IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
THE ROCKPORT COMPANY, LLC, *et al.*,	)	Case No. 18-__________ (___)
Debtors.[1]	)	Joint Administration Requested

DECLARATION OF PAUL KOSTUROS IN SUPPORT
OF DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

Under 28 U.S.C. § 1764, I, Paul Kosturos, declare as follows under the penalty of perjury:

1. I am the Interim Chief Financial Officer ("**Interim CFO**") of The Rockport Company, LLC ("**Rockport**"), a Delaware limited liability company, and its affiliates (collectively the "**Debtors**") in the above-captioned Chapter 11 cases (the "**Chapter 11 Cases**"), and a Senior Director of Alvarez & Marsal Private Equity Services Operations Group, LLC ("**A&M**"). I am authorized to submit this declaration (the "**First Day Declaration**") on behalf of the Debtors.

2. In March 2017, A&M was retained by the Debtors to provide certain information technology consulting services. A&M's retention was later expanded whereby A&M made certain personnel available to perform interim management services for the Debtors. Pursuant to

[1] The debtors and debtors in possession in these cases and the last four digits of their respective Employer Identification Numbers are: Rockport Blocker, LLC (5097), The Rockport Group Holdings, LLC (3025), TRG 1-P Holdings, LLC (4756), TRG Intermediate Holdings, LLC (8931), TRG Class D, LLC (4757), The Rockport Group, LLC (5559), The Rockport Company, LLC (5456), Drydock Footwear, LLC (7708), DD Management Services LLC (8274), and Rockport Canada ULC (3548). The debtors' mailing address is 1220 Washington Street, West Newton, Massachusetts 02465.

the expansion of A&M's retention, I was appointed Interim CFO of Rockport and I have served in that role since August 1, 2017.

3. I have more than twenty years of experience in finance and accounting and have advised companies across a diverse range of industries. I have assisted clients both in and outside of Chapter 11, designed and evaluated financing packages and presentations to various types of lenders and equity investors and acted as financial advisor to boards of directors and/or principal shareholders in the purchase or sale of numerous businesses.

4. I am generally familiar with the Debtors' business, day-to-day operations, financial matters, results of operations, cash flows, and underlying books and records. All facts set forth in this First Day Declaration are based upon my personal knowledge of the Debtors' business, operations, and related financial information gathered from my review of their books and records, relevant documents, and information supplied to me by members of the Debtors' management team and advisors. If called to testify, I could and would testify competently to the facts set forth in this First Day Declaration.

5. On the date hereof (the "**Petition Date**"), each of the Debtors filed a voluntary petition for relief in the United States Bankruptcy Court for the District of Delaware (the "**Court**"). The purpose of these Chapter 11 Cases is to facilitate the entry into an asset purchase agreement to sell substantially all of the Debtors' assets to CB Marathon Opco, LLC ("**Marathon**"), an affiliate of Charlesbank Equity Fund IX, Limited Partnership, or another higher or otherwise better bidder pursuant to Section 363 of the Bankruptcy Code (the "**Sale**"). Filed concurrently herewith is the Debtors' *Motion of Debtors for Entry of Orders (I)(A) Approving Bidding Procedures for Sale of Substantially All of the Debtors' Assets, (B) Approving Stalking Horse Bid Protections, (C) Scheduling Auction for, and Hearing to Approve,*

Sale of Substantially all of the Debtors' Assets, (D) Approving Form and Manner of Notice of Sale, Auction and Sale Hearing, (E) Approving Assumption and Assignment Procedures and (F) Granting Related Relief; and (II)(A) Approving Sale of Substantially all of the Debtors' Assets Free and Clear of All Liens, Claims, Interests and Encumbrances, (B) Approving Assumption and Assignment of Executory Contracts and Unexpired Leases and (C) Granting Related Relief (the "**Sale Motion**").

6. I submit this First Day Declaration on behalf of the Debtors in support of the Debtors' (a) voluntary petitions for relief that were filed under Chapter 11 of the Bankruptcy Code and (b) "first day" motions, which are being filed concurrently herewith (collectively, the "**First Day Motions**").[2] The Debtors seek the relief set forth in the First Day Motions to minimize the adverse effects caused by the commencement of these Chapter 11 Cases on their business so as to preserve the business pending the Sale. I have reviewed the Debtors' petitions and the First Day Motions, or have otherwise had their contents explained to me, and it is my belief that the relief sought therein is essential to ensure the uninterrupted operation of the Debtors' business and to successfully maximize the value of the Debtors' estates.

7. Part I of this First Day Declaration provides an overview of the Debtors' business, capital structure, and significant prepetition indebtedness, as well as a discussion of the Debtors' financial performance and the events leading to the Debtors' Chapter 11 Cases. Part II sets forth a summary of the relief requested in the First Day Motion and the relevant facts in support thereof.

[2] Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the applicable First Day Motion.

PART I

A. General Background

8. Founded in 1971 and headquartered in West Newton, Massachusetts, the Debtors are a leading global designer, distributor, and retailer of comfort footwear in more than fifty markets worldwide. The Debtors offer a wide array of men's and women's casual and dress style shoes, boots, and sandals, under their namesake Rockport brand and their owned Aravon and Dunham brands. The Debtors' Rockport brand is recognized as a global leader in lightweight, technology-infused comfort footwear for all occasions. The Debtors also offer premium footwear for comfort-conscious customers through their women's-oriented Aravon and outdoor-inspired Dunham brands. The Debtors' comprehensive assortment of footwear products incorporates industry-leading sports technology to provide customers with superior comfort without compromising style.

9. The footwear business is highly competitive, and the Debtors' business accounts for a fraction of the total market for men's and women's footwear. The Debtors' compete with other footwear retailers and wholesalers, including department stores, online retailers, manufacturer-owned factory outlet stores and other retail and wholesale outlets. At various times of the year, department store chains, specialty shops, and online retailers offer brand-name merchandise at substantial markdowns which further intensifies the competitive nature of the industry.

10. The Debtors' business in the United States is operated by Rockport, and the Debtors' Canadian business is operated by Debtor Rockport Canada ULC, a British Columbia unlimited liability company ("**Rockport Canada**"). Rockport Canada is a wholly-owned subsidiary of Rockport, all material decisions regarding Rockport Canada and its operations are made by Rockport personnel in the United States, and substantially all of its books and records

are located in the United States. As a result of these and other factors, the Debtors believe that the center of main interest for Rockport Canada is in the United States. As explained in greater detail in Part II below, in addition to these Chapter 11 Cases, the Debtors anticipate commencing an ancillary proceeding under Part IV of the Companies' Creditors Arrangement Act (Canada) in Toronto, Ontario, Canada before the Ontario Superior Court of Justice (Commercial List) (the "**Canadian Court**").

B. The Debtors' Business

11. The Debtors operate a global, multi-channel business, organized by brand, geography and customer type, consisting of the following segments:

i. **Wholesale Business.** The Debtors are a leading supplier of men's and women's footwear to well-known retailers across a variety of wholesale formats, including department stores, family retail outlets, internet retailers, and independently-owned retailers. The Debtors' wholesale business accounts for approximately 57% of all global sales. In North America, the Debtors' Rockport-branded products are sold through two primary wholesale channels: (a) key accounts (department stores, family retail outlets, and internet retailers) and (b) specialty accounts (independently-owned retailers). International sales of the Debtors' Rockport-branded products are led by dedicated personnel in each location. The Debtors' Aravon- and Dunham-branded products are sold only through department stores, internet retailers, and independently-owned retailers.[3]

ii. **Direct North American Retail Store Business.** The Debtors operate eight (8) full-price and nineteen (19) outlet stores in the United States and fourteen (14) full-price and nineteen (19) outlet stores in Canada.

iii. **Direct eCommerce Business.** The Debtors sell their footwear products directly through their websites (*http://www.rockport.com* and *http://www.rockport.ca*). This channel gives the Debtors an ideal medium to engage directly with new and existing customers.

iv. **International Business.** The Debtors use a distributor model to leverage their global brand in foreign markets without having to establish local operations. Currently, the Debtors are partnered with twenty-two (22) distributors

[3] The Debtors' Dunham brand is sold in the United States and Canada, and their Aravon brand is sold only in the United States.

worldwide to sell their products in thirty-five countries, including China, Indonesia, Egypt, South Africa, Mexico, and Peru. In addition to this distributor model, certain of the Debtors' non-debtor foreign affiliates (the "**Foreign Affiliates**") operate approximately 121 retail stores around the world.

12. In the ordinary course of their business, the Debtors source their inventory, merchandise, and other materials related to their ongoing operations (collectively, the "**Merchandise**") from third-party manufacturers (the "**Vendors**") located outside of the United States–primarily (but not exclusively) in mainland China, but also in Vietnam, India, and Brazil. To that end, the Debtors rely on certain of their Foreign Affiliates to ensure the timely production and delivery of Merchandise for sale by the Debtors and other Foreign Affiliates. In addition, the Debtors rely on their global network of common carriers, expeditors, consolidators, warehousemen and transportation service providers, and other related parties to transport, import, and take delivery of Merchandise in a timely fashion and on a worldwide basis.

13. In particular, the Debtors rely on warehouseman and logistics providers to (i) coordinate and process various import duties and related charges at ports or transportation centers around the world and (ii) transport and store Merchandise at the Debtors' warehousing and distribution centers located in the United States in Rancho Cucamonga, California and Cincinnati, Ohio, and internationally in Brampton, Ontario, Lisbon, Portugal, Incheon, Korea, and Tokyo, Japan.

C. Organizational Structure

14. A detailed organizational chart depicting the ownership structure of the Debtors and their Foreign Affiliates is attached hereto as <u>Exhibit A</u>. Rockport Blocker, LLC, a Delaware limited liability company ("**Blocker**"), is the ultimate parent of each of the other Debtors and their Foreign Affiliates. A list of the unitholders for each Debtor is attached to each of the Chapter 11 petitions.

