic, and increased costs of goods and services due to inflation, among other factors. The Company has explored every reasonable option to overcome these hurdles.

³ Such subordination is consistent historically with the Second Lien Secured Loans, which were previously subordinate to the Company’s previous PNC facility.

A. Factors Impacting the Company’s Business

47. In response to the COVID-19 pandemic, on March 23, 2020, the Company temporarily closed all 80 of its then-operating stores to protect the health and safety of the Company’s employees and customers. For the entirety of the pandemic, the Company continued to serve customers through its e-commerce platform and the Company’s distribution center remained open fulfilling customers’ online orders. The Company began a phased reopening of stores in June 2020. Nevertheless, as has been demonstrated in countless retail cases over the last three years, the retail sector was permanently altered from and after the pandemic.

48. To fund its operations during this period, in October 2020, the Company executed a revolving credit agreement with PNC Bank, National Association (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time the “PNC Facility”).⁴ During the term of the PNC Facility, PNC provided the Company approximately \$35 million. The PNC Facility provided a runway to allow the Company to begin its turnaround initiatives. However, the runway was not sufficient, and the Company continued to be burdened by excess inventory and high fixed costs related to its retail operations.

B. Prepetition Turnaround and Restructuring Efforts

49. Beginning in the first quarter of 2022, the Company began numerous measures to counteract internal and external headwinds and remain competitive. In February 2022, the Company engaged a seasoned retail executive to serve as interim Chief Executive Officer and Executive Chair, pursuant to a consulting agreement. On April 6, 2022, the Company engaged Sierra to, among other things (a) assess the financial situation and provide guidance related to cash

⁴ As part of the 1903P Loan, 1903P paid off the then-outstanding amounts under the PNC Facility.

flow management, and identify strategic alternatives; (b) perform financial analyses, including cash flow planning, vendor analysis, and other analysis to support the strategic alternatives; (c) provide management support in evaluating and responding to vendors, lenders, landlords and other stakeholders during negotiations; and (d) if necessary, prepare a comprehensive asset recovery analysis to determine the path forward to maximize recovery. The Company worked to renegotiate vendor agreements and reduce vendor payables. In an effort to further reduce costs, the Company reduced marketing expenditures where appropriate and, later in 2023, moved their fulfillment operations to Tijuana, Mexico.

50. The Company engaged Hilco Real Estate, LLC (“Hilco”) in the second quarter of 2022 to perform an analysis of the Company’s lease locations to reduce their lease footprint and eliminate many of their significant lease obligations. Upon conclusion of the analysis, the Company and Hilco initiated discussions with the Company’s landlords to negotiate terms of the various existing leases. Between May 2022 and December 2022, the Company closed 25 underperforming stores, which allowed for a rebound in the brick and mortar business.

51. As part of their exit from the real estate leases, the Company liquidated their inventory for the stores that they closed through going out of business sales. Simultaneously, the Company worked to rationalize their inventory. Ultimately, the Company reduced their inventory from over \$60 million to less than \$30 million. However, the reduction in inventory reduced the Company’s borrowing base under the PNC Facility, which went from \$30 million in early 2022 to \$10 million in 2023. Additionally, the presence of the excess inventory caused the Company’s consumers to expect discounts on merchandise that eroded the Company’s profit margins.

52. Despite these significant efforts, the Company’s liquidity position worsened in 2022. In July 2022, the Company’s sponsor, Brentwood, and MOLAGERS, in their joint venture

capacity as Second Lien Lender executed the Subordinated Note, providing \$47 million in additional liquidity between July 2022 and March 2023.

53. However, by July 2023, the Company's liquidity remained strained as the Company was not able to generate positive cash flow from operations, while the borrowing base under the PNC Facility continued to decline as a result of lower inventory and additional borrowing base reserves. Faced with the possibility of cash dominion under the PNC Facility, the Company sought new financing from numerous parties. After reviewing several offers, the Company, with the approval of the Board, including the Independent Manager, determined that the best financing offer was provided by 1903P. The Company moved swiftly to execute the 1903P Loan, which repaid the amounts outstanding under the PNC Facility and provided additional liquidity to bridge through a marketing process.

