

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

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF PAYLESS HOLDINGS LLC, PAYLESS SHOESOURCE  
CANADA INC., PAYLESS SHOESOURCE CANADA GP INC. AND THOSE OTHER  
ENTITIES LISTED ON SCHEDULE "A" HERETO**

**APPLICATION OF PAYLESS HOLDINGS LLC UNDER SECTION 46 OF THE  
*COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AFFIDAVIT OF MICHAEL SCHWINDLE  
(Sworn April 6, 2017)**

I, Michael Schwindle, of the City of Lawrence, in the State of Kansas, United States of America, MAKE OATH AND SAY:

1. I am the Senior Vice President and Chief Financial Officer of Payless Holdings LLC ("**Payless Holdings**" or the "**Applicant**"), which is the ultimate parent company of 28 affiliated debtors and debtors in possession that recently filed voluntary petitions for relief pursuant to Chapter 11 of the U.S. Bankruptcy Code (collectively with Payless Holdings, the "**Chapter 11 Debtors**"). I have served in this role since May 2015 having previously served in similar financial leadership positions at other retail companies for over ten years. I also serve as the Vice President and Treasurer, and serve as a director, of each of the entities in the Payless Canada Group (defined below). As such, I have personal knowledge of the matters to which I hereinafter depose in this Affidavit. Where I do not possess personal knowledge, I have stated the source of my information and, in all such cases, believe it to be true.

2. I swear this Affidavit in support of an application by Payless Holdings in its capacity as foreign representative of itself as well as the other Chapter 11 Debtors for, *inter alia*:

- (a) recognition of the Chapter 11 Cases (defined below) as foreign main proceedings pursuant to Part IV of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA");
- (b) recognition of certain First Day Orders (defined below);
- (c) the appointment of Alvarez & Marsal Canada Inc. ("A&M") as Information Officer;
- (d) the granting of the DIP ABL Lenders' Charge (defined below);
- (e) the granting of the Administration Charge (defined below); and
- (f) the granting of the Canadian Unsecured Creditors' Charge (defined below).

3. All dollar references in this Affidavit are in U.S. dollars unless otherwise specified.

**A. Background**

4. On April 4, 2017 (the "**Petition Date**"), each of the Chapter 11 Debtors filed voluntary petitions for relief (the "**Petitions**") pursuant to Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the Eastern District of Missouri (the "**U.S. Court**").

5. I am aware that copies of the Petitions will be attached to the affidavit of Francesca Del Rizzo (the "**Del Rizzo Affidavit**"), a legal assistant with the law firm Osler, Hoskin & Harcourt LLP ("**Osler**") – which is Canadian Counsel to the Chapter 11 Debtors – and will be provided to the Court at or before the hearing of this Application.

6. The cases commenced by the Chapter 11 Debtors in the U.S. Court are referred to in this Affidavit as the “**Chapter 11 Cases**”.

7. The Chapter 11 Debtors have filed several motions with the U.S. Court and on April 5, 2017, the U.S. Court heard motions (the “**First Day Motions**”) for various interim or final orders (collectively, the “**First Day Orders**”), including (all defined below):

- (a) Foreign Representative Motion;
- (b) Joint Administration Motion;
- (c) Employee Wages Motion;
- (d) Insurance Motion;
- (e) Customer Programs Motion;
- (f) Cash Management Motion;
- (g) DIP Motion;
- (h) Critical Vendors and Shippers Motion;
- (i) Tax Motion; and
- (j) Surety Bond Motion.

8. Capitalized terms in this Affidavit that are not otherwise defined have the meaning given to them in my declaration filed in support of the First Day Motions (defined below) attached without exhibits as **Exhibit “A”** (my “**First Day Declaration**”).

9. I am aware that copies of the First Day Orders will be attached to the Del Rizzo Affidavit.

10. In support of the First Day Motions, I submitted my First Day Declaration to the U.S. Court. It provides a comprehensive overview of the Chapter 11 Debtors and their non-debtor affiliates (collectively, “**Payless**”) and the events leading to the commencement of the Chapter 11

Cases. As such, this Affidavit provides a more general overview and focuses on giving this Court information to support the finding of the centre of main interest (“COMI”) of each of the Chapter 11 Debtors and to support the request for recognition of the foreign main proceedings and the First Day Orders, and the granting of the Administration Charge, the Canadian Unsecured Creditors’ Charge and the DIP ABL Lenders’ Charge. I am not aware of any other foreign recognition insolvency proceedings regarding the Chapter 11 Debtors.

**B. The Business**

**(a) Overview**

11. Payless is an iconic American footwear retailer selling quality shoes at affordable prices in a self-select environment. Payless was founded in 1956 in Topeka, Kansas, where it is still headquartered today. Payless markets its brands through brick and mortar stores, shopping malls, and e-commerce internet sites. There are nearly 4,400 Payless stores in more than 30 countries around the globe and Payless employs approximately 22,000 people.

12. Payless had approximately \$2.3 billion in net sales in fiscal year 2016 and \$95 million of EBITDA. It is the largest specialty family footwear retailer in the Western hemisphere and the second largest footwear retailer by unit sales in the United States. If the Chapter 11 Debtors can restructure their balance sheet, they are well-positioned for continued success in the budget-conscious family footwear market.

13. Core to the Chapter 11 Debtors’ business model is the customer loyalty generated by their core demographic. Payless is particularly popular in the women’s and children’s shoes market. To maintain its loyal consumer base, Payless’s merchandising strategy necessitates having a wide selection of core products alongside the latest fashion styles at prices significantly below that of

most competitors. Payless's business model is highly dependent on identifying on-trend merchandise through its branding and merchandising partners. Payless utilizes a design team, agent partners and third-party consultants to monitor trends and provide input on each lot of shoes. The Chapter 11 Debtors have various branding relationships that assist them in bringing to market popular brands and designs to follow the trends of their core customer groups.

14. Payless has a competitive advantage because of its well-established global supply chain, as described below, which includes more than ninety manufacturing partners that produce over 110 million pairs of shoes annually. Payless exercises significant purchasing power with suppliers and distributors, allowing it to provide high quality, low cost merchandise to Payless customers, and to bring to market popular brands and designs through, *e.g.*, design partnerships and license agreements that grant Payless rights to use popular broadly-recognized brands such as Disney, DreamWorks, Star Wars and Marvel.

**(b) The Chapter 11 Debtors**

15. All of the Chapter 11 Debtors operate on an integrated basis. The Chapter 11 Debtors consist of Payless Holdings and 25 wholly-owned subsidiaries that are incorporated or established under the laws of the United States, as well as two wholly-owned subsidiary entities incorporated under the laws of Canada (Payless ShoeSource Canada Inc., Payless ShoeSource GP Inc.) and one limited partnership established under the laws of Ontario (Payless ShoeSource Canada LP). These three Canadian entities are collectively referred to in this Affidavit as the "**Payless Canada Group**". A copy of the Payless Organization Chart is attached as **Exhibit "B"**.

16. Although the limited partnership Payless ShoeSource Canada LP is not an Applicant in this proceeding, the Applicant seeks to have a stay of proceedings and other benefits of the relief sought

in this Application extended to Payless ShoeSource Canada LP. Payless ShoeSource Canada LP is integral to the business of the Payless Canada Group and is the principal vehicle through which the Payless Canada Group's business is conducted. Payless ShoeSource Canada LP is also a guarantor under the DIP ABL Agreement (defined and described below).

17. For the fiscal year ending 2016, Payless generated approximately \$2,280.5 million in net revenues on a consolidated basis. Canadian sales accounted for about 7% of those net revenues; U.S. sales amounted to almost 75%.<sup>1</sup>

18. For the fiscal year ending 2016, Payless had assets per balance sheet with a book value of approximately \$1,041.5 million and liabilities of \$1,342.5 million on a consolidated basis.

**(c) The Financial Position of the Payless Canada Group**

19. As private companies, there are no stand-alone audited financial statements for the entities that comprise the Payless Canada Group. A copy of the unaudited, combined balance sheet for the Payless Canada Group dated February 25, 2017 is attached hereto as **Exhibit "C"**. A review of the information contained in the balance sheet follows:

**(i) Assets**

20. As of February 25, 2017, the Payless Canada Group had total assets of approximately \$142,247,000. A significant proportion of these assets is represented by a note payable owing from Payless Financing Inc., reported on the balance sheet as a note receivable of approximately \$101,351,000. As discussed in more detail below, Payless Canada Group agreed in 2014 to subordinate its right to repayment of this intercompany note receivable to the repayment of the

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<sup>1</sup> This includes the U.S., Puerto Rico, Guam, Saipan and the Virgin Islands.

Senior Indebtedness, as defined in the ABL/Term Loan Intercreditor Agreement, which includes Payless's ABL Credit Facility obligations and its obligations under the First Lien Term Loan (all as described and defined below). Net of the intercompany note payable, the Payless Canada Group's total assets have a book value of approximately \$40,896,000.

21. As of February 25, 2017, the Payless Canada Group's current assets (excluding the intercompany note receivable) represented \$31,624,000 and consisted of:

- (a) Cash and Cash Equivalents: \$4,448,000;
- (b) Third Party Accounts Receivable: \$29,000;
- (c) Inventory: \$25,668,000;
- (d) Prepaid Expenses: \$543,000; and
- (e) Other Current Assets: \$907,000.

22. As of February 25, 2017, the Payless Canada Group's non-current assets represented \$9,272,000 and consisted of:

- (a) Property and Equipment: \$8,673,000; and
- (b) Other LT Assets: \$599,000.

**(ii) Liabilities**

23. As of February 25, 2017, the Payless Canada Group's total liabilities were \$80,398,903.

These liabilities consisted of:

- (a) Accounts Payable, Trade: \$2,689,000;
- (b) Accounts Payable, Other: \$544,000;

- (c) Income Tax Payable: \$196,000;
- (d) Accrued Salary Benefit: \$846,000;
- (e) Other Accrued Tax: \$889,000;
- (f) Other Accrued Expenses: \$820,000;
- (g) Other Long Term Liabilities: \$4,266,000;
- (h) Interunit LTD Payables: \$70,149,000.

24. The Interunit LTD Payables consist of an intercompany note owed to a Payless entity that is not a Chapter 11 Debtor and intercompany trade payables owed to various Chapter 11 Debtors for inventory, royalties, service fees, expense reimbursements, merchandise planning and buying fees, store supplies and other matters. As of February 25, 2017, the Payless Canada Group owed approximately \$9,050,000 to U.S. Chapter 11 Debtors, including approximately \$6,236,000 to Payless ShoeSource Distribution, Inc. for inventory and approximately \$2,279,000 to Payless ShoeSource Worldwide, Inc. for royalties, service fees and expense reimbursements. The Payless Canada Group acquires all of its inventory from other entities within Payless and is not liable to any third party creditors in respect of any of its inventory.

25. As of February 25, 2017, the Payless Canada Group also owed \$61,098,992, consisting of principal and interest, to a Payless entity that is not a Chapter 11 Debtor. This debt is discussed in more detail below.

**(d) Employees**

26. A detailed description of Payless's employees, including information on wages and benefits of the Payless Canada Group, is set out in the Employee Wages Motion (defined below).



Payless has more than 22,000 employees, with the vast majority working in the United States. As of March 1, 2017, more than 750 employees worked out of the corporate headquarters in Topeka, Kansas.

27. As of March 1, 2017, the Payless Canada Group employed approximately 600 full-time employees and 1,500 part-time employees. Five of the full-time employees work at the regional office in Toronto, and another 15 work in field management functions throughout Canada. The rest of the employees work in the stores.

	<b>Full-Time</b>	<b>Part-Time</b>	<b>Total</b>
<b>Regional Office</b>	5		5
<b>Field Management</b>	15		15
<b>Stores</b>	579	1,483	2,062
<b>Canada</b>	<b>599</b>	<b>1,483</b>	<b>2,082</b>

28. Employees are typically paid wages or salary, and full-time employees also receive benefits (e.g., life insurance and extended health care), which vary depending on the employee's role. Payroll is processed in the U.S. through Payless's consolidated cash management system. The Payless Canada Group employees are paid from the Chapter 11 Debtors' head office in the United States on a biweekly basis, one week in arrears (approximately \$810,000 after withholding obligations is paid on a biweekly basis in the aggregate).

29. The Payless Canada Group offers a Registered Retirement Savings Plan ("RRSP") and a Deferred Profit Sharing Plan ("DPSP") matching program to full-time employees. Employees can contribute up to 13% of their salary to the group RRSP program and the Payless Canada Group provides a DPSP match of 50% on the first 5% of employee contributions.

30. There is no union representation for any of the Canadian employees.

31. As described in more detail in the Employee Wages Motion, as it relates to the Canadian employees, the Chapter 11 Debtors are, for the time being, seeking relief to continue to pay and/or perform, as applicable, employee related obligations. The Payless Canada Group pays its priority payables in the ordinary course, including employee wages, vacation pay, employee source deductions and federal and provincial sales tax. The Payless Canada Group currently has a vacation pay liability of approximately \$850,000. The Payless Canada Group also has approximately \$260,000 in accrued but unpaid Canadian payroll taxes and related amounts. The Chapter 11 Debtors intend to honour vacation entitlements and remit payroll taxes and related deductions to the appropriate authorities in the ordinary course.

**(e) Stores in Canada**

32. Payless currently operates 258 stores in Canada, with almost half of them in Ontario:

<b>Province</b>	<b>Number of Stores</b>
Alberta	38
British Columbia	34
Manitoba	10
New Brunswick	5
Newfoundland	3
Nova Scotia	9
Ontario	121
Prince Edward Island	2
Quebec	27
Saskatchewan	9

33. These stores are leased from different landlords, including Smart Centres, RioCan, 20 Vic Management, Morguard, Cambridge, Primaris, Bentall, Cadillac Fairview and Oxford, among many others.