D. The 2015 and 2017 Transactions

15. In 2015, Reebok International Ltd. ("**Reebok**"), a subsidiary of adidas AG ("**Adidas**"), engaged in a sale transaction (the "**2015 Transaction**") with Berkshire Partners LLC ("**Berkshire**") and New Balance Holding, Inc. ("**New Balance**"). Pursuant to the 2015 Transaction, Reebok sold its Rockport division to Debtor The Rockport Group, LLC ("**TRG**"), an entity formed by Berkshire and New Balance, and New Balance contributed its owned brands, Cobb Hill, Aravon, and Dunham, to TRG.

16. At the time of the 2015 Transaction, the Debtors' operations were deeply integrated with Adidas' global logistics and information technology networks (the "**Adidas Networks**"). As a result of this integration, TRG and Adidas agreed to separate the Debtors' operations from the Adidas Networks over a two-year period (the "**Transition Period**"). During the Transition Period, the Debtors relied on the Adidas Networks in the ordinary course of their business consistent with certain transition and management agreements entered into by TRG and Adidas.

17. In late 2017, Berkshire and New Balance sold 100% of their interests in the Debtors to the Prepetition Noteholders (as defined herein) (the "**2017 Transaction**"). In connection with the closing of the 2017 Transaction, in December 2017, the Prepetition Noteholders appointed William Allen, Matthew Sheahan, and Michael LeRoy as independent directors (the "**Independent Directors**") of Blocker. Shortly after their appointment, the Independent Directors approved the Debtors' retention of independent advisors to explore and evaluate a potential value-maximizing Sale of the Assets (as defined herein).

E. Prepetition Capital Structure

18. In connection with the 2015 Transaction, certain of the Debtors entered into the Prepetition ABL Credit Agreement, the Prepetition Notes Agreement, and the Prepetition

Subordinated Notes (each as defined herein). As of the Petition Date, the Debtors have total outstanding liabilities and other obligations of approximately $287 million of funded indebtedness, comprised of approximately:

- $57 million outstanding under the Prepetition ABL Facility (as defined herein);
- $188.3 million outstanding under the Prepetition Notes Facility (as defined herein);
- $11.9 million outstanding under the Prepetition Subordinated Notes; and
- $29.6 million outstanding in trade debt.

19. A detailed discussion of the Debtors' capital structure, including their various debt obligations, is set forth below.

i. Prepetition ABL Facility

20. The Debtors' have outstanding secured debt to various lenders pursuant to that certain Revolving Credit Agreement,[4] dated as of July 31, 2015 (as amended, supplemented, restated or otherwise modified from time to time, the "**Prepetition ABL Credit Agreement**"), among Rockport, TRG, Rockport Canada, TRG Class D, LLC ("**Class D**"), the Subsidiaries (as defined therein) of TRG from time to time, the Lenders (as defined therein) (the "**ABL Lenders**"), and Citizens Business Capital ("**Citizens**"), as administrative agent and collateral agent for the ABL Lenders (Citizens in such capacities, the "**ABL Administrative Agent**" and, together with the ABL Lenders, the "**ABL Secured Parties**"). The Prepetition ABL Credit Agreement provides for, among other things, up to $60,000,000.00 in aggregate principal amount of revolving loan commitments, including letter of credit and swingline loan

[4] Any summary of an agreement in this First Day Declaration is qualified in its entirety by the terms of that agreement.

commitments, with a sublimit for letters of credit of $10,000,000.00 (collectively, the "**Prepetition ABL Facility**").

21. As of the Petition Date, the aggregate outstanding amount owed by the Debtors under the Prepetition ABL Facility is not less than $53,425,436.95, plus $3,550,000.00 of issued and outstanding letters of credit (collectively, together with any costs and other charges or amounts paid, incurred or accrued prior to the Petition Date in accordance with the Prepetition ABL Facility, and further including all "Obligations" as described in the Prepetition ABL Facility, including all obligations with respect to cash management services and bank products, and all interest, fees, costs and other charges allowable under Section 506(b) of the Bankruptcy Code, the "**Prepetition ABL Obligations**"). The Debtors, including Rockport Canada, are jointly and severally liable for the Prepetition ABL Obligations, and such obligations are secured by a first priority lien on the Revolving Priority Collateral (as defined in the Intercreditor Agreement) (as defined in the Prepetition ABL Credit Agreement)[5]) and a second priority lien on

[5] The term **"Revolving Priority Collateral"** as defined in the Intercreditor Agreement means all Collateral consisting of the following:

(1) all Inventory;

(2) all Revolving Accounts Collateral;

(3) to the extent evidencing or governing any of the items referred to in the preceding clauses (1) and (2), all Documents, General Intangibles (other than Intellectual Property and equity interests of Subsidiaries of Rockport Group), Instruments (including, without limitation, Promissory Notes); provided, that to the extent any of the foregoing also relates to Note Priority Collateral, only that portion related to the items referred to in the preceding clauses (1) and (2) shall be included in the Revolving Priority Collateral;

(4) to the extent evidencing or governing any of the items referred to in the preceding clauses (1) through (3), all Supporting Obligations; provided, that to the extent any of the foregoing also relates to Note Priority Collateral, only that portion related to the items referred to in the preceding clauses (1) through (3) shall be included in the Revolving Priority Collateral;

(5) all books and Records relating to the foregoing (including without limitation all books, databases, customer lists and Records, whether tangible or electronic, which contain any information relating to any of the foregoing); and

(6) all collateral security and guarantees with respect to any of the foregoing and all cash, Money, instruments, Chattel Paper, insurance proceeds, investment property, securities and financial assets to the extent received as proceeds of any Revolving Priority Collateral ("Revolving Priority Proceeds"); provided, however, that

the Note Priority Collateral (as defined in the Intercreditor Agreement)[6], subject to the terms of the Intercreditor Agreement. The Revolving Priority Collateral includes substantially all of the assets of Rockport Canada, including without limitation, all accounts, goods, inventory, and all proceeds of Rockport Canada's assets.

22. Prior to the Petition Date, the Prepetition ABL Facility was used to fund the Debtors' daily operations. As such, the Debtors made daily requests to the ABL Administrative Agent to transfer available funds under the Prepetition ABL Facility into the Debtors' primary operating account held by Rockport. Rockport would then use such funds to fund the Debtors' global enterprise, including the Debtors' operations in Canada. Although Rockport Canada did not borrow any monies directly under the Prepetition ABL Facility, its assets were included in the facility's borrowing base and funds received under that facility were used to, among other things, purchase merchandise sold by Rockport Canada, pay wages, salaries and benefits of the Debtors' corporate employees and other general expenses of the Debtors' enterprise. Rockport

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no proceeds of Revolving Priority Proceeds will constitute Revolving Priority Collateral unless such proceeds of Revolving Priority Proceeds would otherwise constitute Revolving Priority Collateral.

For the avoidance of doubt, under no circumstances shall Excluded Assets (as defined in the next succeeding sentence) be Revolving Priority Collateral. As used in this definition of "Revolving Priority Collateral," the term "Excluded Assets" shall have the meaning provided in the Revolving Credit Facility (if the Revolving Credit Facility is then in effect) or in the Revolving Collateral Documents relating thereto, or in any other Revolving Credit Agreement then in effect (if the Revolving Credit Facility is not then in effect) or in the Revolving Collateral Documents relating thereto.

[6] The term "**Note Priority Collateral**" as defined in the Intercreditor Agreement means all of the Collateral excluding the Revolving Priority Collateral, including all real estate, Intellectual Property, equipment and equity interests of any Subsidiaries of any Credit Party, and all collateral security and guarantees with respect to any Note Priority Collateral and all cash, Money, Instruments, Securities and Financial Assets to the extent received as proceeds of any Note Priority Collateral; provided however, no proceeds of proceeds will constitute Note Priority Collateral unless such proceeds of proceeds would otherwise constitute Note Priority Collateral or are credited to the Asset Sales Proceeds Account. For the avoidance of doubt, under no circumstances shall any of the Revolving Canadian Collateral or Excluded Assets be Note Priority Collateral. As used in this definition of "Note Priority Collateral," "Excluded Assets" shall have the meaning provided in the Original Note Purchase Agreement (if the Original Note Purchase Agreement is then in effect) or in any other Note Purchase Agreement then in effect (if the Original Note Purchase Agreement is not then in effect) or the Note Collateral Documents relating thereto.

Canada's indirect access to the funding provided to the other Debtors under the Prepetition ABL Facility was critical to its ability to operate as a going concern prior to the Petition Date.

23. In addition, prior to the Petition Date, the Prepetition ABL Credit Agreement was amended six (6) times, most recently on May 7, 2018, to, among other things, waive certain defaults by certain of the Debtors under the Prepetition ABL Credit Agreement, modify certain financial reporting requirements, and implement milestones related to a potential Sale of the Assets (as defined herein) and repayment of the Prepetition ABL Obligations.

ii. Prepetition Notes Facility

24. Prior to the Petition Date, certain of the Debtors issued those certain Senior Secured Notes Due 2022 pursuant to that certain Note Purchase Agreement, dated as of July 31, 2015 (as amended, supplemented, restated or otherwise modified from time to time, the "**Prepetition Note Purchase Agreement**"), among Rockport, TRG, Class D, the Subsidiaries (as defined therein) of TRG from time to time, Cortland Capital Market Services LLC ("**Cortland**"), as collateral agent (Cortland in such capacity, the "**Collateral Agent**"), and the Purchasers (as defined therein) (the "**Prepetition Noteholders**" and together with the ABL Secured Parties, the "**Prepetition Secured Parties**"), in the original principal amount of $130 million (together with all Senior Notes issued as payment in kind thereon, the "**Initial Prepetition Notes**"). Prior to the Petition Date, certain additional Senior Notes (together with all Senior Notes issued as payment in kind thereon, the "**Additional Prepetition Notes**" and, together with the Initial Prepetition Notes, the "**Prepetition Notes**") were issued to the Prepetition Noteholders by certain of the Debtors in an original principal amount of $40,753,966.05 (together with the Initial Prepetition Notes, collectively, the "**Prepetition Notes Facility**" and, together with the Prepetition ABL Facility, the "**Prepetition Credit Facilities**"). The Additional Prepetition Notes are senior in right of payment to the Initial Prepetition Notes.