III. THE MARKETING PROCESS AND RESTRUCTURING SUPPORT AGREEMENT

54. In June 2023, SSG was engaged to continue the Company's marketing efforts and explore all viable strategic alternatives available to maximize value for all stakeholders. Following its engagement, SSG conducted a detailed analysis of the Company's business and projected performance and worked with the Company and its advisors in receiving diligence information needed to complete marketing materials, which included: a (i) no-name teaser, (ii) confidential information memorandum; and (iii) virtual data room. In early July 2023, SSG contacted investors and distributed the teaser. At the Company's direction, SSG began marketing the opportunity to select strategic and financial investors, including the most logical acquirers of or investors in the business. To date, SSG has contacted 334 potential interested parties. The universe of potentially interested strategic investors was comprised of 13 clothing brand aggregators and multi-brand owners, 28 women's clothing e-commerce and catalog retailers, 15 branded clothing retailers and

19 private label women's clothing retailers, distributors and resellers. SSG also contacted 200 financial investors comprised of private equity firms with identified interest in clothing retail (both brick and mortar and online) and special situations private equity firms, 21 asset optimization firms/commercial lenders and 38 family offices and large-cap private equity firms.

55. Of that universe, 67 parties executed nondisclosure agreements and accessed the Company's virtual data room. Ultimately, six parties provided the Company with indications of interest (the "IOIs"). None of the IOIs provided the Company with a viable go-forward strategy for the entirety of the business, either because they failed to provide for payment of the Company's existing first lien debt, failed to provide sufficient capital for the go-forward enterprise, had too much execution risk, or only offered to purchase a subset of the Company's assets.

56. As such, the Company was preparing to exercise its rights under the Purchase Backstop in late August 2023. However, Coldwater Creek, one of the parties who submitted an IOI for the direct to consumer portion of the Company's business requested the opportunity to discuss a potential partnership with 1903P. The Company agreed to allow Coldwater Creek and 1903P to engage in discussions in the hopes that a going-concern transaction would materialize. Over the ensuing days that is exactly what happened. The Company is now poised to execute on a value-maximizing restructuring transaction that results in a go-forward Soft Surroundings through the Plan that is supported by the entirety of the Debtors' capital structure.

57. On September 10, 2023, the Company entered into the Restructuring Support Agreement.

58. The key components of the Restructuring, as set forth in the Restructuring Support Agreement and Plan, are as follows:⁵

- The Debtors will receive a debtor-in-possession financing facility (the “DIP Facility”) consisting of up to \$18 million of revolving loans, on the terms and conditions set forth in the DIP Credit Agreement and DIP Orders attached to the Restructuring Support Agreement.
- The Debtors will consummate a sale pursuant to an asset purchase agreement, with one or more affiliates of the Plan Sponsor, as purchaser (the “Purchaser”). Upon confirmation of the Plan, the Purchaser will transfer the Company’s direct-to-consumer e-commerce business, certain inventory, intellectual property and other specified assets to an affiliate of Coldwater Creek pursuant to an asset purchase agreement. The Debtors will then wind-down operations, primarily through store closing sales run by an affiliate of the Purchaser, Gordon Brothers Retail Partners, LLC. On the Plan’s effective date, the proceeds from the sale will be used to fund distributions or otherwise satisfy claims in accordance with the Plan.
- The Restructuring Support Agreement and Plan also contemplate broad mutual releases by the Debtors, the Consenting Sponsor, and the Consenting Lenders, among others. The Debtors’ releases are subject to the discretion of the Independent Manager, who has commenced an independent review of the releases of potential claims and causes of action. To date, the Independent Manager has sent documents and information requests to both Brentwood and MOLAGERS, and received responsive documents. The Independent Manager’s investigation is ongoing and is expected to conclude prior to the confirmation hearing.

59. The Restructuring Support Agreement and DIP Facility include important milestones, which will allow the Debtors to consummate the going concern sale transaction prior to the revenue-driving holiday season. The milestones are:

- September 12, 2023: filing of the Plan and Disclosure Statement;
- September 25, 2023: conditional approval of the Disclosure Statement;
- October 2, 2023: final order approving the DIP Facility and Store Closing Motion

⁵ In the event of any inconsistencies between the summaries set forth below and the provisions relating to such recoveries in the Restructuring Support Agreement and/or Plan documents, the descriptions in the Restructuring Support Agreement and/or Plan, as applicable, shall control.

- November 3, 2023: entry of the confirmation order; and
- February 28, 2023: effective date of the Plan.

60. The consensual Plan and restructuring sets the wheels in motion for a transfer of the direct to consumer business to Coldwater Creek in advance of the critical holiday shopping season and a wind-down of the brick and mortar locations to continue in the ensuing months. The Plan represents the best path for the Company to swiftly exit these Chapter 11 Cases.

61. Although the Debtors believe that the Plan is the best path forward for their stakeholders, the Restructuring Support Agreement is subject to a broad “fiduciary out” provision, which allows the Board of the Company to terminate the Restructuring Support Agreement if it determines that proceeding with the contemplated transaction would be inconsistent with the managers’ fiduciary duties. The Restructuring Support Agreement also allows the Board to consider an alternative restructuring proposals presented to the Company.