34. Approximately 56 of the Canadian store leases are subject to an indemnity with cross-default provisions such that an Event of Default under the lease will occur if the “Indemnifier” becomes bankrupt or insolvent, or takes the benefit of any statute for bankrupt or insolvent debtors. The “Indemnifier” in the applicable leases is Payless ShoeSource, Inc. (incorporated under the laws of Missouri), which is a Chapter 11 Debtor. The Payless Canada Group therefore requires a stay of proceedings to maintain the status *quo* and prevent landlords from exercising rights that they may have pursuant to these cross-default provisions.

35. The Chapter 11 Debtors made a business decision not to pay the April rent for U.S. operations. The April rent owing by the Payless Canada Group was not segregated from the rent owing for U.S. operations and so was also missed. At this time, payment of the April rent is stayed pursuant to the Chapter 11 Cases. However, the Chapter 11 Debtors intend to seek an order authorizing the payment of the April rent of the Payless Canada Group when the final orders in respect of the first day matters are sought in early May. It is anticipated that the April rent owing by the Payless Canada Group will be paid following the issuance of such final orders in the Chapter 11 Cases.

**(f) Merchandise in Canada Sourced through U.S.**

36. The Payless Canada Group’s assets principally consist of merchandise, much of which is stored at Payless stores in Canada and other warehouses and distribution facilities across Canada.

37. The buying of merchandise and logistics functions for the Payless Canada Group are run out of the integrated operations in the U.S. head office. The Payless Canada Group does not independently design or source its own merchandise, nor does it maintain the licensing partnerships that allow the Chapter 11 Debtors to offer their partners' designs under the Payless name at much cheaper prices for the consumer. As described above, Payless is able to generate significant benefits for all of its operating subsidiaries by maximizing its purchasing power through an integrated supply chain managed out of Payless's head office.

38. Payless focuses on developing core products internally rather than retailing shoes developed by third parties, which dramatically reduces product costs, and allows Payless to sell products at value-positioned price points. Direct sourcing as a percentage of Payless's product lines has increased from 59% in 2011 to 70% in 2016. Payless has unique relationships with its vendors, primarily based out of China and Vietnam.

39. Payless's business model depends heavily on the Chapter 11 Debtors' well-established and seamless global supply chain, which in turn depends on the Chapter 11 Debtor's long-standing relationships with key supplier factories. The factories provide shoes made to Payless's specifications at the right volume and at the right price. The Chapter 11 Debtors' ability to deliver their products in a timely manner is critically important to their financial performance and depends on a seamless interaction with various third-party service providers who ship and store the Chapter 11 Debtors' products.

40. Payless's global sourcing networks include more than ninety manufacturing partners that produce over 110 million pairs of shoes annually. The Payless Canada Group, on its own, does not

have sufficient buying power to replicate these arrangements; it relies entirely on the buying power and sourcing relationships of the entire Payless enterprise.

41. As described in more detail below, the Payless Canada Group incurs various intercompany accounts payable, including in connection with merchandise planning and buying fees, supply, royalties and expense reimbursements.

**(g) Payless Canada Group's Integrated Operations with U.S.**

42. The Payless Canada Group's operations are fully integrated with Payless's U.S. operations.

In particular:

- (a) Canadian sales make up only about 7% of total Payless net revenues;
- (b) Only one of the senior executives of the entities in the Payless Canada Group resides in Canada, the President of Payless ShoeSource Canada Inc. and Payless ShoeSource Canada GP Inc. All of the other senior executives reside in the U.S.;
- (c) Only one of the directors of the entities in the Payless Canada Group resides in Canada. All of the other directors reside in the U.S.;
- (d) All corporate, strategic, financial, inventory sourcing and other major decision-making occurs in the U.S.;
- (e) The Payless Canada Group is entirely reliant on U.S. managerial functions for all overhead services including the accounting and finance, buying, logistics, marketing, strategic direction, IT and other functions;

- (f) Each of the entities in the Payless Canada Group is a party to a Treasury Services and Loan Agreement with Payless Finance, Inc., one of the Chapter 11 Debtors, wherein Payless Finance, Inc. has agreed to provide certain treasury and banking related services, and make certain financial accommodations, to the borrowers under that agreement.
- (g) The Payless Canada Group is entirely dependent on its U.S. counterparts for all of the licensing agreements, design partnerships and company-owned brands. All or substantially all of the trademarks and IP are owned by U.S. entities outside of the Payless Canada Group.
- (h) Most of the data for the Canadian operations is housed within the same IT systems (located and operated out of the U.S.) that support both the Canadian and U.S. operations;
- (i) The Payless Canada Group entities maintain 13 CAD and USD bank accounts (together, the “**Canada Operations Accounts**”) with several of the major Canadian banks, primarily established to facilitate the Chapter 11 Debtors’ retail operations in Canada. The Canada Operations Accounts largely operate as a self-contained cash management system within Payless’s overall cash management system (the “**Cash Management System**”) - an integrated, centralized cash management system which is operated by the Treasury team in the U.S., to collect, transfer, and disburse funds generated by their operations. The Cash Management System, which is described in more detail in my First Day Declaration and the Cash Management Motion (defined below), facilitates cash monitoring, forecasting, and

reporting and enables the Chapter 11 Debtors to maintain control over the administration of all of their bank accounts, including the Canada Operations Accounts. The Cash Management System reflects Payless's globally integrated business, and is vital to the Chapter 11 Debtors' ability to conduct business across the globe and is tailored to meet their operating needs;

- (j) The Chapter 11 Debtors, including the Payless Canada Group, offer and engage in certain customer programs, including (a) customer gift card programs; (b) returns, exchanges and refunds; (c) promotional programs such as the "Payless Rewards" program; (d) warranty-related programs related to the Chapter 11 Debtors' products; (e) merchant credit card agreements; and (f) other similar programs. The Payless Canada Group is dependent on the Chapter 11 Debtors for the administration of these customer programs.

**C. The Chapter 11 Debtors' Prepetition Capital Structure and Indebtedness**

43. The Chapter 11 Debtors' pre-petition capital structure is described in more detail in my First Day Declaration. The following is a summary as of March 30, 2017, with further descriptions of each debt obligation provided below:

<b>Debt Obligation</b>	<b>Debt Facility Size</b>	<b>Approximate Amount Outstanding as of Petition Date</b>	<b>Maturity Date</b>
ABL Credit Facility	\$300 million	\$187 million	March 14, 2019
First Lien Term Loan	\$520 million	\$506 million	March 11, 2021
Second Lien Term Loan	\$145 million	\$145 million	March 11, 2022

**(a) ABL Credit Facility**

44. Payless, Inc., as the lead borrower, the other Chapter 11 Debtors party thereto as borrowers and guarantors, and Wells Fargo Bank, National Association (“**Wells Fargo**”), as administrative agent, entered into a revolving credit facility documented by a Credit Agreement dated as of October 9, 2012 (as amended, restated, modified, and/or supplemented, and as in effect immediately prior to the Petition Date, the “**ABL Credit Facility**”). Under the ABL Credit Facility which has two tranches bearing interest at different rates, the Chapter 11 Debtors may draw up to \$300 million for general corporate purposes. The ABL Credit Facility is secured by a priority lien over substantially all tangible and intangible assets of the Chapter 11 Debtors including, among other things and subject to certain limitations, thresholds and exclusions, accounts, cash, inventory, and real property (such collateral package, the “**ABL Priority Collateral**”). The ABL Credit Facility is also secured by a junior lien on the remaining assets of the Chapter 11 Debtors including, among other things and subject to certain limitations, thresholds and exclusions, equipment, intellectual property and stock pledges (such collateral package, the “**Term Loan Priority Collateral**”). None of the Payless Canada Group entities is a borrower or guarantor under the ABL Credit Facility. As of the Petition Date, an aggregate balance of approximately \$187 million remains outstanding under the ABL Credit Facility.

45. Due to the Chapter 11 Debtors’ diminishing liquidity and decreasing borrowing base, and in an effort to prepare for the Chapter 11 Cases, the U.S. Chapter 11 Debtors recently agreed to enter into “cash dominion” with Wells Fargo. The U.S. Chapter 11 Debtors agreed, *inter alia*, to cause all funds in certain of their deposit accounts, subject to any nominal minimum balances required, to be swept daily into a “Concentration Account” owned by Wells Fargo. The Payless Canada Group is not subject to any cash dominion in respect of the ABL Credit Facilities.



**(b) First Lien Term Loan**

46. Payless, Inc., Payless Finance, Inc., Payless ShoeSource, Inc., and Payless ShoeSource Distribution, Inc., as borrowers, the other Chapter 11 Debtors party thereto as guarantors, Morgan Stanley Senior Funding, Inc., as administrative and collateral agent, and the lenders party thereto are parties to a First Lien Term Loan and Guarantee Agreement, dated as of March 11, 2014 (as amended, restated, modified, and/or supplemented and in effect immediately prior to the Petition Date, the “**First Lien Term Loan Agreement**”). The First Lien Term Loan Agreement provides a \$520 million first lien term loan secured by a first priority lien in the Term Loan Priority Collateral and a second priority lien in the ABL Priority Collateral. As of the Petition Date, an aggregate amount of \$506 million was outstanding under the First Lien Term Loan Agreement. None of the Payless Canada Group entities is a borrower or guarantor under the First Lien Term Loan Agreement.

**(c) Second Lien Term Loan**

47. Payless, Inc., Payless Finance, Inc., Payless ShoeSource, Inc., and Payless ShoeSource Distribution, Inc., as borrowers, the other Chapter 11 Debtors thereto as guarantors, Morgan Stanley Senior Funding, Inc., as administrative and collateral agent, and the lenders party thereto are parties to a Second Lien Term Loan and Guarantee Agreement, dated as of March 11, 2014 (as amended, restated, modified, and/or supplemented and in effect immediately prior to the Petition Date, the “**Second Lien Term Loan Agreement**” and together with the First Lien Term Loan Agreement, the “**Term Loan Agreements**”). The Second Lien Term Loan Agreement provides a \$145 million second lien term loan secured by a second priority lien in the Term Loan Priority Collateral and a third priority lien in the ABL Priority Collateral. As of the Petition Date, an aggregate amount of \$145 million was outstanding under the Second Lien Term Loan Agreement.

None of the Payless Canada Group entities is a borrower or guarantor under the Second Lien Term Loan Agreement.

**(d) Swap Agreements**

48. Pursuant to the Term Loan Agreements, Payless is permitted to enter into interest rate swap transactions to mitigate certain risks, including in connection with hedging the variable interest rates contemplated thereunder. Presently, Payless is party to three such swap transactions, one with respect to the First Lien Term Loan Agreement and two with respect to the Second Lien Term Loan Agreement, each with Morgan Stanley Capital Services LLC as counterparty.

**(e) Intercreditor Agreements**

49. The Chapter 11 Debtors' prepetition indebtedness is also subject to two different intercreditor agreements, generally referred to as the ABL/Term Loan Intercreditor Agreement and the Term Loan Intercreditor Agreement (together, the "**Intercreditor Agreements**"). The ABL/Term Loan Intercreditor Agreement governs the relative contractual rights of lenders under the ABL Credit Facility, the First Lien Term Loan Agreement and the Second Lien Term Loan Agreement. The Term Loan Intercreditor Agreement, in turn, governs the relative contractual rights of lenders under the First Lien Term Loan Agreement, on the one hand, and the lenders under the Second Lien Term Loan Agreement, on the other hand. None of the Payless Canada Group entities are party to the Intercreditor Agreements.

**(f) Payless Canada Group Trade Debt**

50. The Payless Canada Group estimates that, as of March 27, 2017, arms'-length trade creditors are owed approximately \$2.6 million in unsecured trade debt. The largest arms'-length trade creditor, Kuehne & Nagel Ltd. ("**K&N**"), which provides logistics and freight operations, is

owed approximately \$1.2 million. More than \$400,000 is owed to various store maintenance contractors. It is anticipated that K&M will be paid in the ordinary course in accordance with the order granted pursuant to the Critical Vendors and Shippers Motion.

51. As mentioned above, as of February 25, 2017, the Payless Canada Group also owed approximately \$9.05 million in payables to certain other Chapter 11 Debtors outside of the Payless Canada Group, including for merchandise (approximately \$6.236 million to Payless ShoeSource Distribution, Inc.) and non-merchandise, such as royalties, service fees, expense reimbursement, merchandise planning and buying fees (approximately \$2.7 million to Payless ShoeSource Worldwide, Inc. and Payless ShoeSource Merchandising, Inc.).

**(g) Payless Canada Group Intercompany Debt**

52. As described above, as of February 25, 2017, Payless ShoeSource Canada Inc., a member of the Payless Canada Group, was owed approximately \$101 million, inclusive of accrued interest, from by Payless Finance, Inc., a Chapter 11 Debtor. A copy of the amended and restated promissory note due October 9, 2022 is attached hereto as **Exhibit “D”**. Payless Finance, Inc.’s obligation to Payless ShoeSource Canada Inc. in respect of this promissory note is unsecured. Moreover, pursuant to the Intercompany Promissory Note dated March 11, 2014, attached hereto as **Exhibit “E”**, Payless ShoeSource Canada Inc. has agreed to subordinate repayment of this debt to the payment by Payless Finance, Inc. of Senior Indebtedness.

53. As of February 25, 2017, Payless ShoeSource Canada Inc. owed approximately \$61 million, inclusive of accrued interest, to Collective Brands II Cooperatief UA, a Netherlands Payless entity that is not a Chapter 11 Debtor. A copy of the amended and restated promissory note for CDN\$59,034,006 due April 28, 2016 is attached hereto as **Exhibit “F”**. A copy of the

amended and restated promissory note for CDN\$22,965,500 due July 14, 2016 is attached hereto as **Exhibit “G”**.