25. As of the Petition Date, the aggregate outstanding amount owed by the Debtors in respect of the Prepetition Notes is not less than $188,253,357.91 (collectively, together with any costs and other charges or amounts paid, incurred or accrued prior to the Petition Date in accordance with the Prepetition Notes Facility, and further including all "Obligations" as described in the Prepetition Notes Facility, including all interest, fees, costs and other charges allowable under Section 506(b) of the Bankruptcy Code, the "**Prepetition Note Obligations**"). The Prepetition Note Obligations are secured by a first priority lien on the Note Priority Collateral, and a second priority lien on the Revolving Priority Collateral, subject to the terms of the Intercreditor Agreement.

26. Proceeds from the Initial Prepetition Notes were used to finance a portion of the 2015 Transaction, and proceeds from the Additional Prepetition Notes were used to provide the Debtors with additional liquidity and to fund day-to-day operations. Prior to the Petition Date, from time to time the Debtors would request that the Prepetition Noteholders purchase Additional Prepetition Notes. In response to such requests, the Prepetition Noteholders would then transfer available funds under the Prepetition Notes Facility into bank accounts operated by the Debtors.

27. Prior to the Petition Date, the Prepetition Noteholder Purchase Agreement was amended five (5) times, most recently on May 7, 2018, to, among other things, permit the issuance of the Additional Prepetition Notes, modify certain financial reporting requirements, and implement milestones related to a potential Sale of the Assets.

iii. Prepetition Subordinated Notes

28. As of the Petition Date, TRG has approximately $11.9 million in contingent obligations under certain promissory notes (the "**Prepetition Subordinated Notes**") issued by Reebok:

- that certain Unsecured Subordinated Promissory Note, dated as of July 31, 2015;
- that certain Unsecured Subordinated Contingent Promissory Note – Tranche A, dated as of July 31, 2015; and
- that certain Unsecured Subordinated Contingent Promissory Note – Tranche B, dated as of July 31, 2015.

29. The Prepetition Subordinated Notes are unsecured and subordinated to the Prepetition Credit Facilities pursuant to that certain Subordination Agreement, dated as of July 31, 2015, among TRG, Rockport, each of the other Loan Parties (as defined therein) from time to time, the ABL Administrative Agent, the Prepetition Noteholders, and Reebok.

iv. Trade Debt

30. As explained above, in the ordinary course of business, the Debtors source their Merchandise from Vendors located outside of the United States. As of the Petition Date, Debtors estimate that they owe approximately $29.6 million in trade debt.

F. Events Leading Up to these Chapter 11 Cases

31. Over the last three years the Debtors have faced economic headwinds and operational challenges that significantly and adversely impacted the operating performance of the Debtors' footwear business, including:

- *A costly and time consuming separation from the Adidas Networks.* Separation of the Debtors' operations from the Adidas Networks was not completed until November 2017, and proved to be more complex, took meaningfully longer, and was significantly more expensive than planned. In addition, the Debtors encountered operational challenges during the initial development of their own logistics network that negatively impacted revenue. Ultimately, significant operational challenges and one-time costs associated with the Debtors' separation from the Adidas Networks contributed to the Debtors' tightening liquidity during the Transition Period.
- *Disruptive and costly supply chain interruption.* In October 2016, the Debtors experienced factory delivery delays due to the closure of three factories by certain of their foreign vendors. As a result, production of the Debtors' women's footwear program was relocated to other factories utilized by the

Debtors for production of their remaining footwear programs. The reallocation of factory resources disrupted the Debtors supply chain and resulted in significant shipment delays across multiple product lines shortly before the Fall 2017 season. In response to this disruption, the Debtors were forced to rely on more expensive expedited shipping methods in order to meet seasonal demands and minimize the delayed arrival of products to their customers.

- *Contract dispute with Expeditors and notice of default.* As explained above, the Debtors rely on warehouse and logistic providers to fulfill their distribution and warehousing needs in various locations throughout the world. To service the Debtors operations in the United States and Canada, Expeditors International of Washington, Inc. ("**Expeditors**") operates distribution warehouse facilities in Rancho Cucamonga, California and Brampton, Canada. The parties' relationship is governed by that certain Master Warehouse and Logistics Services Agreement, dated as of August 1, 2016 (including all statement of works related thereto, as amended, supplemented, restated or otherwise modified from time to time collectively, the "**Expeditors Agreement**"), between Rockport and Expeditors. Since execution of the Expeditors Agreement, the parties' relationship has deteriorated, due largely to disputes over rates charged by Expeditors. On March 23, 2018, Expeditors sent a notice (the "**Default Notice**") alleging that Rockport was in material breach of the Expeditor Agreement for failure to pay certain charges disputed by Rockport. Pursuant to the Default Notice, Expeditors indicated that it would terminate the Expeditor Agreement unless Rockport cured its alleged breach by paying the disputed amounts on or before May 7, 2018. In order to ensure product delivery to the Debtors' customers and avoid irreparable harm to the Debtors' as a result of the potential termination of the Expeditors Agreement, on May 4, 2018, the Debtors paid the disputed amounts under duress and protest, subject to the right of clawback in the future, and thereby cured this disputed default.

- *A number of stores acquired in the 2015 Transaction performed below expectations in a competitive retail market.* Over the last several years the Debtors have faced a highly promotional and competitive retail environment, underscored by a shift in customer preference for online shopping. In this unfavorable retail environment, many of the stores acquired by the Debtors in the 2015 Transaction (the "**Acquired Stores**") performed below expectations. Moreover, the Acquired Stores were significantly impacted by the supply-chain disruption experienced by the Debtors in October 2016. The unfavorable performance of the Acquired Stores in the current retail environment has made it difficult for the Debtors to maintain sufficient liquidity and to operate their business outside of Chapter 11.

32. Given the Debtors' tight liquidity position in the lead up to these Chapter 11 Cases, the Debtors approached the ABL Administrative Agent and the Prepetition Noteholders

on several occasions seeking amendments to the Prepetition ABL Credit Agreement and Prepetition Note Purchase Agreement to, among other things, obtain additional financing (as set forth in Section E above).

G. Prepetition Marketing Efforts and Objectives of the Sale Process

33. In December 2017, the Debtors retained Houlihan Lokey, Inc. ("**Houlihan**")–an investment banker with expertise in mergers and acquisitions, recapitalization, and financial restructuring–to explore a potential sale of the Debtors' assets (collectively, the "**Assets**"). As part of this effort, Houlihan began facilitating a robust marketing process for the potential purchase of all, or certain of, the Assets and contacted one hundred and ten (110) potential strategic and financial acquirers (collectively, the "**Interested Parties**") to garner interest in pursuing such transaction.

34. Approximately sixty (60) Interested Parties executed a non-disclosure agreement to review certain confidential business and financial information of the Debtors, received a confidential information memorandum, and obtained access to an initial set of diligence materials in a data room. On or around January 12, 2018, Houlihan distributed a process letter to the remaining Interested Parties inviting such Interested Parties to submit initial, non-binding indications of interest (the "**Initial IOIs**") by no later than February 6, 2018, at 5:00 p.m. (prevailing Eastern Time) (the "**Initial IOI Submission Deadline**").

35. In all, Houlihan received Initial IOIs from ten (10) Interested Parties. Shortly after the Initial IOI Submission Deadline, a more comprehensive data room was made available to certain Interested Parties who submitted Initial IOIs. Of the ten (10) Interested Parties who submitted Initial IOIs, seven (7) Interested Parties were granted access to the data room and six (6) Interested Parties met with senior management of Rockport in person to review the opportunity and to ask any and all questions pertaining thereto.

36. On or about March 2, 2018, Houlihan requested that the six (6) Interested Parties that remained interested in pursuing a transaction submit their best and final letter of intent (each a "**Final Bid**") for the Assets by March 29, 2018 at 12:00 p.m. (prevailing Eastern Time) (the "**Prepetition Bid Deadline**"). On March 7, 2018, Houlihan posted a form asset purchase agreement in the data room for review and comment by the Interested Parties in connection with submission of their Final Bid. Prior to the Prepetition Bid Deadline, three (3) Interested Parties submitted a Final Bid. On April 4, 2018, a fourth verbal bid (the "**Late Bid**," and together with the Final Bids, the "**Bids**") was received from an Interested Party.

37. After reviewing and carefully considering the Bids received from the four (4) Interested Parties, the Debtors determined, in consultation with their advisors, that Marathon (the "**Stalking Horse Bidder**") had submitted the highest or otherwise best offer, pursuant to which the Stalking Horse Bidder agreed to acquire substantially all of the Assets (other than the Debtors' North American retail assets (the "**North American Retail Assets**"))[7] for a purchase price of (i) $150 million in cash subject to certain working capital adjustments plus the NAM Store Inventory Amount; (ii) a warrant to purchase up to 5% of common equity of the indirect parent of the Stalking Horse Bidder once the Stalking Horse Bidder receives a return equal to 2.5 times its initial equity investment as of the Closing Date (as defined in the Stalking Horse Agreement); and (iii) the assumption of certain liabilities (collectively, the "**Stalking Horse Bid**").

[7] As set forth in the Sale Motion, pursuant to the Stalking Horse Agreement (as defined herein), the Stalking Horse Bidder is still considering whether to purchase any portion of the North American Retail Assets. The Stalking Horse Agreement currently identifies the North American Retail Assets as "Excluded Asset;" provided, however, that section 8.4 of the Stalking Horse Agreement provides for a twenty-five (25) day "No Liquidation Period" following the Petition Date during which the Debtors may not sell retail inventory other than in the ordinary course of business. The "No Liquidation Period" is intended to provide the Stalking Horse Bidder with an opportunity to further consider the acquisition of any North American Retail Assets (*i.e.*, the Debtors' retail leases and related inventory in the United States and Canada) prior to the Debtors commencing any Store Closing Sales (as defined herein).