IV. FIRST DAY MOTIONS⁶

62. Along with this Declaration, the Debtors filed the First Day Motions, seeking orders granting various forms of relief intended to facilitate the efficient administration of these Chapter 11 Cases and timely confirmation of the Plan. I am familiar with the contents of each First Day Motion (including the exhibits thereto), and believe that the relief sought in each First Day Motion (a) is necessary to enable the Debtors to operate in chapter 11 with minimum disruption or loss of productivity or value; (b) constitutes a critical element in achieving a successful bankruptcy process; and (c) is in the best interests of the Debtors, their estates, and creditors. The First Day Motions seek orders granting various forms of relief intended to stabilize the Debtors’ business

⁶ Capitalized terms used but not defined in this section shall have the meanings set forth in the applicable First Day Motion.

operations, minimize the adverse effects of the commencement of these Chapter 11 Cases, and facilitate the efficient administration of these Chapter 11 Cases. Further, the vast majority of these motions are both procedural and non-adversarial, in addition to having the support of the Debtors' prepetition senior secured lender, 1903P.

63. The First Day Motions include:

- **Joint Administration.** The Debtors' Emergency Motion for Entry of an Order (I) Directing Joint Administration of the Debtors' Chapter 11 Cases and (II) Granting Related Relief seeks joint administration for procedural purposes only will provide significant administrative convenience without harming the substantive rights of any party in interest. Parties in interest will also benefit from the costs reductions associated with joint administration of the Debtors' Chapter 11 Cases
- **156(c) Retention.** The Emergency Ex Parte Application for Entry of an Order Authorizing the Employment and Retention of Stretto, Inc. as Claims, Noticing, and Solicitation Agent seeks authority to employ Stretto as claims, noticing, and solicitation agent for the Debtors. Stretto's employment is in the best interest of the Debtors' estates as they have the expertise required for complex chapter 11 cases.
- **Complex Case Status.** The Debtors' Emergency Motion to Apply Complex Case Procedures to Case requests the Court apply Complex Case Procedures to these Chapter 11 Cases. The Debtors and parties in interest will benefit from the administrative efficiencies and structure the Complex Case Procedures provide.
- **Creditor Matrix / Sealing Motion.** The Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to Redact Certain Personally Identifiable Information, (II) Approving the Form and Manner of the Notice of Commencement, and (III) Granting Related Relief seeks authority to (a) redact certain personally identifiable information for individuals within the consolidated list of creditors (the "Creditor Matrix"); (b) approving the form and manner of the notice of commencement, attached to the motion as Exhibit A. Redaction of personal identification is necessary to protect the privacy interests of natural persons who may be listed on the Creditor Matrix, the Schedules and Statements, and any other documents which may be filed. Additionally, approval of the form and manner of the notice of commencement is necessary to not only properly serve notice to interested parties, but also to avoid confusion among creditors and prevent the Debtors' estates from incurring unnecessary costs associated with serving
- **Schedules / SOFAs Motion.** The Debtors' Emergency Motion for Entry of an Order (I) Extending Time to File (A) Schedules and Statements and (B) Rule 2015.3 Financial Reports and (II) Granting Related Relief seeks a court order extending the deadline by which the Debtors must file their Schedules, Statements, and 2015.3

Reports. Ample cause exists to grant said extensions, as to prepare their Schedules and Statements, the Debtors will have to compile information from books, records, and documents relating to hundreds of claims, assets, leases, and contracts from each of the four Debtor entities, requiring a significant expenditure of time and effort on the part of the Debtors. Preparation of these documents was not practicable prepetition given the Debtors' focus on the Restructuring Support Agreement and preparing a smooth transition into chapter 11. Finally, the relief requested will not prejudice any party in interest.