**D. Payless Canada Group PPSA Searches**

54. I have been advised by Mr. Patrick Riesterer, a lawyer at Osler, and believe that lien searches were conducted on March 27, 2017 against each of the Chapter 11 Debtors under the *Personal Property Security Act* (or equivalent legislation) in each Canadian province and territory (the “**PPSA Searches**”). I have been further advised by Mr. Riesterer of Osler and believe that the PPSA Searches indicate, *inter alia*, that three landlords in Quebec have registered moveable hypothecs against the universality of Payless ShoeSource GP Inc. property located on the premises of specific stores and that several equipment lessors have registered security interests against leased equipment and related assets. These equipment leases generally relate to motor vehicles. No creditor has perfected a general security agreement.

**E. Recent Events**

55. A detailed description of the events leading up to the Chapter 11 filing are set out in my First Day Declaration and is not repeated herein. Briefly, some of the recent events impacting the Chapter 11 Debtors are as follows.

56. Since early 2015, the Chapter 11 Debtors have experienced a top-line sales decline driven primarily by (a) a set of significant and detrimental non-recurring events, (b) foreign exchange rate volatility, and (c) challenging retail market conditions. These pressures led to the Chapter 11 Debtors’ inability to both service their prepetition secured indebtedness and remain current with their trade obligations. Notwithstanding these pressures, the Chapter 11 Debtors’ core business remains strong and operates in an underserved market.

57. In an effort to address their financial difficulties, the Chapter 11 Debtors have taken significant steps to evaluate and implement cost reduction initiatives in recent months. These initiatives have included (a) closing 128 brick-and-mortar stores, (b) terminating approximately 145 employees from their corporate offices and support organizations, (c) pursuing rent concessions across remaining stores, and (d) managing liquidity constraints by stretching payments to specialized third-party vendors and suppliers that are crucial to the Chapter 11 Debtors' operations.

**(a) Plan Support Agreement and Debtor-in-Possession Financing**

58. For the past several months, the Chapter 11 Debtors have been working closely with a steering committee of their secured term loan lenders to develop a comprehensive financing restructuring and recapitalization plan that will be implemented through the Chapter 11 Cases.

59. Specifically, the Chapter 11 Debtors have entered into a Plan Support Agreement (the "PSA") that has the support of parties who hold or control approximately 2/3 in amount of each of the Chapter 11 Debtors' first and second lien term loans. In addition, and as described in greater detail below under the heading "DIP Motion", the Chapter 11 Debtors have also secured access to up to \$305 million in new money DIP ABL financing (the "**DIP ABL Credit Facilities**") and up to \$80 million in new money DIP term financing (the "**DIP Term Loan Facility**" and together with the DIP ABL Credit Facilities, the "**DIP Facilities**"). A copy of the PSA is attached hereto as **Exhibit "H"**.

60. Together, the PSA and DIP Facilities enable the Chapter 11 Debtors to (a) obtain immediate and long-term financial support to address a distressed supply chain and otherwise execute on their strategic plan, (b) right-size their balance sheet by significantly reducing annual

debt service and total outstanding debt from \$838 million to approximately \$469 million (inclusive of assumed revolving loans), and (c) rationalize their store fleet to eliminate unprofitable store locations and renegotiate above-market leases.

61. At this time, it is not anticipated that any Canadian stores will be closed. The DIP ABL Agreement (defined below) requires that the Chapter 11 Debtors bring a motion for approval of the closure of 389 stores (the “**Initial Store Closure Sale**” as defined therein), plus an additional six hundred (600) stores to the extent contemplated by the Approved Budget, but specifically provides that no stores of the Payless Canada Group shall be required in the Initial Store Closure Sale. The Chapter 11 Debtors are not seeking recognition of the Order in respect of the Initial Store Closure Sale at this time.

62. As described below, the PSA and DIP Facilities provide for certain milestones designed to ensure that the Chapter 11 Debtors move expeditiously towards confirmation of a Plan. The PSA also contains certain conditions and covenants, including (a) achieving certain forecasted rent concessions, EBITDA targets, and inventory receipts, and (b) renegotiating terms of their existing joint venture agreements such that they are on market terms within 100 days of the Petition Date.

63. With the PSA and DIP Facilities now in place, Payless intends to pursue a reorganization plan consistent with the PSA and emerge expeditiously from chapter 11 as a stronger and well-capitalized company.

#### **F. Urgent need for relief in Canada**

64. The Payless Canada Group and the other Chapter 11 Debtors are in urgent need of a stay of proceedings and the recognition of the First Day Orders.

65. As discussed above, landlords could seek to terminate approximately 56 of the Canadian store leases due to the commencement of the Chapter 11 Cases. If the landlords seek to exercise rights and remedies under the leases as a result of the commencement of the Chapter 11 Cases, the Payless Canada Group's business could suffer severe and irreparable damage. Moreover, such action could give rise to an event of default under the DIP ABL Agreement (defined below), thereby placing Payless's global operations in jeopardy.

66. In addition, Payless urgently requires an injection of liquidity. The DIP ABL Lenders (defined below) have included a condition in the DIP ABL Agreement that requires the Chapter 11 Debtors to obtain an order of this Court recognizing and giving effect to the DIP Order within five (5) business days of the day that the DIP Order is issued by the U.S. Court. Further, the DIP ABL Lenders have refused to include any collateral of the Payless Canada Group in the Chapter 11 Debtors' borrowing base until such time as the DIP Order is recognized by this Court. The Chapter 11 Debtors need access to all of the funds available under the DIP ABL Facilities forthwith. As such, it is critical that the Applicant obtain recognition of the First Day Orders as soon as possible to permit the Chapter 11 Debtors to access the liquidity necessary for them to continue as a going concern and to implement the restructuring contemplated by the PSA.

67. If the restructuring contemplated by the PSA is implemented, it is anticipated that the Payless Canada Group will continue as a going concern, with limited changes to its existing business. It is anticipated that the transaction will result in continuing employment for approximately 2100 Canadian employees. In addition, it is anticipated that landlords, trade creditors and other third party stakeholders will benefit from the continued operation of the Payless Canada Group's business and that the majority of the stakeholders will be unaffected creditors who are anticipated to continue to be paid in the ordinary course.

68. If, however, the restructuring transaction contemplated by the PSA is not implemented, a sales process for the business and assets of the Chapter 11 Debtors will likely be conducted, which could result in the closure of Canadian stores or, in the worst case scenario, liquidation of the entire Payless Canada Group's business. The DIP ABL Agreement provides that if the Chapter 11 Debtors fail to file the PSA (which is required to be terms acceptable to the DIP ABL Lenders) by April 25, 2017, the Chapter 11 Debtors must, among other things, seek an order approving a sale or liquidation process for the Chapter 11 Debtor's assets, provided however that this Court's approval of any such sale or liquidation process shall be required in respect of the assets of the Payless Canada Group. In addition, should an event of default occur under the DIP ABL Agreement, the liquidation of the assets of the Payless Canada Group is a distinct possibility. As described above, the Payless Canada Group relies heavily on services, operations and supply provided by the U.S. Chapter 11 Debtors. Should the U.S. Chapter 11 Debtors cease operations, Payless Canada Group will not likely survive as a going concern.

69. In a liquidation, Payless Canada Group's creditors are likely to suffer a serious shortfall in the recoveries on their claims. Payless Canada Group's total assets are valued at approximately \$40,896,430, net of an intercompany debt that is unlikely to be repaid. The Payless Canada Group currently has liabilities of approximately \$80,398,903 and a large number of additional liabilities would be incurred if Payless Canada Group were to cease operations and liquidate its assets, including claims in respect of lease terminations, breach of contract and termination and severance pay for the Payless Canada Group's approximately 2100 employees. A going concern outcome is in the best interests of the Payless Canada Group and all of its stakeholders. A going concern outcome is only available if the relief sought is granted.



**G. Relief Sought**

**(a) Recognition of Foreign Proceedings**

70. The Chapter 11 Debtors seek recognition of the Chapter 11 Cases as “foreign main proceedings” pursuant to Part IV of the CCAA. Other than the three entities in the Payless Canada Group, all of the remaining 25 Chapter 11 Debtors are incorporated under U.S. law, have their registered head office and corporate headquarters in the U.S., carry out their business in the U.S., and have all or substantially all of their assets located in the U.S. The Payless Canada Group uses an office in Etobicoke, Ontario as its chief executive office, although as discussed above, only minimal administrative functions are carried out in Canada – the Payless Canada Group is for all intents and purposes, administered and managed out of the U.S. The Payless Canada Group also maintains books and records at Payless’s head office in Topeka, Kansas.

71. As described above, Payless is managed on a consolidated basis and its Canadian operations are entirely dependent on and integrated with the U.S. operations. The Payless Canada Group would not be able to function as independent entities without the corporate functions performed by the U.S. Chapter 11 Debtors in the U.S.

**(b) Recognition of the First Day Orders**

72. By operation of the Bankruptcy Code, the Chapter 11 Debtors obtained the benefit of a stay upon filing the voluntary petitions with the U.S. Court. A stay of proceedings in Canada is essential to protect the efforts of Payless to proceed with the Chapter 11 Proceedings and to formulate a restructuring plan. A stay in Canada is also necessary due to the cross-default provisions in certain of the Canadian store leases.

73. On April 5, 2017, the U.S. Court held a hearing in respect of the First Day Motions and on the same day entered the orders requested. At this time, the Applicant is seeking recognition of ten (10) of the Orders granted by the U.S. Court.

74. The First Day Motions that the Chapter 11 Debtors seek to recognize can be summarized as follows:

- (a) *Debtors' Motion Seeking Entry of an Order Authorizing Payless Holdings to serve as Foreign Representative on behalf of the Debtors' Estates* (the “**Foreign Representative Motion**”): Pursuant to this motion, Payless Holdings is authorized to act as the “foreign representative” in order to seek the relief sought in this Application.
- (b) *Debtors' Motion Seeking Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief* (the “**Joint Administration Motion**”): this motion seeks an order authorizing the joint administration of the various chapter 11 cases filed by the Chapter 11 Debtors and related procedural relief
- (c) *Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses and (B) Continue Employee Benefits Programs, and (II) Granting Related Relief* (“**Employee Wages Motion**”): This motion describes and seeks the continuation of the Chapter 11 Debtors' prepetition employee obligations in the ordinary course of business, and authority to pay and honour certain prepetition claims relating to, among other things, wages, salaries and other

compensation. With respect to Canada in particular, the Chapter 11 Debtors are seeking authorization, among other things, to (i) pay all outstanding prepetition amounts on account of unpaid wage and salary obligations for the Payless Canada Group employees consistent with past practice, and to continue paying such wage and salary obligations in the ordinary course of business; (ii) pay in a manner consistent with historical practice any unpaid withholding obligations and to continue to honour withholding obligations in the ordinary course of business during the administration of the Chapter 11 Cases; (iii) to pay all outstanding prepetition amounts incurred by Payless Canada Group employees on account of reimburseable expenses, and continue to pay such reimburseable expenses on a postpetition basis; (iv) pay obligations to eligible employees under the Canada Non-Insider Annual Incentive Plan (as defined in the Employee Wages Motion) on a postpetition basis in the ordinary course of business; and (v) continue paying obligations under the Canada Store Leader Extreme Rewards Incentive Program and the Canada Group Leader Incentive Program (as both those terms are defined in the Employee Wages Motion) on a postpetition basis in the ordinary course of business and consistent with their prepetition practices upon entry of the Final Order.

- (d) *Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing The Debtors to (A) Continue Insurance Coverage Entered into Prepetition and Satisfy Prepetition Obligations Related Thereto and (B) Renew, Supplement, or Purchase Insurance Policies, and (II) Granting Related Relief ("Insurance Motion")*: This motion describes and seeks authorization to pay certain prepetition amounts owing

(policy audit fees, deductible fees and brokerage and insurance administrator fees) on account of the Chapter 11 Debtors' insurance programs, which includes a number of insurance programs which cover the Payless Canada Group.

- (e) *Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Honor Certain Prepetition Obligations to Customers and Partners and (B) Continue Certain Customer and Partner Programs in the Ordinary Course of Business and (II) Granting Related Relief ("Customer Programs Motion"):*

This motion describes and seeks the continuation, in the discretion of the Chapter 11 Debtors, of various customer programs that Payless offers, including but not limited to: customer gift card programs; returns, exchanges, and refunds; warranty programs related to Payless's products, merchant credit card agreements, and other similar policies, programs and practices. It is essential that Payless maintain customer loyalty and goodwill by maintaining and honoring the programs.

- (f) *Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue Using the Cash Management System and (B) Maintain Existing Bank Accounts and Business Forms and Books And Records; (II) Authorizing Continued Intercompany Transactions; (III) Granting Administrative Expense Status to Post-Petition Intercompany Payments; and (IV) Granting Related Relief ("Cash Management Motion"):*

The Cash Management Motion contains a detailed description of the Chapter 11 Debtors' cash management system, including the Canada Operations Accounts, and seeks authorization for the ongoing use of that system, including access to the Canada Operations Accounts. It also seeks relief to permit ongoing intercompany advances.

- (g) *Debtors' Motion For Entry Of Interim And Final Orders (I) Authorizing Postpetition Financing, (II) Authorizing Use Of Cash Collateral, (III) Granting Liens And Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, (VI) Scheduling A Final Hearing, and (VII) Granting Related Relief (“DIP Motion”).* The DIP Motion is described below.
- (h) *Debtors' Motion Seeking Entry of Interim and Final Orders (A) Authorizing the Debtors to Pay Certain Prepetition Claims of (I) Critical Vendors and (II) Carrier, Warehousemen, and Section 503(B)(9) Claimants and (B) Granting Related Relief (“Critical Vendors and Shippers Motion”):* This motion describes critical brokers that provide specific merchandise and critical carriers and warehousemen that transport and store that merchandise. The Chapter 11 Debtors seek authority to be able to pay certain pre-petition amounts to such critical third parties, including K&N, to maintain stability during the opening days of the Chapter 11 Cases and to avoid jeopardizing the Chapter 11 Debtors' ability to serve their customers going forward.
- (i) *Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Payment of Certain Prepetition Taxes and Fees and (II) Granting Related Relief (“Tax Motion”):* In the ordinary course of business, the Chapter 11 Debtors collect, withhold, and incur various taxes and fees, and remit them to various federal, state, local and foreign governments, including taxing authorities in Canada. The Chapter 11 Debtors seek, *inter alia*, authorization to pay certain taxes and fees accrued or

incurred prepetition but not paid prepetition, and to maintain certain tax payments to avoid disruption to business operations.