38. Thereafter, the Debtors, in consultation with their advisors, determined to pursue the Stalking Horse Bid for the Assets, subject to definitive documentation. To this end, after good faith, arm's-length negotiations between the parties and in consultation with their advisors and key stakeholders, the Debtors and the Stalking Horse Bidder entered into that certain Asset Purchase Agreement, dated as of May 13, 2018 (the "**Stalking Horse Agreement**"), pursuant to which the Stalking Horse Bidder will acquire the Purchased Assets (as defined in the Stalking Horse Agreement), subject to higher or otherwise better offers.

39. Contemporaneously herewith the Debtors filed the Sale Motion seeking, among other things: (i) entry of an order (a) establishing bidding and auction procedures (the "**Bidding Procedures**") in connection with the sale of the Assets, (b) approving proposed bid protections, including the payment of a break-up fee in an amount equal to 3 percent (3%) of the Base Cash Amount (as defined in the Stalking Horse Agreement) (*i.e.*, $4,500,000.00) and (b) reimbursement of up to $2,000,000.00 for reasonable and documented costs and expenses incurred by the Stalking Horse Bidder in connection with, among other things, the negotiation and execution of, and the carrying out of its obligations under, the Stalking Horse Agreement, (c) scheduling an auction (the "**Auction**") and setting a date and time for the sale hearing (the "**Sale Hearing**") and (d) establishing procedures for noticing and determining cure amounts for contracts and leases to be assumed and assigned in connection with the Sale transaction; and (ii) at the Sale Hearing, subject to the results of the Auction, the entry of an order (a) approving and authorizing a sale to the winning bidder, (b) authorizing the assumption and assignment of certain contracts and leases and (c) authorizing the Debtors to enter into a transition services agreement as contemplated by the Stalking Horse Agreement.

40. Given the Debtors' extensive prepetition marketing efforts and the significant information compiled in the schedules to the Stalking Horse Agreement, the Sale Motion requests the following timeline:

On or before June 4, 2018	Hearing to consider approval of the Bidding Procedures and entry of the Bidding Procedures Order
June 27, 2018 at 4:00 p.m. (prevailing Eastern Time)	Sale Objection Deadline
June 29, 2018 at 5:00 p.m. (prevailing Eastern Time)	Bid Deadline
July 3, 2018 at 5:00 p.m. (prevailing Eastern Time)	Deadline for Debtors to notify Potential Bidders of their status as Qualified Bidders
July 10, 2018 at 10:00 a.m. (prevailing Eastern Time)	Auction to be held at the offices of Richard, Layton & Finger, P.A. (if necessary)
July 11, 2018	Target date for the Debtors to file with the Court the Notice of Auction Results
July 13, 2018	Proposed date of the Sale Hearing to consider approval of Sale and entry of Sale Order
On or after July 27, 2018	Closing Date (Unless Successful Bidder agrees to waive the 14-day stay of Sale Order)

41. The Bidding Procedures, including the proposed timeline, are designed to maximize the value received for the Assets and to facilitate a fair and open process in which all interested bidders may participate. The Debtors believe that the proposed timeline is sufficient to complete a fair and open sale process that will maximize the value received for the Assets in light of Debtors' robust prepetition marketing efforts. Indeed, the most likely competing bidders are among those who previously submitted a Bid. Thus, these parties need minimal time to submit competing bids. If new bidders emerge, the proposed timeline will provide them with sufficient time to perform due diligence given that the process is well understood at this juncture and bidders can utilize the Stalking Horse Agreement and its schedules as a template upon which to base their bids. Accordingly, the Debtors believe that the schedule is sufficient, while respecting the necessity to consummate the Sale as quickly as possible to maximize the value received for the Assets.

42. Further, upon entry of the Bidding Procedures Order (as defined in the Sale Motion), and in compliance with Section 7.1 of the Stalking Horse Agreement, the Debtors will continue to market and solicit offers for all or a portion of the Assets to a wide range of potential purchasers and will work diligently with all parties that have expressed an interest in the Assets to date.[8] In this way, the Debtors intend to maximize (i) the number of participants in the sale process and (ii) the value of the Assets.

43. As set forth above, the Debtors have determined that value will be maximized by commencing these Chapter 11 Cases and continuing an orderly sale process. While the prepetition solicitation process already was extensive, the commencement of these Chapter 11 Cases and the implementation of a Court supervised sale process allows other bidders to make competing bids and maximize the value of their estates for the benefit of the Debtors' stakeholders.

44. A sale pursuant to Section 363 of the Bankruptcy Code is the most appropriate course of action for the Debtors. As set forth above, if the proposed Sale is consummated, the Stalking Horse Bidder will purchase substantially all of the Assets, including any North American Retail Assets it chooses to acquire. The Debtors have adequate financial and human resources to maintain their business as a going concern throughout these Chapter 11 Cases in order to maximize value for their estates and creditors. The proposed sale process will allow the Debtors to maintain their day-to-day operations with their customers with very little, if any,

[8] Specifically, upon execution of Stalking Horse Agreement and until the earlier of (i) twenty-five (25) days from the Petition Date or (ii) entry of the Bidding Procedures Order, the Debtors agreed to pause the active solicitation of the Assets. During this period, however, the Debtors may provide all information provided to the Stalking Horse Bidder to those twelve (12) or less parties who entered into confidentiality agreements and provided either a written or oral indication of interest to the Debtors consistent with Section 7.1(b) of the Stalking Horse Agreement and engage in discussions with such parties with respect to such information (but may not engage in negotiations for or knowingly encourage an Acquisition Proposal with such parties). Upon the earlier of (i) twenty-five (25) days from the Petition Date or (ii) entry of the Bidding Procedures Order, there is no restriction on the Debtors' ability to solicit bids for and market the Assets.

disruptions. In the absence of a sale transaction conducted in accordance with such timeline, the Debtors face deterioration in the value of the business and the value of the Stalking Horse Agreement. The Debtors do not believe that the Sale could be consummated outside of these bankruptcy proceedings. Among other reasons, the Stalking Horse Bidder requested that the Sale be consummated through a process pursuant to Section 363 of the Bankruptcy Code, whereby the Sale of the Assets would be free and clear of all liens, claims, and encumbrances.

H. Store Closing Sales

45. Under the terms of the Stalking Horse Agreement, the Debtors' North American Retail Assets (*i.e.*, retail leases and related inventory in the U.S. and Canada) are currently identified as Excluded Assets (as defined in the Stalking Horse Agreement). The Stalking Horse Bidder, however, is still considering whether to acquire any portion of the North American Retail Assets.[9] As a result, the Stalking Horse Agreement provides that, for a period of twenty-five (25) days following the Petition Date (the "**No Liquidation Period**"), the Debtors shall not sell or otherwise dispose of any Inventory (as defined in the Stalking Horse Agreement) other than in the ordinary course of business. The No Liquidation Period is intended to preserve ordinary inventory levels at the retail locations should the Stalking Horse Bidder decide to acquire any of the North American retail locations.

46. Although the Stalking Horse Bidder is contemplating acquiring a portion of the North American Retail Assets, based on discussions with the Stalking Horse Bidder, the Debtors do not believe that the Stalking Horse Bidder intends to acquire all or substantially all of the North American Retail Assets. Further, based on the Debtors' extensive prepetition marketing

[9] In the event that the Stalking Horse Bidder chooses to acquire any of the Debtors' North American Retail Assets, the purchase price shall be adjusted to include the costs of the acquired inventory consistent with Section 3.1 of the Stalking Horse Agreement.

process and the prepetition Bids received for the Assets, the Debtors do not expect there to be any significant interest in the North American Retail Assets. Thus, the Debtors need to be in a position to wind down their North American retail business immediately upon the conclusion of the No Liquidation Period (with the goal of concluding such process by July 31, 2018, thereby stemming the incurrence of August administrative rent).[10] Accordingly, contemporaneously herewith the Debtors have filed a motion (the "**Store Closing Motion**") seeking authority to conduct store closing sales (the "**Store Closing Sales**") with respect to the North American Retail Assets, subject to the Debtors' ability to remove any retail location from the relief granted therein to the extent necessary to comply with the Stalking Horse Agreement or otherwise maximize value in connection with the sale process.

PART II

47. To enable the Debtors to minimize any adverse effects caused by the commencement of the Chapter 11 Cases on their businesses until the Sale is completed, the Debtors are seeking approval of the First Day Motions and related orders (the "**Proposed Orders**").

48. I have reviewed each of the First Day Motions, Proposed Orders, and exhibits thereto, and the facts set forth therein are true and correct to the best of my knowledge, information, and belief. Moreover, I believe that the relief sought in each of the First Day Motions (a) is vital to enabling the Debtors to make the transition to, and operate in, Chapter 11 with minimum disruption to their business or loss of productivity or value and (b) is essential to maximizing the value of the Debtors' estates.

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[10] The Debtors are considering retaining a consultant to assist them in the conduct of the Store Closing Sales (as defined herein). Should they decide to retain a consultant, the Debtors will seek approval of such arrangement through a separate motion or application to be filed with the Court (in addition to the Store Closing Motion).

A. Joint Administration Motion

49. Pursuant to this motion (the "**Joint Administration Motion**"), the Debtors request the joint administration of their Chapter 11 Cases, ten in total, for procedural purposes only. Many of the motions, hearings, and other matters involved in the Chapter 11 Cases will affect all of the Debtors. Therefore, I believe that the joint administration of these cases will avoid the unnecessary time and expense of duplicate motions, applications and orders, thereby saving considerable time and expense for the Debtors and resulting in substantial savings for their estate. Accordingly, I believe the Court should approve the joint administration of these Chapter 11 Cases.