- **Taxes Motion.** The Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to Pay Certain Prepetition Taxes and Fees, and (II) Granting Related Relief seeks authority for the Debtors to remit and pay certain accrued and outstanding prepetition Taxes and Fees in the ordinary course of business. Failing to pay the Taxes and Fees could materially disrupt the Debtors' business operations. Not only would paying the Taxes and Fees be a sound exercise of the Debtors' business judgment, it would also assist in the efficient and value-maximizing administration of the Debtors' estates. Finally the Debtors' failure to pay the prepetition Taxes and Fees as they come due may ultimately increase the amount of priority claims held by the Governmental Authorities against the Debtors' estates to the detriment of the Debtors' general unsecured creditors and other stakeholders.
- **Insurance Motion.** The Debtors' Emergency Motion For Entry of an Order (I) Authorizing the Debtors to (A) Continue Insurance Coverage Entered Into Prepetition and Satisfy Prepetition Obligations Related Thereto, (B) Renew, Amend, Supplement, Extend, or Purchase Insurance Coverage, (C) Maintain the Customs Bond Program, and (D) Continue to Pay Brokerage Fees, (II) Authorizing Continuation of Insurance Premium Financing, and (II) Granting Related Relief seeks authority for the Debtors to continue existing insurance coverage, renew or otherwise supplement insurance coverage on a post-petition basis, satisfy payment of prepetition obligations related to Brokerage Fees, and grant related relief. Continuation and renewal of the Insurance Policies and potentially entry into new insurance policies is essential to preserving the value of the Debtors' business and assets.
- **Utilities Motion.** The Debtors' Emergency Motion For Entry of an Order (I) Approving the Debtors' Proposed Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Services, and (III) Approving the Debtors' Proposed Procedures for Resolving Additional Assurance Requests, and (I) Granting Related Relief seeks a court order (i) approving the Debtors' Proposed Adequate Assurance of payment of future utility services and determining that such Proposed Adequate Assurance provides Utility Providers with adequate assurance of payment, (ii) prohibiting Utility Providers from altering, refusing, or discontinuing service, and (iii) approving the Debtors' proposed procedures for resolving any additional adequate assurance requests. Uninterrupted Utility Services is essential to operating and thus maximizing the value of the Debtors' business.

- ***Freight and Duty Vendors.*** The Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Prepetition Claims of Freight and Duty Vendors, (II) Authorizing Financial Institutions to Honor and Process Related Checks and Transfers; and (III) Granting Related Relief seek entry of interim and final orders authorizing the Debtors, in their discretion, to pay prepetition claims of Freight and Duty Vendors who are critical to the Debtors' operations, including shippers, warehousemen, and other claimants that may have or may be capable of asserting liens against the Debtors' property. Uninterrupted shipping and storage operations and access to the merchandise is critical to allow the Debtors' to continue their direct to consumer e-commerce marketplace.
- ***Automatic Stay Motion.*** The Debtors' Emergency Motion for Entry of an Order (I) Restating and Enforcing the Worldwide Automatic Stay, Anti-Discrimination Provisions, and Ipso Facto Protections of the Bankruptcy Code, (II) Permitting the Debtors to Modify the Automatic Stay in Their Sole Discretion to Proceed with Litigation or Contested Matters Commences Prepetition, (III) Approving the Form and Manner of Notice, and (IV) Granting Related Relief seeks entry of an order (a) restating and enforcing the worldwide automatic stay, anti-discrimination provisions, and ipso facto protections of the Bankruptcy Code; (b) modifying the automatic stay, to the extent the Debtors deem appropriate in their sole discretion, to proceed with litigation or contested matters commenced before the Petition Date (as defined herein); (c) approving the form and manner of notice related thereto. The Debtors' supply chain is highly dependent on its international vendors and third party logistics providers, among others. The Debtors do not seek to expand or enlarge the rights afforded to them under the Bankruptcy Code with the Automatic Stay Motion, but rather filed the motion out of an abundance of caution and to assist them in most effectively informing non-U.S. creditors of the broad protections offered by the Bankruptcy Code.
- ***Customer Programs Motion.*** The Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Maintain and Administer Their Existing Customer Programs and (B) Honor Certain Prepetition Obligations and (II) Granting Related Relief seeks to continue the Debtors' Customer Programs, including, among others: (a) refund and exchange programs, (b) gift card programs, (c) sales promotions and customer related marketing incentive programs, (d) a rewards program, (e) a customer care program, and (f) credit card and other payment processing programs. Continuing the identified Customer Programs is essential to maintaining the Debtors' customer base for its go-forward e-commerce marketplace.
- ***Wages and Benefits Motion.*** The Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses, and (B) Honor and Continue Their Employee Benefits Programs and (II) Granting Related Relief seeks authority for the Debtors to honor and continue their employee compensation and benefit programs. As of the Petition Date, the Debtors employ approximately 730 employees who perform a variety of critical functions for the Debtors. The Debtors

must retain their employees' skills and their knowledge and understanding of the Debtors' merchandise, operations, and customer relations to effectuate a successful Restructuring.