- (j) *Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to Continue and Renew the Surety Bond Program on an Uninterrupted Basis, and (II) Granting Related Relief ("Surety Bond Motion")*: In the ordinary course of business, certain third parties require the Chapter 11 Debtors to post surety bonds to secure their payment or performance of obligations, including customs and tax obligations. The Canada Customs and Revenue Agency is one such obligee. The Chapter 11 Debtors seek authorization to maintain the existing surety bond program, including paying premiums as they come due, and to remit certain prepetition premiums. Failure to maintain or replace the surety bonds may prevent the Chapter 11 Debtors from undertaking essential functions.

**(c) DIP Motion**

75. As described in more detail in the DIP Motion, the Chapter 11 Debtors (including the Payless Canada Group) sought authority from the U.S. Court to (I) enter into a debtor-in-possession ("**DIP**") senior secured ABL credit agreement (the "**DIP ABL Agreement**") with: (a) Wells Fargo as Collateral Agent, Administrative Agent and Swing Line Lender, (b) Bank of America, N.A. as Syndication Agent, (c) Wells Fargo, Merrill Lynch, Pierce, Fenner & Smith Incorporated as Joint Lead Arrangers and Joint Bookrunners, and (d) the lenders who from time to time are a party thereto (collectively, the "**DIP ABL Lenders**") with respect to a senior secured credit facility in an aggregate principal amount not to exceed \$305 million (as above, the DIP ABL Facilities); and (II) enter into a DIP senior secured term loan agreement (the "**DIP Term Loan Agreement**") in the aggregate amount not to exceed \$80 million (as above, the DIP Term Loan

Facility) with: (a) Cortland Products Corp. as administrative agent and collateral agent and (b) the financial institutions who from time to time are a party thereto (collectively, the “**DIP Term Loan Lenders**”).

76. None of the entities in the Payless Canada Group are borrowers under the DIP ABL Agreement, but all of them are guarantors thereunder and the security interest will extend to substantially all of the Payless Canada Group’s assets. The DIP ABL Agreement was the result of intense and difficult negotiations between the Chapter 11 Debtors and the DIP ABL Lenders and, as part of those negotiations, the DIP ABL Lenders required the granting of a security interest over substantially all of the Payless Canada Group’s assets as a condition to providing the DIP ABL Facilities.

77. None of the entities in the Payless Canada Group are borrowers or guarantors under the DIP Term Loan Agreement. As such, no charge or other relief is being sought at this time with respect to the DIP Term Loan Agreement.

78. The DIP ABL Lenders will provide the DIP ABL Facilities in order to, *inter alia*, (a) repay specified pre-Petition obligations, including the \$176 million outstanding in respect of the ABL Credit Facility, (b) fund the Chapter 11 Cases, (c) make certain other specified payments, and (d) provide working capital during the Chapter 11 Cases in accordance with the approved budget. To the extent that the Chapter 11 Debtors intend to pay pre-petition debt obligations, none of those debt obligations are obligations of the entities in the Payless Canada Group. (Moreover, none of the entities in the Payless Canada Group are borrowers, and none of them will receive any of the advances under the DIP Facility).

79. Details regarding the Chapter 11 Debtors' request for the DIP ABL Facilities and the DIP Term Loan Facility are set out in the DIP Motion and are not repeated herein. In addition, matters related to the granting of adequate protection in respect of the ABL Credit Facility Agreement, the First Lien Term Loan Agreement and the Second First Lien Term Loan Agreement are addressed, which are not relevant for the Payless Canada Group.

80. Briefly, some of the significant features of the DIP ABL Facilities (the critical facility from the perspective of the Payless Canada Group) include:

- (a) *Lead Borrower*: Payless Inc.
- (b) *Additional Borrowers*: Payless Finance, Inc.; Payless ShoeSource Distribution, Inc.; Payless ShoeSource, Inc.
- (c) *Guarantors*: Certain of the Chapter 11 Debtors, including all of the entities in the Payless Canada Group.
- (d) *Amount*: Up to \$305 million, consisting of \$245 million Tranche A financing made available following the granting of the DIP Order, subject to borrowing base constraints, and an additional \$60 million Tranche A-1 financing to be made available following the issuance of a final order.
- (e) *Security*: all the present and after acquired real and personal property of the Chapter 11 Debtors, subject to certain agreements regarding priority among the Chapter 11 Debtors, the DIP ABL Lenders and the DIP Term Loan Lenders, including pursuant to the Intercreditor Agreements.



- (f) *Events of Default*: Various events of default as set out therein.
- (g) *Remedies upon Default*: Upon default, the DIP Lenders, among other things, may terminate their obligations under the DIP Facility and demand immediate repayment of all or part of the borrowers' obligations without further notice.

81. The DIP ABL Facilities and PSA provide for certain milestones in the Chapter 11 Cases designed to ensure the Chapter 11 Debtors move expeditiously towards confirmation of a plan in the current distressed retail environment, including:

- (a) entry of an interim order approving the DIP ABL Agreement and the DIP Term Loan Agreement not later than three (3) days following the Petition Date and entry of a final order approving such financing not later than 45 days following the Petition Date;
- (b) filing a plan of reorganization and disclosure statement not later than 21 days following the Petition Date;
- (c) entry of an order setting the date by which proofs of claims for general unsecured creditors must be filed (the “**Bar Date**”) not later than 60 days after the Petition Date. The Bar Date shall have occurred on or before 65 days following the Petition Date; and
- (d) obtaining approval of the disclosure statement not later than 62 days following the Petition Date; confirming the plan of reorganization not later than 114 days following the Petition Date; and reaching the Effective Date of the Plan not later than 128 days following the Petition Date.

82. Immediate access to incremental liquidity pursuant to the DIP ABL Facilities and the DIP Term Loan Facility is critical to preserving the value of the Chapter 11 Debtors' estates and maximizing the likelihood of a going-concern reorganization. The DIP financing sends a strong message to customers, vendors, employees and stakeholders that their restructuring is both well-funded and well-positioned to succeed.

83. The ability of the Chapter 11 Debtors to maintain business relationships with their vendors, suppliers and customers, to pay their employees and otherwise finance their operations requires the availability of working capital from the DIP ABL Facilities and the DIP Term Loan Facility, the absence of either of which would immediately and irreparably harm the Chapter 11 Debtors and their stakeholders. The Chapter 11 Debtors do not have sufficient available sources of working capital and financing to operate their businesses or maintain their properties in the ordinary course of business without the DIP ABL Facilities and the DIP Term Loan Facility and the DIP ABL Lenders are unwilling to make the DIP ABL Credit Facilities available to the Chapter 11 Debtors unless the Payless Canada Group provide a secured guarantee of all amounts made available in respect of such DIP ABL Credit Facilities.

84. The Chapter 11 Debtors were unable to develop an alternative source of financing with terms better than those of the DIP ABL Facilities and DIP Term Loan Facility. As described in the DIP Motion, the marketing process used to determine the most viable postpetition financing facility included soliciting a wide array of potential lenders. The Chapter 11 Debtors, with the assistance of Guggenheim Securities, LLC, solicited indications of interest from twelve parties including the prepetition lenders, members of an ad hoc group of first lien lenders, and ten other potential third-party lenders. After conducting due diligence, five parties provided preliminary proposals for DIP financing. Based on the Chapter 11 Debtors' immediate liquidity needs, the

constraints posed by Payless's existing capital structure, and time constraints, it was determined that the proposals that became the DIP Facilities were the best viable options to allow the Chapter 11 Debtors to reorganize. Each of the other proposals was not viable for one or more of following reasons: (i) the proposal could not be executed within the Chapter 11 Debtors' timeline; (ii) the proposal did not provide the Chapter 11 Debtors with sufficient liquidity; and/or (iii) the proposal could not be implemented without obtaining significant consents or ensuring meaningful participation from the lenders in the Chapter 11 Debtors' existing capital structure.

85. I believe that the relief requested in the DIP Motion represents the best available option for the Chapter 11 Debtors (including the Payless Canada Group) and will benefit all parties in interest. Without immediate access to the DIP ABL Facilities, the U.S. Chapter 11 Debtors would be unable to operate their business and maintain business relationships with their vendors, suppliers and customers, pay their employees or otherwise finance their operations, and their ability to preserve and maximize the value of their assets and operations would be irreparably harmed. Among other problems, Payless would be unable to improve its distressed supply chain, with the probable result that some suppliers will stop shipping merchandise or severely restrict credit terms – and some suppliers that rely entirely or heavily on Payless's business may be forced out of business.

86. Should the above occur, it would have disastrous effects on the Payless Canada Group. To survive as a going concern, the Payless Canada Group requires the Chapter 11 Debtors in the U.S. to remain as a going concern. The Payless Canada Group depends on its U.S. counterparts to source and obtain high quality, low cost products from Payless's manufacturing partners, and to access Payless's licensing agreements, design partnerships and company-owned brands, and other trademarks and IP (all of which are owned or controlled by U.S. entities outside of the Payless Canada Group). The Payless Canada Group also depends on the U.S. head office for all or nearly

all of its accounting, finance, cash management, logistics, marketing, IT and other back office functions.

87. The DIP ABL Lenders required that the Payless Canada Group's assets be employed as collateral for the indebtedness under the DIP ABL Facilities, even though the Payless Canada Group is not a borrower under the current ABL Credit Facility and its assets are currently unencumbered (except in the limited cases described above). Given that the viability of the Payless Canada Group depends on the viability of Payless, as a whole, the Applicant believes that it is reasonable and appropriate in the circumstances for the Payless Canada Group to agree to the DIP ABL Lenders' requirement in order to "keep the lights on" in Canada and preserve approximately 2100 jobs and avoid significant store closures. The Applicant and the entities in the Payless Canada Group believe that maintaining Payless as a going concern is in the best interest of Payless Canada Group's many stakeholders, including its employees, landlords, merchandise suppliers, and other trade creditors worldwide.

88. The amount actually borrowed by the Chapter 11 Debtors under the DIP ABL Facilities is proposed to be secured by, among other things, a Court-ordered charge on the Payless Canada Group's property (the "**DIP ABL Lender's Charge**") that ranks in priority to all unsecured claims, but is subordinate to the proposed Administration Charge (defined below), a charge in the amount of \$1.4 million which will be set aside for the Canadian pre-filing unsecured trade creditors, aside from K&N<sup>2</sup> (the "**Canadian Unsecured Creditors' Charge**"), and to secured creditors with existing perfected security interests.

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<sup>2</sup> As noted above, the Critical Vendors and Shippers Motion seeks authorization to pay pre-petition amounts owing to K&N.

89. The Canadian Unsecured Creditors' Charge would rank in priority to the DIP ABL Lender's Charge, but would be subordinate to the Administration Charge. The effect of the Canadian Unsecured Creditors' Charge would be to ensure that Canadian unsecured creditors will be provided with recovery in these proceedings. The amount of the proposed Canadian Unsecured Creditors' Charge has been determined by the Applicant, in consultation with its financial advisors, as an estimate of the unsecured trade debt of the Payless Canada Group existing as of the date hereof that may be impacted by these proceedings.

#### **H. U.S. Court Hearing**

90. On April 5, 2017, the U.S. Court heard and approved the First Day Motions. As part of these motions, the U.S. Court approved the DIP Order providing interim financing in the amount of up to \$245 million pending a further hearing on the issue to be scheduled. A copy of the DIP Order is attached as **Exhibit "I"**.

#### **I. Appointment of Information Officer**

91. As part of its application, the Applicant is seeking to appoint A&M as the information officer (the "**Information Officer**"). A&M is a certified trustee in bankruptcy in Canada and its principals have acted as an information officer in several previous ancillary proceedings (both under Part IV of the CCAA as well as the former section 18.6 of the CCAA).

92. A&M has consented to acting as Information Officer in this proceeding.

93. Alvarez & Marsal North America, LLC ("**A&M NA**") currently acts as the financial advisor to the Chapter 11 Debtors in the United States. I am aware that the report to be filed by the proposed information officer will provide further details on the legal relationship between A&M and A&M NA.

94. The Chapter 11 Debtors propose to grant the proposed Information Officer and its legal counsel an administration charge with respect to their fees and disbursements in the maximum amount of \$500,000 (the “**Administration Charge**”). I am advised by Mr. Marc Wasserman of Osler and believe that the granting of such a charge is common in these circumstances. I believe the amount of the charge to be reasonable in the circumstances, having regard to the size and complexity of these proceedings and the role that will be required of the proposed Information Officer and its legal counsel.

**J. Proposed Next Hearing**

95. As set out above, Payless Holdings, as the Foreign Representative, is seeking recognition of the above-noted “interim orders” including the DIP Order.

96. Payless Holdings intends to seek a further hearing for recognition of any corresponding “final orders” if and when issued by the U.S. Court and would expect to address any other matters at that time. As noted above, Payless Holdings also intends to seek a further hearing for recognition of the Final DIP Order (as defined in the First Day Declaration) if and when issued by the U.S. Court.

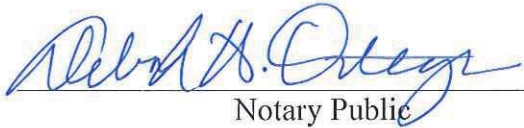
**K. Notice**

97. This application has been brought on notice to the DIP ABL Lenders and the proposed Information Officer. The major stakeholders of the Chapter 11 Debtors are located in the U.S. and notice will be given to them within the Chapter 11 Cases.