B. Application to Appoint Prime Clerk LLC as Claims Agent

50. The Debtors filed an application (the "**Claims Agent Application**") contemporaneously herewith to retain Prime Clerk LLC ("**Prime Clerk**"), as claims and noticing agent pursuant to Section 156(c) of Title 28 of the United States Code and Rule 2002-1(f) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware. Prime Clerk is a bankruptcy administrator that specializes in providing comprehensive Chapter 11 administrative services, including noticing, claims processing, balloting, and other related services critical to the effective administration of Chapter 11 cases. Given the complexity of these cases and the number of creditors and other parties in interest involved, I believe that appointing Prime Clerk as the claims and noticing agent in these Chapter 11 Cases will relieve the administrative burden on the Clerk of the Court for the District of Delaware and will maximize the value of the Debtors' estates for all of their stakeholders.

C. Automatic Stay Motion

51. Pursuant to this motion (the "**Automatic Stay Motion**"), the Debtors seek entry of an order enforcing and restating the automatic stay protections and *ipso facto* prohibitions of

the Bankruptcy Code. I believe that such an order is appropriate in these Chapter 11 Cases because the Debtors have customers, vendors, and contract counterparties around the world, including in Asia, Brazil, Canada, and Europe. Many of the Debtors' non-U.S. creditors and contract counterparties may be unfamiliar with the automatic stay, the prohibition on enforcement of *ipso facto* contract provisions, and the Bankruptcy Code's antidiscrimination protections. Therefore, I believe that an order outlining these provisions, which the Debtors could transmit to foreign creditors, would maximize the protection the Bankruptcy Code affords the Debtors. Accordingly, based on the foregoing and those additional reasons set forth in the Automatic Stay Motion, I believe that the relief requested in such motion is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

D. Foreign Representative Motion

52. Pursuant to this motion (the "**Foreign Representative Motion**"), the Debtors seek entry of an order authorizing Blocker, as a Debtor in these Chapter 11 Cases and as the ultimate parent of each Debtor, to act as the foreign representative (the "**Foreign Representative**") on behalf of the Debtors' estates in any judicial or other proceeding in Canada. Because Debtor Rockport Canada is the operating entity for the Debtors' business in Canada, the Debtors intend to commence an ancillary proceeding (the "**Ancillary Proceeding**") under Part IV of the Companies' Creditors Arrangement Act ("**CCAA**") in the Ontario Superior Court of Justice (the "**Canadian Court**"). Blocker, as the proposed foreign representative for the Debtors in the Ancillary Proceeding, intends to seek recognition of these Chapter 11 Cases and certain orders entered in the Chapter 11 Cases. Accordingly, based on the foregoing and those additional reasons set forth in the Foreign Representative Motion, I believe that the relief requested in such motion is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

E. Shippers and Warehousemen Motion

53. Pursuant to this motion (the "**Shippers and Warehousemen Motion**"), the Debtors seek entry of interim and final orders, under Sections 105(a), 363 and 503 of the Bankruptcy Code, (i) authorizing, but not directing, the Debtors, in their sole discretion, to pay (a) all or a portion of the Shipping and Warehousing Claims (as defined in the Shippers and Warehousemen Motion) and (b) certain Import Charges (as defined in the Shippers and Warehousemen Motion); and (ii) authorizing applicable banks and other financial institutions to receive, process, honor and pay any and all checks drawn on the Debtors' general disbursement account and other transfers to the extent such checks and transfers relate to any of the foregoing.

54. In operating their global retail, eCommerce and wholesale businesses, the Debtors depend on the uninterrupted flow of inventory and other goods through their supply chain and distribution network, including the purchase, importation, warehousing, and shipment of the Merchandise. Because the substantial majority of the Debtors' Vendors are located outside of the United States–primarily (but not exclusively) in mainland China, but also in Vietnam, India, and Brazil, the Debtors' ability to operate in the ordinary course of business therefore depends on their concurrent ability to transport, import, and take delivery of Merchandise in a timely fashion and on a worldwide basis.

55. If the Debtors fail to pay any of the Shippers or Warehousemen for charges incurred in connection with the transport of goods, the Shippers or Warehousemen may be permitted by law or otherwise to assert possessory liens against any of the Merchandise. Further, because of the commencement of the Chapter 11 Cases, certain Shippers and Warehousemen that hold Merchandise for delivery to or from the Debtors may refuse to release such Merchandise pending receipt of payment for their prepetition services, which would disrupt the Debtors' operations. The Debtors believe that a disruption in their chain of transportation and storage

arrangements due to nonpayment of shipping and warehouse charges could cause substantial delays, great expense and irreparable harm to the Debtors' estates.

56. Because the Debtors are dependent on many third-party Shippers and Warehousemen, it is essential that the commencement of the Chapter 11 Cases not give such Shippers and Warehousemen reason or excuse to cease performing services or to retain products or other Merchandise. Further, the Debtors propose that they may, in their sole discretion, condition payment of any such Shipping and Warehousing Claims upon an agreement to continue to supply goods or services to the Debtors on such creditor's Customary Trade Terms.

57. As explained above, on May 4, 2018, the Debtors paid certain disputed amounts to Expeditors under duress and protest, subject to the right of clawback in the future. Pursuant to the Shippers and Warehousemen Motion, Debtors seek to pay only undisputed amounts to Expeditors pursuant to the Shippers and Warehousemen Motion.

58. In addition, as noted above, the Debtors receive substantially all of their Merchandise from foreign countries. Timely receipt of such Merchandise is critical to the Debtors' business operations, and the Debtors may be required to pay certain import charges (the "**Import Charges**"), including, but not limited to, customs duties, detention and demurrage fees, tariffs, excise taxes, and other similar obligations. Failure to pay the Import Charges to whom they are owed may interfere with the Debtor's supply chain. A disruption in the Debtors' supply chain due to nonpayment of Import Charges could cause substantial delays, great expense and irreparable harm to the Debtors' estates.

59. Accordingly, based on the foregoing and those additional reasons set forth in the Shipping and Warehousemen Motion, I believe that the relief requested in such motion is

necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

F. Critical and Foreign Vendors Motion

60. Pursuant to this motion (the "**Critical and Foreign Vendors Motion**"), the debtors seek entry of interim and final orders, under Sections 105(a), 363, 1107(a), and 1108 of the Bankruptcy Code, (i) authorizing, but not directing, the Debtors to pay prepetition obligations of certain (a) Critical Vendors (as defined in the Critical and Foreign Vendors Motion), in the ordinary course in an amount not to exceed the applicable Critical Vendor Claims Cap (as defined in the Critical and Foreign Vendors Motion), and (b) Foreign Vendors (as defined in the Critical and Foreign Vendors Motion) in the ordinary course in an amount not to exceed the applicable Foreign Vendor Claims Cap (as defined in the Critical and Foreign Vendors Motion); and (ii) authorizing applicable banks and financial institutions to receive, process, honor and pay any and all checks drawn on the Debtors' general disbursement account and other transfers to the extent these checks and transfers relate to any of the foregoing. For the avoidance of doubt, the Debtors are not seeking to prepay any Vendor's Claims (as defined in the Critical and Foreign Vendors Motion).

61. As described above, the Debtors' business relies on their access to and relationship with a network of Vendors in the United States and around the world. In particular, the Debtors rely entirely on Foreign Vendors to source and manufacture all of the Merchandise sold across the Debtors' global enterprise, from manufacturing facilities located in Brazil, China, India, and Vietnam to the Debtors' distribution warehouses in United States, Canada, Portugal, Korea, and Japan. Because the Foreign Vendors may lack minimum contacts with the United States, the Debtors believe that there is a material risk that the Foreign Vendors may consider themselves beyond the jurisdiction of this Court, disregard the automatic stay, and engage in

conduct that disrupts the Debtors' operations, including but not limited to, exercising self-help remedies under local law, if applicable, and instituting litigation in a foreign forum seeking recovery of outstanding prepetition obligations. Any disruption to the Debtors' production and supply of Merchandise would have a far-reaching economic and operational impact on their business and could therefore jeopardize the Debtors' ability to consummate a Sale through Chapter 11.

62. Accordingly, based on the foregoing and the additional reasons set forth in the Critical and Foreign Vendors Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

G. Taxes Motion

63. Pursuant to this motion (the "**Taxes Motion**"), the Debtors seek entry of interim and final orders, under Sections 105(a), 363(b), 507(a)(8) and 541 of the Bankruptcy Code, authorizing (i) the Debtors, in their sole discretion, to pay Covered Taxes and Fees (as defined in the Taxes Motion) in the ordinary course of business, whether arising prior to, on or after the commencement of the Chapter 11 Cases; and (ii) applicable banks and financial institutions to receive, process, honor and pay any and all checks drawn on the Debtors' general disbursement account and other transfers to the extent these checks and transfers relate to any of the foregoing. For the avoidance of doubt, the Debtors are not seeking to prepay any Covered Taxes and Fees.

64. In the ordinary course of the Debtors' businesses, the Debtors collect, withhold and incur the Covered Taxes and Fees, including Income Taxes, Sales and Use Taxes,

Employment and Wage-Related Taxes,[11] Business Taxes, Property Taxes, and certain Other Taxes (as each is defined in the Taxes Motion). The Debtors remit the Covered Taxes and Fees to various federal, state, provincial and local governmental authorities, including taxing and licensing authorities (collectively, the "**Governmental Authorities**").

65. I believe that many of the Covered Taxes and Fees were collected before the Petition Date and must be turned over to the relevant Governmental Authorities. Moreover, failure to pay such amounts may give rise to priority or secured claims that would, in any event, be entitled to payment in full.