- **Cash Management Motion.** The Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System and Maintain Existing Bank Accounts, (B) Maintain Existing Business Forms and Books and Records, and (C) Continue to Perform Intercompany Transactions; and (II) Granting Related Relief seeks authority for the Debtors to, among other things: (i) continue to operate their cash management system as set forth on **Exhibit 1** attached to the Cash Management Motion and maintain their existing bank accounts set forth on **Exhibit 2** to the Cash Management Motion, including honoring certain prepetition obligations related thereto, and (iii) continue Intercompany Transactions and funding consistent with the Debtors' historical practice. The Debtors depend on the efficient collection, transfer, and disbursement of funds. The Cash Management System is tailored to meet the Debtors' operating needs, enables the Debtors to control and monitor company funds, ensure cash availability and liquidity, comply with requirements in its financing arrangements, and reduce administrative expenses incurred in connection with the movement of funds and the reporting of accurate account balances. The Cash Management System is a critical component of the Debtors' overall business. Any disruption of the Cash Management System would have a severe and adverse effect on the Debtors' Restructuring. Additionally, Intercompany Transactions are an integral part of the Cash Management System and essential to the Debtors' continued operations. Absent the relief requested, the Debtors would be required to adopt a new, segmented cash management system, or find different service providers, which would be financially and logistically burdensome and cause the Debtors' operations to grind to a halt, reducing the value of the Debtors' business.
- **Store Closing Motion.** The Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Approving and Authorizing the Debtors to Assume and Perform Under the Store Closing Consulting Agreement, (II) Approving Procedures for Store Closing Sales, (III) Approving Modifications to Certain Customer Programs, and (IV) Granting Related Relief requests entry of an order (a) authorizing the Debtors to assume and perform under the Consulting Agreement by and among Triad Catalog, Triad Retail. and Gordon Brothers Retail Partners, LLC; (b) approving the Store Closing Procedures, with any such related sales to be free and clear of all liens, claims and encumbrances; (c) approving the abandonment of certain Store Closing Assets; (d) approving modifications to certain customer programs, including the Debtors' return policy and acceptance of gift cards; (e) approving the Sale Incentive Program; (f) authorizing the sale or disposition of the Store Closing Assets free and clear of all liens, claims, and encumbrances; and (g) granting related relief. The Store Closing Sales, which began prior to the Petition Date, on September 3, 2023, are necessary and valuable part of the Restructuring. The purpose of the Store Closing Motion is to put organized Court-approved procedures in place so that the Debtors can continue the Store Closing Sales, which

began prior to the Petition Date. Assumption and continued performance under the Consulting Agreement is an appropriate use of the Debtors' business judgment as the Debtors proceed to reorganize around the direct to consumer business. The Debtors have determined, in the sound exercise of their business judgment and in consultation with their advisors, that the Store Closing Procedures provide the best and most efficient means of selling the Store Closing Assets to maximize the value to their estates and focus on the direct to consumer business. Additionally, the Store Closing Sales require that the Debtors make certain modifications to their customer programs to reflect new realities, including setting limitations on returns and gift cards. Such changes will be clearly posted for customers at cash registers and on the Debtors' website for the duration of the Store Closing Sales. Finally, in effectuating the Store Closing Sales, the Debtors intend to liquidate the saleable personal property, Merchandise, and FF&E. To the extent Burdensome Property exceeds the scope of the property abandoned pursuant to the Store Closing Procedures—such as Burdensome Property held by shippers or other agents of the Debtors—that the Debtors are requesting the Court's approval to abandon any Burdensome Property for the benefit of their estates and creditors.

64. These motions seek authority to, among other things, ensure the continuation of the Debtors' cash management systems and other business operations without interruption. I believe that the relief requested in the motions is necessary to give the Debtors an opportunity to work towards successful Chapter 11 Cases that will benefit all of the Debtors' stakeholders.

65. Several of these motions request authority to pay certain prepetition claims. I understand that Rule 6003 of the Federal Rules of Bankruptcy Procedure provides, in relevant part, that the Court shall not consider motions to pay prepetition claims during the first 20 days following the filing of a chapter 11 petition, "except to the extent relief is necessary to avoid immediate an irreparable harm." In light of this requirement, the Debtors have narrowly tailored their requests for immediate authority to pay certain prepetition claims to those circumstances where the failure to pay such claims would cause immediate and irreparable harm to the Debtors and their estates. Other relief will be deferred for consideration at a later hearing.

66. In my opinion, approval of the relief sought in each of the motions is critical to successfully implementing the Debtors' chapter 11 strategy efficiently and with minimal

disruption to their business operations, thereby permitting the Debtors to preserve and maximize value for the benefit of all stakeholders.

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

Dated: September 10, 2023

/s/ Curt Kroll

Curt Kroll
Chief Restructuring Officer
Soft Surroundings Holdings, LLC