98. It is expected that information regarding these proceedings will be provided to the Payless Canada Group’s stakeholders by and through the Information Officer. If the Orders sought are

granted, Payless Holdings proposes that a notice of the recognition orders be published once a week for two consecutive weeks, in the Globe and Mail (National Edition) pursuant to the CCAA.

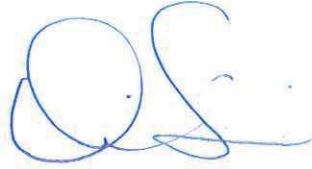
SWORN BEFORE ME in the State of  
Kansas, County of Shawnee on April 6,  
2017.



Notary Public

My Commission Expires: 12-2-20

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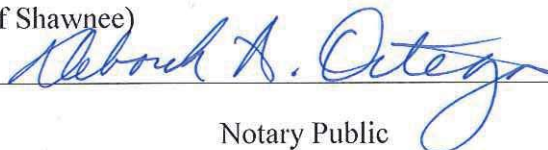
Michael Schwindle



THIS IS **EXHIBIT "A"** REFERRED TO IN THE  
AFFIDAVIT OF MICHAEL SCHWINDLE, SWORN BEFORE  
ME THIS 6<sup>th</sup> DAY OF APRIL, 2017.

State of Kansas )

County of Shawnee)



Notary Public

My Commission Expires: 12/2/20





**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MISSOURI  
EASTERN DIVISION**

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In re: )  
 )  
 ) Case No. 17-42267 (659)  
PAYLESS HOLDINGS LLC, *et al.*<sup>1</sup> ) CHAPTER 11  
 )  
 ) (Joint Administration Requested)  
Debtors. )  
 )  
 )

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**DECLARATION OF MICHAEL SCHWINDLE IN SUPPORT OF DEBTORS’  
CHAPTER 11 PROCEEDINGS AND FIRST DAY PLEADINGS**

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I, Michael Schwindle, hereby declare under penalty of perjury to the best of my knowledge, information, and belief:

1. I am the Senior Vice President and Chief Financial Officer of Payless ShoeSource Inc., a Missouri corporation, and its twenty-eight affiliated debtors and debtors in possession (collectively, the “Debtors,” and together with their remaining non-debtor affiliates and subsidiaries, “Payless”). I have served in this role since May 2015, having previously served in similar financial leadership positions at other retail companies for over ten years. In my capacity as Senior Vice President and Chief Financial Officer, I am generally familiar with the Debtors’

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<sup>1</sup> The Debtors (as defined herein) in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Payless Holdings LLC [5704]; Payless Intermediate Holdings LLC [N/A]; WBG-PSS Holdings LLC [N/A]; Payless Inc. [3160]; Payless Finance, Inc. [2101]; Collective Brands Services, Inc. [7266]; PSS Delaware Company 4, Inc. [1466]; Shoe Sourcing, Inc. [4075]; Payless ShoeSource, Inc. [4097]; Eastborough, Inc. [2803]; Payless Purchasing Services, Inc. [3043]; Payless ShoeSource Merchandising, Inc. [0946]; Payless Gold Value CO, Inc. [3581]; Payless ShoeSource Distribution, Inc. [0944]; Payless ShoeSource Worldwide, Inc. [6884]; Payless NYC, Inc. [4126]; Payless ShoeSource of Puerto Rico, Inc. [9017]; Payless Collective GP, LLC [N/A]; Collective Licensing, LP [1256]; Collective Licensing International LLC [5451]; Clinch, LLC [9836]; Collective Brands Franchising Services, LLC [3636]; Payless International Franchising, LLC [6448]; Collective Brands Logistics, Limited [6466]; Dynamic Assets Limited [1978]; PSS Canada, Inc. [4969]; Payless ShoeSource Canada Inc. [4180]; Payless ShoeSource Canada GP Inc. [4182] and Payless ShoeSource Canada LP [4179]. The location of Debtor Payless Holdings LLC’s corporate headquarters and the Debtors’ service address is: c/o Payless ShoeSource Inc. 3231 SE 6th Avenue Topeka, KS 66607 United States.

day-to-day operations, business and financial affairs, and books and records. I am above 18 years of age, and I am competent to testify.

2. I submit this declaration (the “Declaration”) to assist this court (the “Court”) and parties in interest in (a) understanding the Debtors, their operations, and their capital structure; (b) understanding the circumstances related to the commencement of the chapter 11 cases; and (c) in support of: (i) the Debtors’ petitions for relief under chapter 11 of title 11 of the United States Code filed on the date hereof (the “Petition Date”); and (ii) the relief requested by the Debtors pursuant to the pleadings described herein.

3. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge, my discussions with other members of the Debtors’ management team and the Debtors’ advisors, my review of relevant documents and information concerning the Debtors’ operations, financial affairs, and restructuring initiatives, or my opinions based upon my experience and knowledge. If called as a witness, I could and would testify competently to the facts set forth in this Declaration on that basis. I am authorized to submit this Declaration on behalf of the Debtors.

#### **Preliminary Statement**

4. Founded in 1956 in Topeka, Kansas, Payless is an iconic American footwear retailer selling quality shoes at affordable prices in a self-select environment. With nearly 4,400 stores in more than 30 countries across the world, nearly 22,000 employees, a brand that is globally recognized and a business that generates significant unlevered free cash flow, Payless is the largest specialty footwear retailer in the Western hemisphere and the second largest footwear retailer by unit sales in the United States. In fiscal year 2016, Payless generated approximately \$2.3 billion of sales and \$95 million of EBITDA.

5. Recent adverse economic trends (including a shift away from brick-and-mortar to online retail channels) and other specific, non-recurring factors discussed further herein resulted in Payless experiencing weaker-than-anticipated financial performance in 2015 and 2016, pressuring the Debtors' capital structure and straining liquidity. To protect the inherent value in the business while addressing the difficulties it faced in 2015 and 2016, Payless has been proactive in developing strategies to maintain its market position and improve performance in a challenging retail environment. In particular, Payless has prioritized near- and long-term initiatives designed to maintain the core value proposition for its customers through its merchandising and procurement strategy, as well as expansion into e-commerce and the omni-channel experience, while also ensuring a sustainable capital structure and rationalized store fleet.

6. Consistent with that strategy, for the past several months, the Debtors have been working with a steering committee of their secured term loan lenders to develop a comprehensive financing, restructuring and recapitalization plan that will be implemented through these chapter 11 cases. Specifically, the Debtors have received support from stakeholders representing approximately 2/3 of their capital structure for a comprehensive restructuring that will provide Payless with (a) a \$305 million revolving debtor-in-possession credit facility to finance its business through this process; (b) up to \$80 million in new capital from certain existing term lenders to support these cases and help the Debtors emerge with a right-sized balance sheet; (c) a plan framework that will reduce the Debtors' funded debt from \$838 million to an estimated \$469 million (inclusive of assumed revolving loans) while ensuring fair recoveries to all stakeholders in accordance with their respective priorities; and (d) a framework to enable the Debtors to rationalize their store fleet and profitability.

7. Unlike many retailers with challenged business models that have liquidated through the bankruptcy process in recent months, Payless' business continues to be highly relevant with a deeply-loyal customer base. With debtor-in-possession financing and a prenegotiated plan structure in place, the Debtors intend to move expeditiously through these cases and emerge as a stronger, better-capitalized business able to provide the "go to, get more, pay less" experience for their customers for years to come.

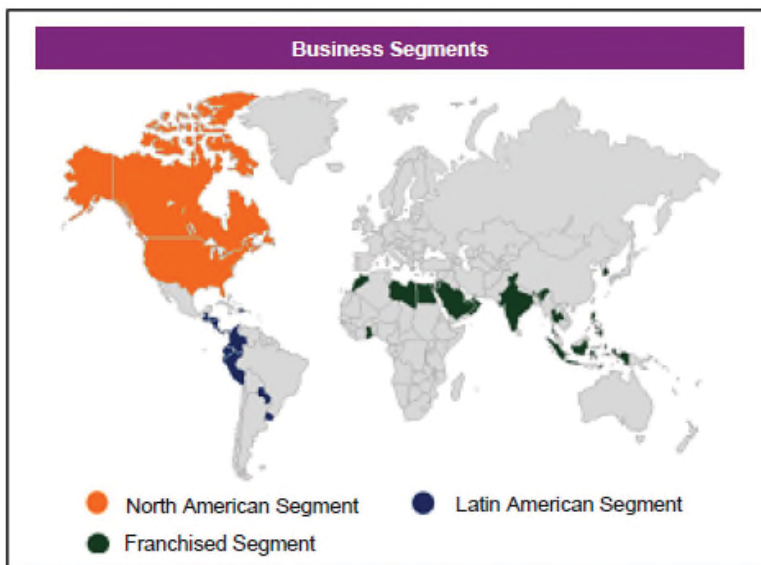
8. This Declaration is submitted to assist this Court in becoming familiar with the Debtors, the Debtors' pre-arranged chapter 11 filing, and the initial relief sought by the Debtors to stabilize operations and facilitate a restructuring. This Declaration is organized as follows: (a) **Part I** provides an overview of the company; (b) **Part II** summarizes the Debtors' prepetition organizational structure, capitalization and indebtedness; (c) **Part III** describes the circumstances leading to the commencement of these chapter 11 cases and the Debtors' restructuring initiatives; and (d) **Part IV** provides an overview of the relief the Debtors seek at the outset of these chapter 11 cases, and, through the attached **Exhibit A**, provides the evidentiary basis for the relief requested in the first day motions.

## **I. Company Background**

### **A. Overview**

9. Payless was founded as a private company in 1956 as an everyday footwear retailer with a strategy of selling low-cost, high-quality, fashion-forward family footwear. Today, Payless is the largest specialty family footwear retailer in the western hemisphere and the second largest footwear retailer by unit sales in the United States, with North American sales of approximately \$1.8 billion in 2016 and \$1.9 billion in 2015. Payless operates in more than 30

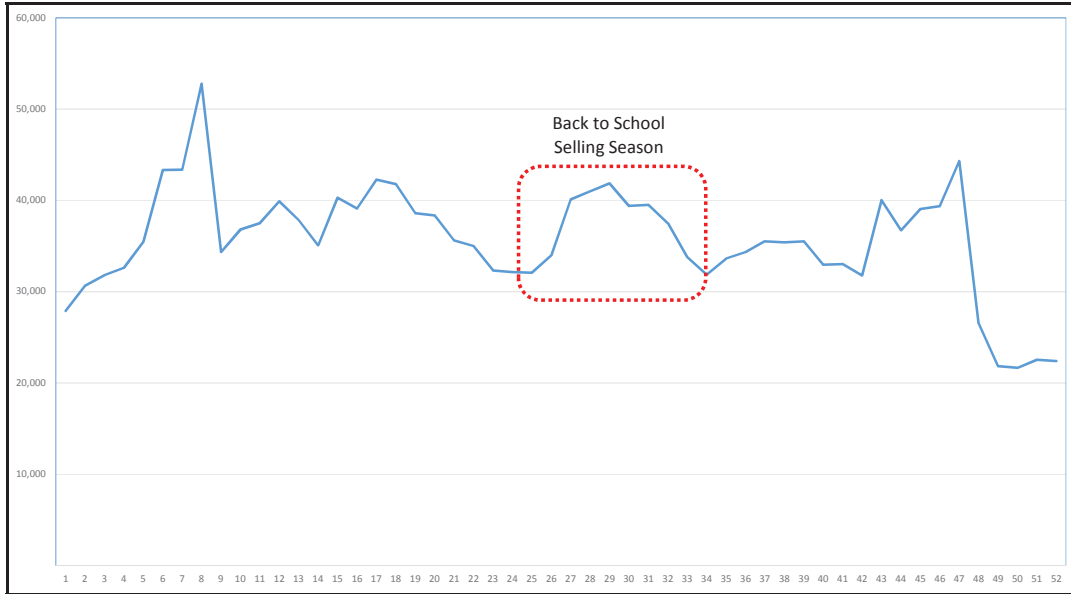
countries through its three business segments (North America, Latin America, and franchised stores), producing approximately 110 million pairs of shoes per year across the world.



Worldwide, Payless had approximately \$2.3 billion in net sales in 2016.

10. Payless is able to offer its budget-conscious customers outstanding value on basics, on-trend and special occasion footwear through a national assisted-service store footprint, localized assortment, and a low-cost integrated-sourcing business model, including a growing online presence. Through this unique product development strategy, which ensures popular, quality, and on-trend merchandise in stores for the right price, Payless retains its customers' loyalty. This business model depends upon (a) identifying and developing on-trend merchandise, (b) developing strong relationships with branding partners, and (c) maintaining an overseas sourcing network that can develop and produce products at a scale and cost necessary to serve Payless' customers.

11. Payless has a strong seasonal cadence, as evidenced by its four key selling periods: Easter, sandals, back-to-school, and boots.



Because these periods fall relatively evenly throughout the course of the year, Payless' selling periods create a broad, even flow of business throughout the year, even though the composition of the business varies widely depending on the time of the year. This has served over many years to create a largely continuous overall flow of product from overseas suppliers through Payless' supply chain to customers in North America and abroad. These peak seasons are very important to the Debtors' business, bringing in approximately 47% of total revenue on an annual basis.

**B. North America**

12. Payless' North American business represents a majority of the Debtors' store base, with more than 3,500 wholly-owned stores in the United States, Puerto Rico, and Canada.