66. The Debtors also seek to pay prepetition Covered Taxes and Fees in order to forestall the Governmental Authorities from taking actions that might interfere with the Debtors' businesses, such as blocking the receipt or renewal of permits required for the Debtors' continued operations or possibly bringing personal liability actions against the Debtors' directors, officers and other employees in connection with non-payment of the Covered Taxes and Fees. I believe that actions against the Debtors' directors, officers and other employees would likely distract key personnel, whose full-time attention to the Chapter 11 Cases is required, and would likely cause potential business disruptions. Any such business disruptions would likely erode the Debtors' business reputation and negatively affect the Chapter 11 Cases. I believe that, as of the Petition Date, none of the Covered Taxes and Fees are past due or delinquent and, after entry of the Proposed Orders, intend to pay such amounts as they come due in the ordinary course of business.

[11] By the Taxes Motion, the Debtors are not seeking authority to pay the Employment and Wage Related Taxes, which are addressed separately in the Employee Motion (as defined herein).

67. Accordingly, based on the foregoing and those additional reasons set forth in the Taxes Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

H. Insurance Motion

68. Pursuant to this motion (the "**Insurance Motion**"), the Debtors seek entry of interim and final orders, under Sections 105(a), 362 and 363 of the Bankruptcy Code, (i) authorizing the Debtors to continue and renew their (a) Insurance Programs (as defined herein), including Premium Financing (as defined herein), and (b) Surety Bond Program (as defined herein) and honor all obligations under the Insurance and Surety Bond Programs; (ii) modifying the automatic stay imposed by Section 362 of the Bankruptcy Code to the extent necessary to permit the Debtors' employees to proceed with any claims they may have under the Workers' Compensation Program (as defined herein); and (iii) authorizing financial institutions to honor and process related checks and transfers.

69. The Debtors maintain their various liability, property, casualty, workers' compensation and other insurance programs, including the Premium Financing (as defined herein) in the ordinary course of their businesses (collectively, the "**Insurance Programs**") through several private insurance carriers (collectively, the "**Insurance Carriers**"). As part of the Insurance Programs, the Debtors also maintain workers' compensation insurance coverage (the "**Workers' Compensation Program**") and premium financing (the "**Premium Financing**") to pay certain of the Insurance Premiums (as defined in the Insurance Motion). All of the Insurance Programs are essential to the ongoing operation of the Debtors' businesses and the preservation of the value of the Debtors' estates.

70. Additionally, in the ordinary course of business, the Debtors are required to provide a customs surety bond (the "**Customs Bond**") to the United States Bureau of Customs and Border Protection to secure the payment or enforcement of certain obligations of Rockport (the "**Surety Bond Program**"). These obligations generally relate to (i) customs and import duties, (ii) the clearance of containers that move internationally, and (iii) foreign-trade zone activity. Failure to provide, maintain, or timely replace the Customs Bond will prevent Rockport from undertaking essential functions related to the Debtors' operations.

71. The Debtors employ Marsh & McLennan Agency (the "**Broker**") to assist them with the procurement and management of the Insurance Programs. Amounts due to the Brokers are paid directly through the premiums the Debtors pay to Insurance Carriers. The employment of the Broker allows the Debtors to obtain and manage the Insurance Programs in a reasonable and prudent manner and to realize considerable savings in the procurement of such policies.

72. The nature of the Debtors' businesses makes it essential for the Debtors to maintain their Insurance Programs and Surety Bond Program on an ongoing and uninterrupted basis. The non-payment of any premiums, deductibles or related fees under the Insurance Programs could result in one or more of the Insurance Carriers terminating or declining to renew their insurance policies or refusing to enter into new insurance policies with the Debtors in the future. If any of the Insurance Programs lapse without renewal, the Debtors could be in violation of state and/or federal law and be exposed to substantial liability for personal and/or property damages, to the detriment of all parties in interest. Likewise, the Debtors would be exposed to substantial liability without the ability to make annual payments towards the Surety Premiums or post new or replacement collateral to secure the Indemnity Obligations.

73. Finally, the Debtors' request modification of the automatic stay as it relates to any workers' compensation claims to allow the Debtors' employees to proceed with any valid claims under the Debtors' Workers' Compensation Programs. The Debtors believe that, absent this relief, employees would face significant harm and may voluntarily terminate their employment which would severely disrupt the Debtors' business and could jeopardize the Debtors' ability to consummate a Sale through Chapter 11.

74. Accordingly, based on the foregoing and those additional reasons set forth in the Insurance Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

I. Employee Motion

75. Pursuant to this motion (the "**Employee Motion**"), the Debtors seek entry of interim and final orders, under Sections 105(a), 363, and 507(a) of the Bankruptcy Code, authorizing (i) the Debtors to (a) pay certain employee compensation and benefits, (b) maintain such benefits and other employee-related programs, and (c) pay the prepetition claims of independent contractors and temporary workers; and (ii) applicable banks and other financial institutions to receive, process, honor and pay any and all checks drawn on the Debtors' general disbursement account and other transfers to the extent such checks and transfers relate to any of the foregoing.

76. Specifically, the Debtors seek the authorization to honor and continue prepetition Compensation and Benefit Programs (as defined in the Employee Motion), including (i) wages, salaries, independent contractor obligations, temporary worker obligations, vacation pay, other accrued compensation, (ii) reimbursement of business, travel and other expenses, and (iii) benefits in the form of health, dental, and vision insurance, health and flexible savings accounts,

dental coverage, continuation coverage under COBRA,[12] basic term life insurance, accidental death and dismemberment insurance, short-term and long-term disability, and other miscellaneous benefits provided to Employees in the ordinary course of business. The Debtors request that the Court confirm their right to continue each of the Compensation and Benefit Programs in the ordinary course of business during the pendency of these Chapter 11 Cases in the manner and to the extent that such Compensation and Benefit Programs were in effect immediately prior to the filing of these cases and to make payments in connection with expenses incurred in the post-petition administration of any Compensation and Benefit Programs.

77. In addition, the Debtors seek authorization to pay Severance Obligations (as defined in the Employee Motion) to fifty-one (51) non-insider, retail Employees terminated shortly before the Petition Date. The Debtors seek authority, but not direction, to pay $70,000.00 in the interim period and $140,000.00 on a final basis with respect to Severance Obligations. The Debtors believe it is necessary for them to have the authorization to honor the Severance Obligations to Employees terminated shortly before the Petition Date in order to maintain Employee morale and goodwill at their retail locations. If Employee morale suffers and Employees depart, the value of the Debtors' business may decline, which could jeopardize the Debtors' ability to successfully close the Sale of substantially all of their Assets and wind down their North American retail operations. By separate motion to be filed with the Court, the Debtors intend to seek authority to pay certain retention and shrink bonuses to Employees at any of their retail locations subject to the Store Closing Sales.

[12] As part of their COBRA obligations, the Debtors seek authority to pay the COBRA premiums of three (3) Former Non-Retail Employees (as defined in the Employee Motion) during the interim period in order to provide these Former Non-Retail Employees sufficient opportunity to obtain appropriate medical insurance.

78. The Debtors also seek authorization to pay any and all local, state, provincial, and federal withholding and payroll-related or similar taxes relating to the prepetition workforce obligations including, but not limited to, all withholding taxes, federal social security (and their Canadian equivalents), and various wage garnishments required by law. In addition, the Debtors seek authorization to pay to third parties any and all amounts deducted from the employees' paychecks by the Debtors for payments on behalf of the Employees for savings programs (including 401(k) plans and their Canadian equivalents), benefit plans, insurance programs, and other similar programs and plans.

79. Accordingly, based on the foregoing and those additional reasons set forth in the Employee Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

J. Customer Programs Motion

80. Pursuant to this motion (the "**Customer Programs Motion**"), the Debtors seek entry of an order under Sections 105, 363, and 507 of the Bankruptcy Code authorizing, but not directing, (i) the Debtors to (a) continue to administer certain Customer Programs (as defined herein) and (b) honor or pay Customer Obligations (as defined in the Customer Programs Motion) in the ordinary course of business; and (ii) applicable banks and other financial institutions to receive, process, honor and pay any and all checks drawn on the Debtors' general disbursement account and other transfers to the extent such checks and transfers relate to any of the foregoing.

81. In the ordinary course of their businesses, the Debtors engage in certain marketing and sales practices that are, among other things, (i) targeted to develop and sustain a positive reputation for their goods in the marketplace and (ii) designed to attract new customers and

reward and provide incentives to existing customers (collectively, the "**Customer Programs**"). The Customer Programs, all of which are described in detail in the Customer Programs Motion, include (a) online sales promotions, (b) wholesale sales promotions, (c) the co-op marketing agreements, (d) the coupon program, (e) the gift card program, (f) return, refund and exchange policies, (g) the affiliate program, (h) the GiftNow program, (i) the wholesale sales associates programs, and (j) the credit card processing programs. Customer programs are standard in retail, wholesale and e-commerce businesses. Without the ability to continue the Customer Programs and to satisfy prepetition obligations in connection therewith, the Debtors risk losing customer loyalty, goodwill, and market share, which could cause a precipitous decline in the value of their businesses at a critical juncture. The Debtors' ability to continue their Customer Programs and honor obligations related thereto is necessary to keep the reputation of the Debtors' brands intact, meet competitive market pressures, ensure customer satisfaction, and, ultimately, maximize value for the Debtors' estates and their stakeholders.

82. Accordingly, based on the foregoing and those additional reasons set forth in the Customer Programs Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

K. Utilities Motion

83. Pursuant to this motion (the "**Utilities Motion**"), the Debtors request entry of interim and final orders, under Section 366 of the Bankruptcy Code, (i) prohibiting the Debtors' utility service providers from altering or discontinuing service; (ii) approving an adequate assurance deposit as adequate assurance of postpetition payment to the utilities; and (iii) establishing procedures for resolving any subsequent requests by the utilities for additional adequate assurance of payment.

84. In connection with the operation of their businesses and management of their properties, the Debtors obtain utility services, including electricity, natural gas, telephone, internet, waste removal, and other similar services (collectively, "**Utility Services**") from more than fifty (50) utilities, as that term is used in section 366 of the Bankruptcy Code (collectively, the "**Utility Companies**"). Uninterrupted Utility Services are essential to the Debtors' ongoing operations and, therefore, the preservation of the value of the Debtors' estates. Should any Utility Company alter, refuse, or discontinue service, even for a brief period, the Debtors' business operations could be disrupted, and such disruption could jeopardize the Debtors' ability to consummate a Sale through Chapter 11. Therefore, the Debtors seek to establish an orderly process for providing adequate assurance to their Utility Companies without hindering the Debtors' ability to maintain operations. Specifically, by the Utilities Motion, the Debtors seek approval of an adequate assurance deposit of approximately $43,000.00 (which is approximately fifty percent (50%) of the estimated monthly cost of the Utility Services, based on historical averages over the prior twelve (12) months) into a newly-created segregated, interest-bearing account, as adequate assurance of postpetition payment to the Utility Companies pursuant to Section 366(b) of the Bankruptcy Code. Further, I am informed and believe that the proposed Adequate Assurance Procedures (as defined in the Utilities Motion) are consistent with procedures that are typically approved in Chapter 11 cases in this District.

85. Accordingly, based on the foregoing and those additional reasons set forth in the Utilities Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

L. Cash Management Motion

86. Pursuant to this motion (the "**Cash Management Motion**"), the Debtors seek entry of interim and final orders, under Sections 105, 345, 363, and 507 of the Bankruptcy Code, requesting the entry of an order (i) authorizing the Debtors to continue to use their cash management system (the "**Cash Management System**") and bank accounts, as set forth below; (ii) waiving certain bank account and related requirements of the Office of the United States Trustee for the District of Delaware (the "**U.S. Trustee**"); (iii) authorizing the Debtors to continue their existing deposit practices under the Cash Management System (subject to the Debtors' implementation of certain reasonable changes to the Cash Management System); (iv) extending time to comply with Section 345(b) of the Bankruptcy Code; (v) authorizing Intercompany Transactions (as defined in the Cash Management Motion) consistent with historical practice and granting administrative expense priority to Intercompany Transactions; and (vi) granting related relief.

87. In the ordinary course of business, the Debtors utilize the Cash Management System to collect, concentrate, and disburse funds (primarily payroll and payments to Vendors) to manage their business. The Cash Management System also enables the Debtors to efficiently monitor and control their cash position and maintain control over Intercompany Transactions. Indeed, the continued use of the Cash Management System during the pendency of these Chapter 11 Cases is essential to the Debtors' business operations and their goal of maximizing value for the benefit of all parties in interest.

88. Moreover, in the ordinary course of business, the Debtors engage in certain transactions between and among the Debtors as well as certain of their non-debtor Foreign Affiliates (the "**Intercompany Transactions**"). Historically, the Debtors have engaged in Intercompany Transactions as business is transacted among (i) Rockport and Rockport Canada

and (ii) Rockport and the Foreign Affiliates. Typically, Rockport funds the operations of certain Foreign Affiliates, primarily those in China, Hong Kong, India, and Vietnam (the "**Sourcing and Sales Foreign Affiliates**"), that (i) work directly with the Debtors' Vendors or (ii) with respect to the Hong Kong Sourcing and Sales Foreign Affiliate, engage in sales, customer service, and merchandising with a focus on distributors. The Intercompany Transactions with the Sourcing and Sales Foreign Affiliates ensure the timely production and delivery of the Merchandise sold by the Debtors and its non-Sourcing and Sales Foreign Affiliates to customers around the world. Intercompany Transactions also occur between Rockport and its non-Sourcing and Sales Foreign Affiliates, *i.e.*, those entities in Korea, Japan, and Western Europe: after Rockport purchases the merchandise directly from the Vendors, it sells the merchandise to its non-Sourcing and Sales Foreign Affiliates, resulting in a transfer of funds to Rockport for use by the Debtors in their day-to-day operations in the United States.

89. In addition, Intercompany Transactions regularly occur between Rockport and Rockport Canada when funds are transferred between those entities as necessary, including, but not limited to, transfers as a result of the Rockport's sale of Merchandise to Rockport Canada.[13] Following the Petition Date, Rockport Canada will continue to transfer funds to Rockport on account of (i) Merchandise purchased postpetition from Rockport as necessary for Rockport Canada's ongoing operations[14] and (ii) postpetition back-office services provided by Rockport (the "**Permitted Rockport Canada Intercompany Transactions**").[15] Other than the Permitted

[13] As of the Petition Date, Rockport Canada owes approximately $28.3 million to Rockport and Debtor Drydock Footwear, LLC on account of these Intercompany Transactions.

[14] Rockport Canada will pay Rockport on a cash on delivery basis for postpetition Merchandise prior to receiving delivery of such Merchandise.

[15] Rockport Canada will pay Rockport for back-office services in accordance with existing practices.

Rockport Canada Intercompany Transactions, following the Petition Date, Rockport Canada will not transfer funds to Rockport on account of any prepetition Intercompany Transactions unless otherwise ordered by the Court.

90. Generally, the Debtors' non-Sourcing and Sales Foreign Affiliates operate solely on funds generated in their respective jurisdictions. Occasionally, funds generated by a non-Sourcing and Sales Foreign Affiliate are insufficient to cover such entity's operating costs. In that limited circumstance, Rockport provides supplemental operational funding to the affected non-Sourcing and Sales Foreign Affiliate. The Debtors believe that continuing these Intercompany Transactions in these limited circumstances is necessary to preserving their equity interests in the non-Sourcing and Sales Foreign Affiliates, and thus, is in the best interests of the Debtors and their estates. In fact, the Stalking Horse Bidder intends to acquire the Debtors' equity interests in the Foreign Affiliates pursuant to the Sale of substantially all of the Assets (other than the Debtors' North American Retail Assets) under Section 363 of the Bankruptcy Code. As a result, the Debtors believe that continuance of the Intercompany Transactions, including the Permitted Rockport Canada Intercompany Transactions, is critical to preserving the value of the Foreign Affiliates which will enure to the benefit of the Debtors' estates and stakeholders in connection with the Sale.

91. Additionally, to minimize expenses to their estates, the Debtors seek authorization to continue their correspondence and business forms, including, but not limited to, purchase orders, letterhead, checks, invoices, sales order acknowledgements and other business forms in the forms existing immediately prior to the Petition Date, without reference to the Debtors' status as debtors in possession; provided, however, that in the event that the Debtors generate new checks during the pendency of these cases other than from their existing stock of checks, such

checks will include a legend with the designation "Debtor-in-Possession." In addition, with respect to checks which the Debtors or their agents print themselves, the Debtors will begin printing the "Debtor in Possession" legend and the bankruptcy case number on such items within ten (10) days of the date of entry of an order approving the Cash Management Motion. The Debtors also seek authority to use all correspondence and other business forms (including, without limitation, letterhead, purchase orders and invoices) without reference to the Debtors' status as debtors in possession.

92. Also, by the Cash Management Motion, the Debtors seek a thirty (30) day extension of the time to comply with Section 345(b) of the Bankruptcy Code, without prejudice to the Debtors' ability to seek a further extension (upon agreement with the United States Trustee) or a waiver of those requirements. During the extension period, the Debtors propose to engage the U.S. Trustee in discussions to determine if compliance with Section 345(b) of the Bankruptcy Code is necessary under the circumstances of these Chapter 11 Cases. The Debtors believe that the benefits of the requested extension far outweigh any harm to the estate.

93. Accordingly, based on the foregoing and those additional reasons set forth in the Cash Management Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

M. DIP Motion

94. Pursuant to this motion (the "**DIP Motion**"), the Debtors request entry of interim and final orders (respectively, the "**Interim DIP Order**" and the "**Final DIP Order**" and, collectively the "**DIP Orders**") authorizing them to obtain postpetition secured DIP financing in an aggregate amount of up to \$80 million consisting of (i) up to a \$60 million DIP ABL Facility (as defined in the DIP Motion) and (ii) up to a \$20 million new money DIP Note Facility (as

defined in the DIP Motion).[16] By the DIP Motion, the Debtors also request that the Court authorize related relief, including the consensual use of the Prepetition Secured Parties Lenders' Cash Collateral (as defined in the DIP Motion).

95. The DIP ABL Facility provides the Debtors with a $60 million facility upon entry of the Interim DIP Order. Pursuant to the DIP ABL Credit Agreement (as defined in the DIP Motion) and the DIP Orders, following entry of the Interim DIP Order the Debtors intend to repay the Prepetition ABL Obligations outstanding under the Prepetition ABL Facility initially as a creeping roll-up by applying the collection of receivables and other proceeds of the Revolving Priority Collateral to satisfy amounts owed under the Prepetition ABL Facility and free up corresponding borrowing availability under the DIP ABL Facility. Upon entry of the Final DIP Order, the Debtors will use the proceeds of the next advance under the DIP ABL Credit Agreement to "roll-up" all amounts outstanding under the Prepetition ABL Facility to satisfy all Prepetition ABL Obligations in full in accordance with the terms of the Prepetition Resolving Credit Agreement.

96. The DIP Note Facility further provides the Debtors with approximately $10 million upon entry of the Interim DIP Order and an additional availability of $10 million following entry of the Final DIP Order to be funded in increments. Pursuant to the DIP Note Purchase Agreement (as defined in the DIP Motion) and the DIP Orders, Prepetition Notes in an amount equal to $20 million will be deemed exchanged for notes issued under the DIP Note Facility upon entry of the Interim DIP Order, and an additional $20 million will be deemed

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[16] The lenders under the DIP ABL Facility are identical to the lenders under the Prepetition Revolver Facility and the purchasers under the DIP Note Facility are identical to the purchasers under the Prepetition Note Facility.

exchanged for notes issued under the DIP Note Facility upon entry of the Final DIP Order, for a total "partial roll-up" of $40 million of Prepetition Notes.

97. In addition to providing the Debtors with up to $20 million of incremental liquidity, the DIP Facilities (as defined in the DIP Motion) also provide the Debtors with access to the use of the Prepetition Secured Parties Lenders' collateral (including Cash Collateral) on a consensual basis. The repayment of the Prepetition ABL Facility and the Prepetition Note Facility pursuant to the terms of the DIP Facilities is a material component of the structure of the DIP Facilities and was required by the DIP Lenders (as defined in the DIP Motion) as a condition to their commitment to provide postpetition financing, and the consensual use of Cash Collateral.