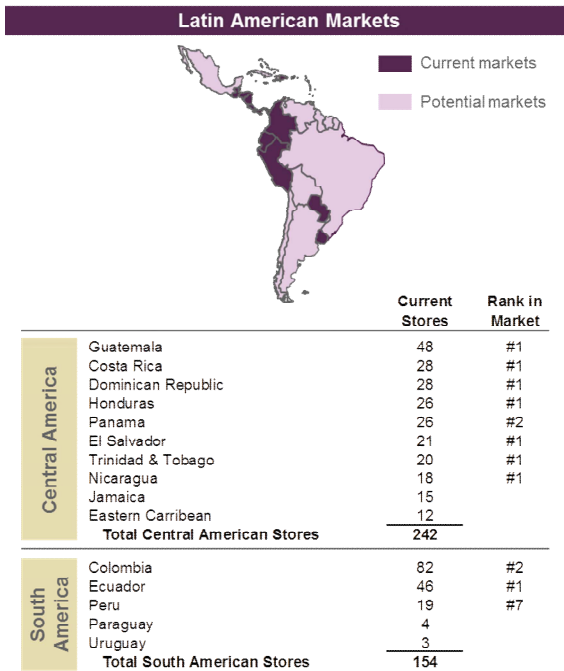


In the United States, 76% of household disposable income and 3 out of 4 children under age 10 live within five miles of a Payless store.

13. Despite the industry-wide shift away from brick-and-mortar stores, North American wholly-owned stores generated nearly \$1.9 billion in sales in fiscal year 2016 and nearly \$2 billion in fiscal year 2015, representing 64% and 55% of Payless' overall EBITDA, respectively. Payless North America provides an extensive range of operational and corporate services to the Latin American and franchised segments, including product development and sourcing, retail operations, marketing, IT, finance, tax, and legal assistance.

### **C. Latin America**

14. Seventeen years after opening its first store in Latin America, Payless has become the largest specialty footwear retailer in the region. Payless Latin America has provided stable growth since its inception, opening 15-35 new stores per year and averaging 8% annual revenue growth since 2013. It is also highly profitable, generating approximately 38% of Payless' overall EBITDA despite accounting for less than 10% of Payless' store footprint. Payless Latin America is expected to continue to grow through new stores and increased e-commerce. Payless currently operates nearly 400 stores across 22 countries in Latin America and enjoys leadership positions in the relevant market, as set forth in the following chart:



15. Many of Payless’ Latin American operations are governed by joint venture agreements and related ancillary agreements, pursuant to which Payless receives certain sourcing and other corporate fees, as well as dividends, on a periodic basis, in exchange for use of the Debtors’ intellectual property, sourcing, operational management and information technology. In exchange, the joint venture agreements have allowed the Debtors to utilize their partners’ significant local market knowledge to buy, plan, and distribute their products.

**D. Franchised Store Segment**

16. Finally, Payless’ franchised segment consists of stores operated by franchisees in several countries in Africa, Asia, and the Middle East. Since opening their first franchised stores in 2009, the Debtors’ franchise business has grown to nearly 400 stores across 17 countries. An overview of the stores in each country is as follows:



	<b>Current Stores</b>
Middle East / Morocco	129
Philippines	75
Indonesia	63
India	50
South Korea	44
Thailand	32
Ghana	2
Libya	1
<b>Total Franchise Stores</b>	<b>396</b>

17. The franchised stores are held to the same high standards as the Debtors' wholly-owned and joint venture stores and provide a similar customer experience. The Debtors receive favorable royalty fees, which typically range from 6 to 8 percent of the franchisee's net revenue, pursuant to the franchise agreements. The Debtors' franchise business requires minimal upfront risk, capital requirements, and overhead expenses, as they successfully leverage their existing North American operations and sourcing capabilities to support the business segment. Looking forward, Payless intends to further develop new markets through its franchised segment in the next three years.

**E. Merchandising Strategy**

18. Core to the Debtors' business model is the customer loyalty generated by their core demographic. Payless is particularly popular in the women's and children's shoes market, serving as the second largest retailer of women's and children's shoes in the under \$30 footwear category. Payless' women's and children's segments account for 50% and 25% of sales, respectively. 45% of women in the United States shop at Payless annually, driven in part by the fact that Payless is able to sell its goods at approximately 50% of the industry average price. To maintain their loyal consumer base, Payless' merchandising strategy necessitates having a wide selection of core products alongside the latest fashion styles at prices significantly below that of

most competitors. This is particularly important to Payless' customers, who typically have less than \$75,000 of household income.

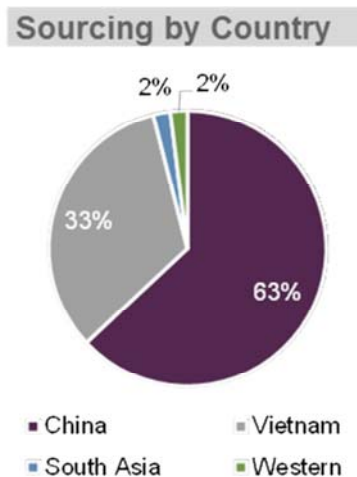
19. Payless' business model is highly dependent on identifying on-trend merchandise through its branding and merchandising partners. Payless is able to keep its products on-trend by utilizing a design team, agent partners, and third-party consultants—each of whom monitor marketplace trends and provide input on each style of shoe. The Debtors also maintain a number of branding relationships to assist them in bringing to market popular brands and designs to follow the trends of their core customer groups.

20. The Debtors are parties to certain license agreements that grant them rights to use a number of popular, broadly-recognized brands, including Champion, Christian Siriano, Disney, DreamWorks, Star Wars, and Marvel, each of which helps the Debtors maintain their strength in various niche target markets. The Debtors also utilize design partnerships, through which popular labels provide the Debtors with existing product designs in exchange for a fee. These partnerships allow the Debtors to offer their partners' designs under the Payless name at much cheaper prices for the consumer. Finally, the Debtors market certain high-volume proprietary brands, such as American Eagle and Brash, which they own outright. These brands make up over 40 percent of the Debtors' sales. A breakdown of the Debtors' branding relationships are as follows:

Brand Licensing Partnerships	Design Partnerships	Proprietary / Controlled Brands
<ul style="list-style-type: none"> <li>Payless has exclusive partnerships with a number of leading brands</li> </ul>	<ul style="list-style-type: none"> <li>Steve Madden, Skechers and Fila provide Payless with existing product designs in exchange for a percentage of first cost</li> <li>Through a design partnership, Payless sells Steve Madden's top style under the Brash name at half of Steve Madden's retail price</li> </ul>	<ul style="list-style-type: none"> <li>Payless' exclusive brands in high-volume categories generate over 40% of the Company's sales</li> </ul>
		

**F. Procurement and Global Supply Chain**

21. Also key to serving the Debtors' customer base is the Debtors' well-established and seamless global supply chain. Payless focuses on developing core products internally, rather than retailing shoes developed by third parties, which dramatically reduces product costs and allows Payless to sell products at value-positioned price points. Direct sourcing, as a percentage of Payless' product lines, has increased from 59% in 2011 to 70% in 2016. Payless has unique relationships with its vendors, primarily based out of China and Vietnam, as evidenced by the following chart:



20. Because the Debtors' business model depends heavily on their supply chain, the Debtors have developed long-standing relationships (in some cases extending over 15 years) and a highly streamlined processes with key supplier factories. The factories provide shoes made to the Debtors' specification at the right volume and at the right price. Given the significant volume of made-to-order shoes, the Debtors cannot replace the volume provided by their critical vendors, so they depend heavily on regularly receiving product from their existing vendors. The Debtors' ability to deliver their products in a timely manner is also critically important to their financial performance and depends on a seamless interaction with various third-party service providers who ship and store the Debtors' products. The coordination across factories, distributors, shippers, carriers, warehousemen, and customer-facing stores is vital to ensuring Payless' shoes reach customers at the right season and at the right price.

## **II.**

### **Prepetition Organizational Structure, Capitalization and Indebtedness**

#### **G. Prepetition Organizational Structure**

21. Payless first traded publicly in 1962, and was taken private in May 2012. As set forth on the structure chart attached hereto as **Exhibit B**, Payless Holdings, LLC currently owns, directly or indirectly, each of Payless' 91 subsidiaries. Of the wholly-owned entities, and as set forth on **Exhibit B**, 20 entities are obligors on all of the Debtors' approximately \$838 million of prepetition funded debt.

22. In connection with filing these cases, the Debtors are also seeking ancillary relief in Canada on behalf of the Debtors' estates pursuant to Part IV of the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended, (the "**CCAA**") in the Ontario Superior Court of Justice (Commercial List) (the "**Canadian Court**"). The purpose of the ancillary proceedings is to request that the Canadian Court recognize these chapter 11 cases as "foreign

main proceedings” under the applicable provisions of the CCAA in order to, among other things, grant liens on certain Canadian assets in connection with the ABL DIP Facility (as defined herein) and generally protect the Debtors’ assets and operations in Canada.

23. One of the direct subsidiaries of the Debtors, Payless ShoeSource, Inc., is incorporated in the state of Missouri. In addition, the Debtors operate several Payless stores throughout the state.

**H. Prepetition Capital Structure and Indebtedness**

24. The Debtors’ prepetition capital structure includes approximately \$838 million in outstanding debt as of the Petition Date, consisting of: (a) approximately \$187 million in secured debt under their asset-backed revolving credit facility (the “ABL Credit Facility”); (b) approximately \$506 million in secured debt under their first lien credit facility (the “First Lien Term Loan”); and (c) approximately \$145 million in secured debt outstanding under their second lien credit facility (the “Second Lien Term Loan”).

25. The chart below summarizes the Debtors’ prepetition indebtedness, including approximate current outstanding amounts as of the Petition Date.

<b>Debt Obligation</b>	<b>Debt Facility Size</b>	<b>Approximate Amount Outstanding as of the Petition Date</b>	<b>Maturity Date</b>	<b>Collateral</b>
ABL Credit Facility	\$300 million	\$187 million	March 14, 2019	Substantially all tangible and intangible assets; first priority over ABL Priority Collateral
First Lien Term Loan	\$520 million	\$506 million	March 11, 2021	Substantially all tangible and intangible assets; first priority over Term Priority Collateral

Debt Obligation	Debt Facility Size	Approximate Amount Outstanding as of the Petition Date	Maturity Date	Collateral
Second Lien Term Loan	\$145 million	\$145 million	March 11, 2022	Substantially all tangible and intangible assets; second priority over Term Priority Collateral
Trade Claims	N/A	Approximately \$240 million	Past Due	N/A (not including potential liens held by carriers, shippers, or warehouse vendors)

The Debtors anticipate additional unsecured claims will be generated as a result of lease rejections associated with their store rationalization plan.

**i. The ABL Credit Facility**

26. Payless, Inc., as the lead borrower, the other Debtors party thereto as borrowers and guarantors, and Wells Fargo Bank, National Association (“Wells Fargo”), as administrative agent, entered into a revolving credit facility documented by the Credit Agreement dated as of October 9, 2012. Under the ABL Credit Facility, which has two tranches bearing interest at different rates,<sup>2</sup> the Debtors may draw up to \$300 million for general corporate purposes. The ABL Credit Facility is secured by a priority lien over substantially all tangible and intangible assets of the Debtors including, among other things and subject to certain limitations, thresholds and exclusions, accounts, cash, inventory, and real property (such collateral package, the “ABL Priority Collateral”). The ABL Credit Facility is also secured by a junior lien on the remaining assets of the Debtors including, among other things and subject to certain limitations, thresholds and exclusions, equipment, intellectual property, and stock pledges (such collateral package, the

<sup>2</sup> Tranche A bears interest at either (a) LIBOR as defined in the amended agreement plus a variable margin of 1.50% to 2.00% per annum or (b) the Base Rate as defined in the amended agreement plus a variable margin of 0.50% to 1.00% per annum based upon average daily availability. Tranche A-1 bears interest at either (a) LIBOR as defined in the amended agreement plus 3.50% per annum or (b) the Base Rate as defined in the amended agreement plus 2.50% per annum. Commitment fees payable on the un-borrowed balance are 0.25%.

“Term Loan Priority Collateral”). As of the Petition Date, an aggregate balance of approximately \$187 million remains outstanding under the ABL Credit Facility.

27. Due to the Debtors’ diminishing liquidity and decreasing borrowing base, and in an effort to prepare for these chapter 11 cases, the Debtors agreed to enter into “cash dominion” with Wells Fargo, pursuant to which the Debtors agreed to cause all funds in certain of their deposit accounts, subject to any nominal minimum balances required, to be swept daily into an account owned by Wells Fargo (the “Concentration Account”), and cause the proceeds of all collections and balances of all other deposit accounts, subject to any nominal minimum balances required, to also be swept daily into the Concentration Account.

**ii. The First Lien Term Loan**

28. Payless, Inc., Payless Finance, Inc., Payless ShoeSource, Inc., and Payless ShoeSource Distribution, Inc., as borrowers, the other Debtors party thereto as guarantors, Morgan Stanley Senior Funding, Inc.,<sup>3</sup> as administrative and collateral agent, and the lenders party thereto are parties to that certain First Lien Term Loan and Guarantee Agreement, dated as of March 11, 2014<sup>4</sup> (as amended, restated, modified, and/or supplemented and in effect immediately prior to the Petition Date, the “First Lien Term Loan Agreement”). The First Lien Term Loan Agreement, which matures on March 11, 2021, provides a \$520 million first lien term loan secured by a first priority lien in the Term Loan Priority Collateral and a second priority lien in the ABL Priority Collateral. An aggregate amount of \$506 million was outstanding as of the Petition Date under the First Lien Term Loan.

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<sup>3</sup> Cortland Products Corporation has since replaced Morgan Stanley Senior Funding, Inc. as the administrative and security agent for the First Lien Term Loan.

<sup>4</sup> The First Lien Term Loan was originally dated October 9, 2012, but was refinanced in March 2014.