98. The Debtors believe they must immediately instill confidence in their employees, vendors and customers, reassuring them that these Chapter 11 Cases will not erode their relationships with the Debtors or the overall value of the Debtors' estates. The Debtors further believe they must provide assurances to their stakeholders as to their ability to seamlessly transition into Chapter 11, operate in a "business as usual" fashion, but with increased liquidity, and ultimately consummate a Sale of their business to the Stalking Horse Bidder, or otherwise highest and best bidder pursuant to Section 363 of the Bankruptcy Code. In particular, the Debtors believe that the initial success of these Chapter 11 Cases depends on the comfort level of the Debtors' stakeholders–in particular the Debtors' third-party vendors located outside of the United States–which, in turn, depends upon the Debtors' ability to minimize the disruption caused by the Chapter 11 filings.

99. The DIP Facilities, as a package covering all the Debtors' typical financing needs, will provide the working capital necessary to allow the Debtors, including Rockport Canada, to,

among other things, continue operating their businesses until consummation of the proposed Sale, which in turn will help maintain value of the Debtors' estates for the benefit of all creditors and parties in interests. I believe that without access to the DIP Facilities, the Debtors, including Rockport Canada, would lack sufficient liquidity to operate their business, thereby immediately and irreparably harming their business, depleting their going-concern value of their Assets, and jeopardizing consummation of the proposed Sale.

100. In particular, consistent with prepetition practices, funds available under the facility will be used to, among other things, provide Rockport Canada with merchandise to sell, pay wages, salaries and benefits of the Debtors' corporate employees and other general expenses of the Debtors' enterprise. Indeed, Rockport Canada's assets were an important component of the borrowing base under the Prepetition ABL Facility, and thus relied upon by the ABL Lenders to secure the Prepetition ABL Obligations. Without Rockport Canada's assets in the borrowing base (as calculated in accordance with the Prepetition ABL Credit Agreement), the availability under the Prepetition ABL Facility (and thus the outstanding Prepetition ABL Obligations) would have been reduced dollar-for-dollar. Similarly, the inclusion of Rockport Canada's assets in the borrowing base under the DIP ABL Facility is an integral component of such facility, and is a condition to the DIP ABL Lenders' commitment to provide postpetition financing. Thus, the Debtors believe that Rockport Canada's indirect access to funds provided to the other Debtors under the DIP ABL Facility is critical to Rockport Canada's ability to operate as a going concern until consummation of the proposed Sale. Accordingly, the credit to be provided under the DIP Facilities is necessary to preserve the value of the Debtors' estates for the benefit of all stakeholders.

101. In order to properly apportion the joint and several liability among Rockport Canada, on the one hand, and all of the remaining Debtors, on the other hand, of the Prepetition ABL Obligations, the Debtors, the ABL Lenders, and the Prepetition Noteholders, and Richter Advisory Group Inc., in its capacity as the proposed Canadian Court-appointed information officer of the Debtors, have initiated discussions over the fair and equitable allocation of the Debtors' liability under the Prepetition ABL Facility as between Rockport Canada, on the one hand and the remaining Debtors, on the other hand.

102. Subject to consideration and approval by the Court at the Final Hearing, the Debtors, the ABL Lenders, and the Prepetition Noteholders have determined that an appropriate allocation of the Prepetition ABL Obligations should be based upon the net asset values set forth in the most recent Borrowing Base Certification (as of April 15, 2018) under the Prepetition ABL Facility with respect to Rockport Canada's Revolving Priority Collateral and the remaining Debtors' Revolving Priority Collateral. The net asset values of the Revolving Priority Collateral (as determined by the April 15, 2018 Borrowing Base Certificate), as between Rockport Canada and the remaining Debtors is set forth on Exhibit D attached to the DIP Motion.[17] As reflected therein, and based upon the agreement of the Debtors, the Prepetition Secured Parties, the DIP

[17] This exhibit sets forth both the "gross" value of the Debtors' eligible assets under the Prepetition ABL Facility as reflected on the Debtors' books ("**Gross Value**") and the net value of these same assets ("**Net Value**") (split between Rockport Canada and the remaining Debtors). Net Value reflects the ABL Lenders' calculation of what they were willing to lend against, or the "Availability" under the Prepetition ABL Facility. The deductions made to Gross Value to arrive at Net Value include: (i) reserves, which are established to discount collateral value for, among other things, accounts receivable that are over sixty (60) days past due or deemed difficult to collect like foreign, inventory shrinkage, and inventory that may not be readily accessible due to location, and (ii) net orderly liquidation value ("**NOLV**"), which represents a percentage of the eligible inventory that reflects the estimated proceeds from the liquidation of such inventory after deducting all associated direct operating costs and liquidator fees. The ABL Lenders utilized professionals to determine both their reserve levels and the NOLV in order to calculate the Net Value (thereby determining the Availability under the Prepetition ABL Facility). The Debtors believe that utilizing the Net Value of the various Debtors' eligible assets under the Prepetition ABL Facility as of the Petition Date is the appropriate methodology for determining the Proposed ABL Liability Allocation as it best reflects the actual value of the assets in the borrowing base that the ABL Lenders were willing to lend against, and thus the allocable amount of the Prepetition ABL Obligations as between Rockport Canada and the remaining Debtors and their eligible assets as of the Petition Date.

ABL Agent and the DIP Note Purchasers, the Debtors believe that Rockport Canada's allocable share of the Prepetition ABL Obligations should be 18.4% of such outstanding amount, and the other Debtors' allocable share should be 81.6% (the "**Proposed ABL Liability Allocation**"). The Debtors will seek approval of this proposed allocation at the final hearing on the DIP Motion.

103. Although the Proposed ABL Liability Allocation will not be considered by the Court until the Final Hearing, the DIP Note Purchasers are willing to provide up to $10 million in New Money Notes (as defined in the DIP Note Purchase Agreement) upon entry of the Interim Order. However, as set forth in the Interim Order, as a condition to providing any additional New Money Notes under the DIP Notes Facility, the DIP Note Purchasers are requiring that the Proposed ABL Liability Allocation be approved by the Court at the Final Hearing and be part of the Final Order.

104. Further, the DIP Facilities are the result of arm's-length negotiations between the Debtors and the Prepetition Secured Parties related to the Debtors' liquidity issues, financing needs, and goals of these Chapter 11 Cases. First, the DIP Lenders, including the DIP Note Purchasers, were represented by separate counsel for negotiating the terms of the DIP Facilities. Second, the Independent Directors, who were advised by independent counsel, approved the DIP Facilities. Third, the DIP Lenders received all of the protections that a third-party DIP lender would have demanded and received in a comparable context. Finally, the fees payable to the DIP Agents (as defined in the DIP Motion) and the DIP Lenders pursuant to the DIP Documents (as defined in the DIP Motion) were negotiated at arm's length, are an integral component of the overall terms of the DIP Facilities, are the best financing terms available, and I have been advised that such fees are reasonable and customary for similar transactions.

105. The Debtors do not believe that alternative sources of financing with terms as favorable as those of the DIP Facilities are readily available to the Debtors. During the prepetition marketing process and negotiation of the Stalking Horse Agreement, Houlihan, on behalf of the Debtors, contacted a number of traditional and non-traditional lenders, including the Stalking Horse Bidder, with experience providing DIP financing. None of the parties contacted by Houlihan were willing to provide DIP financing that was junior to both the ABL Secured Parties and the Prepetition Noteholders. One party indicated it would be willing to provide DIP financing that was junior to the liens held by the ABL Secured Parties Lenders, but would require priming of the Prepetition Noteholders—likely resulting in expensive and distracting litigation at the outset of these Chapter 11 Cases.

106. The Debtors believe, in consultation with their advisors, that the DIP Facilities represent the Debtors' best alternative for postpetition financing under the circumstances as they provide the Debtors with sufficient and immediate liquidity on terms negotiated at arms' length. Indeed, due largely to the fact that substantially all of the Assets are encumbered under the Prepetition Credit Facilities, the Debtors believe that a workable DIP financing, and successful start to the Chapter 11 Cases, is likely only if such DIP financing has the support of, or is provided by, the Prepetition Secured Parties. Moreover, as with any third-party proposal, the Debtors would have incurred execution risk associated with a new lender transaction, including material timing and due diligence constraints, necessarily involving the payment of additional professional fees. In contrast, the proposed DIP Facilities offered by the DIP Lenders allow the Debtors to avoid the need to engage in a costly and time-consuming priming fight at the outset of these Chapter 11 Cases.

107. Accordingly, based on the foregoing and those additional reasons set forth in the DIP Motion, I believe that the relief requested in such motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors' estates and their creditors and all other parties in interest.

CONCLUSION

108. The Debtors' ultimate goal in these Chapter 11 Cases is to maximize the value of their estates for the benefit of their stakeholders. A Sale of the Assets via Section 363 is the best way to accomplish this. In the near term, however, to minimize any loss of value to their business, the Debtors' immediate objective is to promote stability and maintain ordinary course operations during the early stages of these Chapter 11 Cases, with as little disruption to operations as possible. I believe that if the Court grants the relief requested in each of the First Day Motions, the prospect for achieving these objectives and completing a successful sale of the Debtors' business will be substantially enhanced.

109. I hereby certify that the foregoing statements are true and correct to the best of my knowledge, information and belief and respectfully request that all of the relief requested in the First Day Motions be granted, together with such other and further relief as is just and proper.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 14th day of May, 2018.

The Rockport Company, LLC, *et al.*
Debtors and Debtors in Possession

/s/ Paul Kosturos
Paul Kosturos
Interim Chief Financial Officer

EXHIBIT A

Organizational Chart

The Rockport Group, LLC
Structure Chart