**iii. The Second Lien Term Loan**

29. Payless, Inc., Payless Finance, Inc., Payless ShoeSource, Inc., and Payless ShoeSource Distribution, Inc., as borrowers, the other Debtors party thereto as guarantors, Morgan Stanley Senior Funding, Inc., as administrative and collateral agent, and the lenders party thereto are parties to that certain Second Lien Term Loan and Guarantee Agreement, dated as of March 11, 2014<sup>5</sup> (as amended, restated, modified, and/or supplemented and in effect immediately prior to the Petition Date, the “Second Lien Term Loan Agreement” and together with the First Lien Term Loan Agreement, the “Term Loan Agreements”). The Second Lien Term Loan Agreement, which matures on March 11, 2022, provides a \$145 million second lien term loan secured by a second priority lien in the Term Loan Priority Collateral and a third priority lien in the ABL Priority Collateral. An aggregate amount of \$145 million was outstanding as of the Petition Date under the Second Lien Term Loan.

**iv. Swap Transactions**

30. Pursuant to the Term Loan Agreements, Payless is permitted to enter into interest rate swap transactions to mitigate certain risks, including in connection with hedging the variable interest rates contemplated thereunder. Presently, Payless is party to three such transactions (the “Swap Transactions”), one with respect to the First Lien Term Loan Agreement and two with respect to the Second Lien Term Loan Agreement, each with Morgan Stanley Capital Services LLC as counterparty. The Swap Transactions are governed by an ISDA 2002 Master Agreement dated as of October 2, 2013.

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<sup>5</sup> The Second Lien Term Loan was originally dated October 9, 2012, but was refinanced in March 2014.



**v. Intercreditor Agreements**

31. The Debtors' prepetition indebtedness is also subject to two different intercreditor agreements, generally referred to as the ABL/Term Loan Intercreditor Agreement<sup>6</sup> and the Term Loan Intercreditor Agreement.<sup>7</sup> The ABL/Term Loan Intercreditor Agreement governs the relative contractual rights of lenders under the ABL Credit Facility, the First Lien Term Loan, and the Second Lien Term Loan. The Term Loan Intercreditor Agreement, in turn, governs the relative contractual rights of lenders under the First Lien Term Loan, on the one hand, and the lenders under the Second Lien Term Loan, on the other hand.

**III.**  
**Events Leading to Chapter 11 and Restructuring Initiatives**

**A. Difficult Market Conditions and Adverse Non-Recurring Events**

32. Since early 2015, the Debtors have experienced a top-line sales decline driven primarily by (a) a set of significant and detrimental non-recurring events, (b) foreign exchange rate volatility, and (c) challenging retail market conditions. These pressures led to the Debtors' inability to both service their prepetition secured indebtedness and remain current with their trade obligations.

33. Specifically, a confluence of events in 2015 lowered Payless' EBITDA by 34 percent—a level from which it has not fully recovered. In early 2015, the Debtors meaningfully over-purchased inventory due to antiquated systems and processes (that have since undergone significant enhancement). Then, in February 2015, West Coast port strikes delayed the arrival of

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<sup>6</sup> The "ABL/Term Loan Intercreditor Agreement" means that certain Intercreditor Agreement dated as of March 11, 2014 (as amended, restated, modified, and/or supplemented from time to time) by and among Wells Fargo Bank, National Association, as administrative agent for the lenders under the ABL Credit Agreement, the First Lien Agent, and the Second Lien Agent, and acknowledged by the Debtors.

<sup>7</sup> The "Term Loan Intercreditor Agreement" means that certain Intercreditor Agreement dated as of March 11, 2014 (as amended, restated, modified, and/or supplemented from time to time) between the First Lien Term Agent, the Second Lien Term Agent and the Debtors.

the Debtors' products by several months, causing a major inventory flow disruption just before the important Easter selling period, leading to diminished sales. When delayed inventory arrived after that important selling period, the Debtors were saddled with a significant oversupply of spring seasonal inventory after the relevant seasonal peak, and were forced to sell merchandise at steep markdowns, which depressed margins and drained liquidity. Customers filled their closets with these deeply discounted products, which served to reduce demand; the reset of customer price expectations away from unsustainably-high markdowns further depressed traffic in late 2015 and 2016. In total, millions of pairs of shoes were sold below cost in order to realign inventory and product mix.

34. Industry-wide declines in sales and traffic during 2015 and 2016 compounded the aforementioned challenges, as did sharp and unexpected declines in foreign exchange rates in 2015, primarily in Canada, Colombia and Australia. Although Payless implemented many measures to improve liquidity as well as decrease operating expenses, the port strike and the inventory management issues meaningfully reduced profitability and liquidity.

35. This weaker-than-anticipated financial performance forced management to curtail capital and marketing investments required to combat the broader challenges facing the retail industry. For example, liquidity constraints prevented the Debtors from purchasing normal television advertising throughout the second half of 2016, which further compounded traffic declines. Reduced capital availability also delayed Payless' plans for omni-channel development and implementation, *i.e.*, the integration of physical store presence with online digital presence to offer a unified customer experience, which will allow it to maintain relevancy to both the Payless.com website as well as omni-channel customers as the retail industry transitions away from a focus on brick-and-mortar stores.

36. Notwithstanding these pressures, the Debtors' core business remains strong and operates in an underserved market. In the Debtors' strongest customer segment, domestic women's footwear, they maintain strong brand awareness and high customer penetration and market share relative to the Debtors' competitive set. The Debtors' international expansion has also proven successful with continued growth in its higher margin, lower risk franchise business and through its Latin American joint ventures, as further discussed above.

**B. Debtors' Prepetition Restructuring Efforts and Development of Long-Term Strategy**

37. To address their financial difficulties, the Debtors took significant steps to evaluate and implement cost reduction initiatives in the months leading up to the Petition Date. These initiatives have included (a) closing 128 brick-and-mortar stores, which closures are expected to result in an additional \$9 million in annual cost savings, (b) terminating approximately 145 employees from their corporate offices and support organization, which is expected to generate \$15 million in annual cost savings, and (c) pursuing rent concessions across remaining stores.

38. At the same time, the Debtors have been managing liquidity constraints by stretching payments to the merchandise vendors and suppliers that are essential to the Debtors' operations. Given the significant product volume concentrated among Payless' small group of merchandise vendors abroad, the suppliers have withstood delayed payments for up to 100 days, and some of them continued to ship products to the Debtors in January and February of this year. But, the suppliers have been stretched to the brink of their own survival<sup>8</sup> and require

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<sup>8</sup> Butler-Young, Sheena, *FN Exclusive: Payless on the Brink; Protests Erupt in China*, FOOTWEAR NEWS, March 10, 2017, <http://footwearnews.com/2017/business/retail/payless-protests-china-bankruptcy-stores-closing-326104/>.

immediate liquidity to procure the raw materials necessary to meet the Debtors' product needs for the important back-to-school selling season.

39. Beginning in February 2017, the Debtors commenced discussions with a steering committee of their senior term loan lenders regarding a potential transaction structure that would enable the Debtors to obtain capital, manage their vendor issues, right size their balance sheet and invest in their omni-channel presence and relevance. As these discussions progressed, and given the Debtors' objectives, it became apparent that an in-court reorganization was the best path to reorganizing the Debtors' business and improving their overall financial condition.

40. For the past several months, the Debtors have worked closely with the term lender steering committee and their existing ABL lenders to develop a comprehensive financing and recapitalization plan, and have commenced these chapter 11 cases to access that financing and the tools necessary to effectuate their business objectives. Through these chapter 11 cases, the Debtors will continue to prioritize the vendors they need to meet their consumer demands and will have the liquidity to pay their key vendors while rejecting contracts with non-critical prepetition creditors. The Debtors will also use these cases to consummate a comprehensive evaluation of their North American store footprint. Through the bankruptcy process, the Debtors intend to close some stores (389 of which have already been identified for immediate closure)<sup>9</sup> and negotiate significant rent concessions with the landlords of others. Finally, the Debtors will be able to increase marketing spend in the North American business segment (including significant omni-channel expansion) and further expansion in North America and Asia through an agreement with their lenders to significantly reduce their outstanding debt.

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<sup>9</sup> For further information regarding the store closure process, see *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Assume the Consulting Agreement, (II) Approving Procedures for Store Closing Sales, and (III) Granting Related Relief*, filed contemporaneously herewith.

**C. Restructuring Support Agreement and Debtor-In-Possession Financing**

41. The Debtors have entered into the Restructuring Support Agreement attached hereto as **Exhibit C** (the “RSA”).<sup>10</sup> The RSA has the support of parties who hold or control approximately 2/3 in amount of each of the Debtors’ first and second lien term loans. The Debtors have also secured debtor-in-possession financing facilities from their current ABL lenders (the “ABL DIP Facility”) and from certain of the consenting lenders under the PSA (the “Term DIP Facility”) and together with the ABL DIP Facility, the “DIP Facilities”), each as further described in the *Debtors’ Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Secured Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief*. Collectively, the RSA and DIP Facilities enable the Debtors to (a) obtain immediate and long-term financial support to address a distressed supply chain and otherwise execute on their strategic plan, (b) right-size their balance sheet by significantly reducing annual debt service and total outstanding debt from \$838 million to approximately \$469 million (inclusive of assumed revolving loans), and (c) rationalize their store fleet to eliminate unprofitable locations and renegotiate above-market leases.

42. Importantly, the RSA and DIP Facilities provide for certain Milestones designed to ensure the Debtors move expeditiously towards confirmation of the Plan in the current distressed retail environment. The Milestones include, among other things, the filing of an acceptable plan and disclosure statement within 21 days of the Petition Date, the entry of a final

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<sup>10</sup> Capitalized terms used but undefined in this section shall have the meanings ascribed to them in the RSA.

DIP order within 45 days of the Petition Date, the entry of a disclosure statement order within 62 days of the Petition Date, the entry of a confirmation order within 114 days of the Petition Date, and the emergence from chapter 11 within 128 days of the Petition Date.

43. The RSA term sheet also contains certain conditions and covenants, including (a) achieving certain forecasted rent concessions, EBITDA targets, and inventory receipts, and (b) renegotiating terms of their existing joint venture agreements such that they are on market terms within 100 days of the Petition Date.

**IV.**  
**Relief Sought in the First Day Pleadings**

55. Contemporaneously herewith, the Debtors have filed a number of first day pleadings seeking relief that the Debtors believe is necessary to enable them to efficiently administer their estates with minimal disruption and loss of value during the liquidation process described herein. The Debtors request that the relief requested in each of the first day motions is granted as critical elements in ensuring the maximization of value of the Debtors' estates.

56. I have reviewed each of the first day pleadings. The facts stated therein are true and correct to the best of my information and belief, and the relief sought in each of the first day pleadings is necessary to enable the Debtors to operate in chapter 11 with minimal disruption to their business operations and constitutes a critical element in successfully restructuring the Debtors' business. A description of the relief requested in and the facts supporting each of the first day motions is set forth in **Exhibit A** attached hereto and incorporated herein by reference.

*[Remainder of page intentionally left blank]*

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Executed on April 4, 2017.

By:

*/s/ Michael Swindle*

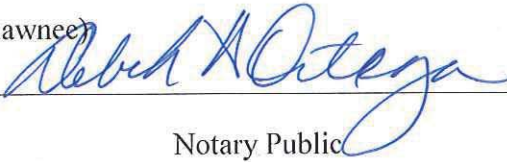
Name: Michael Swindle

Title: Chief Financial Officer, Payless  
ShoeSource, Inc.

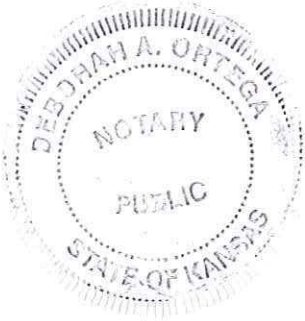
THIS IS **EXHIBIT "B"** REFERRED TO IN THE  
AFFIDAVIT OF MICHAEL SCHWINDLE, SWORN BEFORE  
ME THIS 6<sup>th</sup> DAY OF APRIL, 2017.

State of Kansas )

County of Shawnee)

  
\_\_\_\_\_  
Notary Public

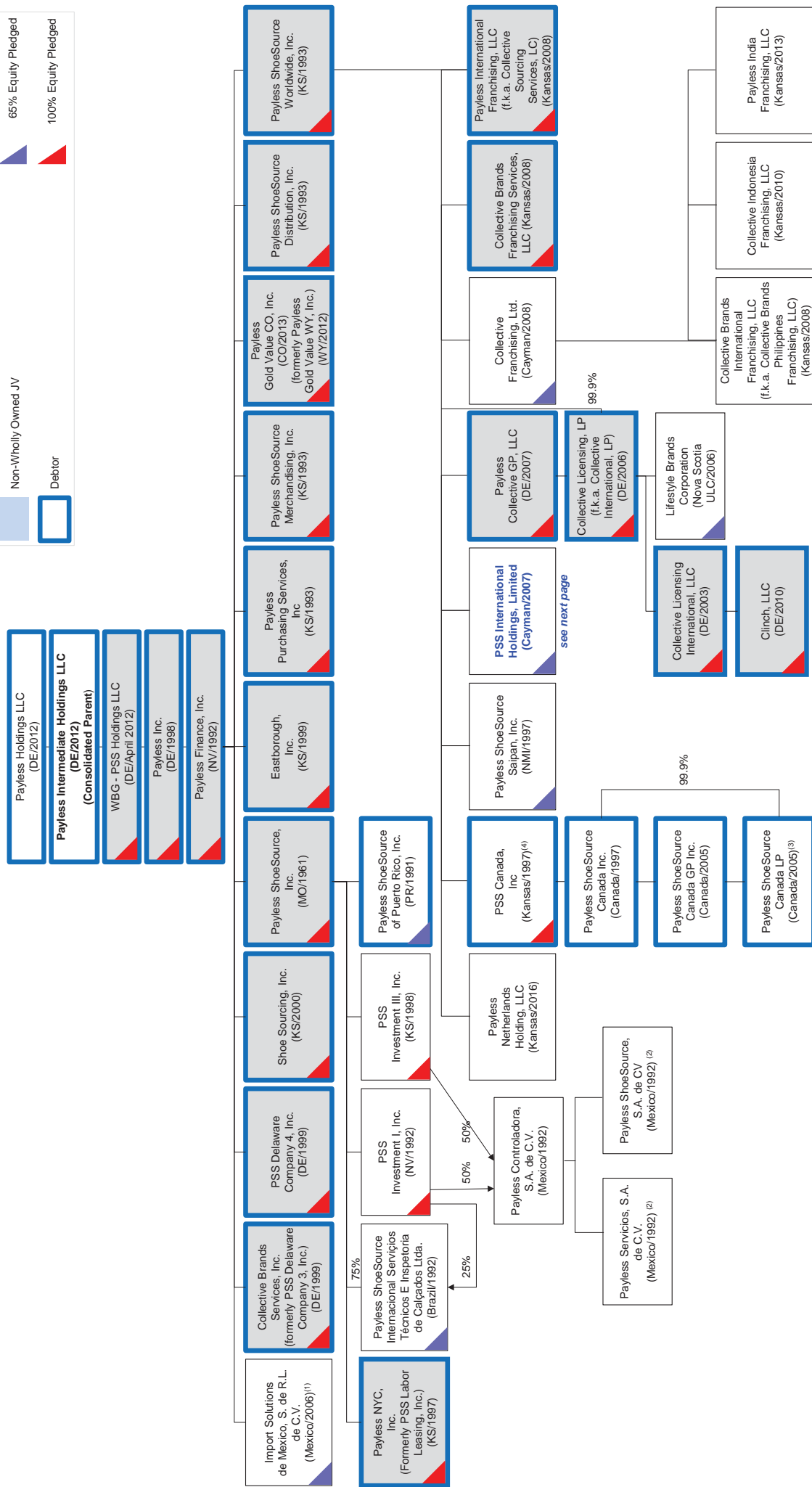
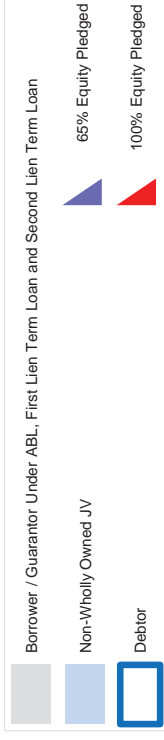
My Commission Expires: 12/2/20







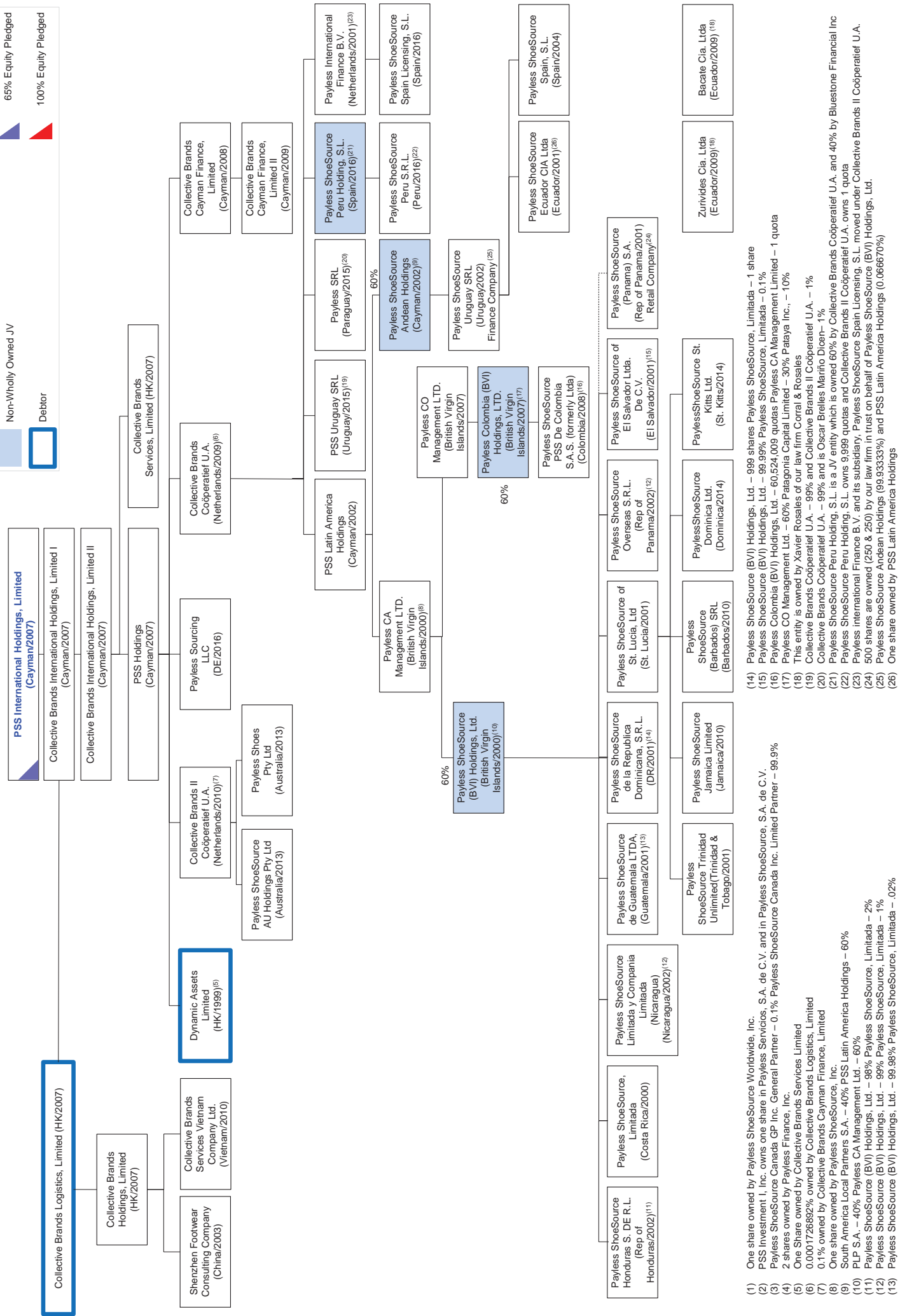
# Payless Holdings LLC Corporate Structure



(1) One share owned by Payless ShoeSource Worldwide, Inc.  
 (2) PSS Investment I, Inc. owns one share in Payless Servicios, S.A. de C.V. and in Payless ShoeSource, S.A. de C.V.  
 (3) Payless ShoeSource Canada GP Inc. General Partner – 0.1% Payless ShoeSource Canada Inc. Limited Partner – 99.9%  
 (4) 2 shares owned by Payless Finance, Inc.  
 (5) One Share owned by Collective Brands Services Limited  
 (6) 0.0001726892% owned by Collective Brands Logistics, Limited  
 (7) 0.1% owned by Collective Brands Cayman Finance, Limited  
 (8) One share owned by Payless ShoeSource, Inc.  
 (9) South America Local Partners S.A. – 40% PSS Latin America Holdings – 60%  
 (10) PLP S.A. – 40% Payless CA Management Ltd. – 60%  
 (11) Payless ShoeSource (BVI) Holdings, Ltd. – 98% Payless ShoeSource, Limitada – 2%  
 (12) Payless ShoeSource (BVI) Holdings, Ltd. – 99% Payless ShoeSource, Limitada – 1%  
 (13) Payless ShoeSource (BVI) Holdings, Ltd. – 99.98% Payless ShoeSource, Limitada – 02%  
 (14) Payless ShoeSource (BVI) Holdings, Ltd. – 99.9 shares Payless ShoeSource, Limitada – 1 share  
 (15) Payless ShoeSource (BVI) Holdings, Ltd. – 99.99% Payless ShoeSource, Limitada – 0.1%  
 (16) Payless Colombia (BVI) Holdings, Ltd. – 60,524,009 quotas Payless CA Management Limited – 1 quota  
 (17) Payless CO Management Ltd. – 60% Patagonia Capital Limited – 30% Palaya Inc., – 10%  
 (18) This entity is owned by Xavier Rosales of our law firm Corral & Rosales  
 (19) Collective Brands Cooperatief U.A. – 99% and Collective Brands II Cooperatief U.A. – 1%  
 (20) Collective Brands Cooperatief U.A. – 99% and is Oscar Breiles Marifio Dices – 1%  
 (21) Payless ShoeSource Peru Holding, S.L. is a JV entity which is owned 60% by Collective Brands Cooperatief U.A. and 40% by Bluestone Financial Inc  
 (22) Payless ShoeSource Peru Holding, S.L. owns 9,999 quotas and Collective Brands II Cooperatief U.A. owns 1 quota  
 (23) Payless international Finance B.V. and its subsidiary, Payless ShoeSource Spain Licensing, S.L. moved under Collective Brands II Cooperatief U.A.  
 (24) 500 shares are owned (250 & 250) by our law firm in trust on behalf of Payless ShoeSource (BVI) Holdings, Ltd.  
 (25) Payless ShoeSource Andean Holdings (99.93333%) and PSS Latin America Holdings (0.066670%)  
 (26) One share owned by PSS Latin America Holdings



# Payless Holdings LLC Corporate Structure (cont'd)

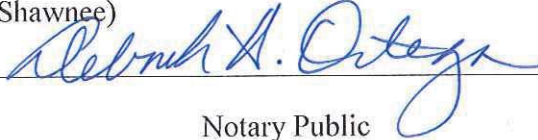


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THIS IS EXHIBIT "C" REFERRED TO IN THE  
AFFIDAVIT OF MICHAEL SCHWINDLE, SWORN BEFORE  
ME THIS 6<sup>th</sup> DAY OF APRIL, 2017.

State of Kansas )

County of Shawnee)



Notary Public

My Commission Expires: 12/2/20



**Payless ShoeSource**

Combined DRAFT Balance Sheet for Canadian Entities

Unaudited

25-Feb-17

USD \$'000s

<b><u>Summary Balance Sheet</u></b>	<b><u>As of 2/25/2017</u></b>
Cash and Cash Equiv	4,478
Accounts Receivable, Interco	101,351
Accounts Receivable, 3rd party	29
Inventory	25,668
Prepaid Expenses	543
Other Current Assets	907
<b>Total Current Assets</b>	<b><u>132,975</u></b>
PP&E	8,673
Other LT Assets	599
<b>Total Assets</b>	<b><u>142,247</u></b>
Accounts Payable Trade	(2,689)
Accounts Payable Other	(544)
Income Taxes Payable	(196)
Accrued Salary Benefit	(846)
Other Accrued Tax	(889)
Other Accrued Expense	(820)
<b>Current Liabilities</b>	<b><u>(5,984)</u></b>
Other Long Term Liabilities	(4,266)
Interco LTD/Payables	(70,149)
<b>Total Liabilities</b>	<b><u>(80,399)</u></b>
<b>Total Equity</b>	<b><u>(61,848)</u></b>
<b>Total Equity + Liabilities</b>	<b><u>(142,247)</u></b>

-

**Payless ShoeSource**

Combined Financial Statements for Canadian Entities <sup>1,4</sup>

Unaudited DRAFT

25-Feb-17

USD \$

As of Feb 25, 2017

**Summary Balance Sheet**

	Payless ShoeSource Canada GP, Inc.	Payless ShoeSource Canada LP	Payless ShoeSource Canada, Inc.	EL042/ Adjustment	Total Per Company	Adj to Gross up Interco	Adj Total
Cash and Cash Equiv	51,887	4,423,344	2,333	-	4,477,564	-	4,477,564
Accounts Receivable, Interco <sup>2,4</sup>	(5,893)	2,878,654	89,428,384	-	92,301,145	9,049,809	101,350,954
Accounts Receivable, 3rd party	-	29,232	-	-	29,232	-	29,232
Inventory	-	25,667,786	-	-	25,667,786	-	25,667,786
Prepaid Expenses	-	542,627	-	-	542,627	-	542,627
Other Current Assets	-	906,757	-	-	906,757	-	906,757
<b>Total Current Assets</b>	<b>45,995</b>	<b>34,448,400</b>	<b>89,430,717</b>	<b>-</b>	<b>123,925,111</b>	<b>9,049,809</b>	<b>132,974,920</b>
PP&E	-	8,673,053	-	-	8,673,053	-	8,673,053
Int Assets Favorable Leases	-	450,217	-	-	450,217	-	450,217
Other LT Assets	-	149,194	-	-	149,194	-	149,194
Investment in Subsidiaries <sup>4</sup>	58,197	-	45,526,735	(45,584,931)	-	-	-
<b>Total Assets</b>	<b>104,192</b>	<b>43,720,864</b>	<b>134,957,451</b>	<b>(45,584,931)</b>	<b>133,197,575</b>	<b>9,049,809</b>	<b>142,247,383</b>
Accounts Payable Trade <sup>3</sup>	-	(2,688,797)	-	-	(2,688,797)	-	(2,688,797)
Accounts Payable Other	-	(544,283)	-	-	(544,283)	-	(544,283)
Income Taxes Payable	-	-	(195,775)	-	(195,775)	-	(195,775)
Accrued Salary Benefit	-	(845,864)	-	-	(845,864)	-	(845,864)
Other Accrued Tax	-	(888,904)	-	-	(888,904)	-	(888,904)
Other Accrued Expense	-	(820,297)	-	-	(820,297)	-	(820,297)
<b>Current Liabilities</b>	<b>-</b>	<b>(5,788,146)</b>	<b>(195,775)</b>	<b>-</b>	<b>(5,983,920)</b>	<b>-</b>	<b>(5,983,920)</b>
Other Long Term Liabilities	-	(4,266,183)	-	-	(4,266,183)	-	(4,266,183)
Interunit LTD/Payables <sup>2,4</sup>	-	-	(61,098,992)	-	(61,098,992)	(9,049,809)	(70,148,800)
Interunit Payables <sup>4</sup>	-	-	(1,875,410)	-	(1,875,410)	(9,049,809)	(10,925,219)
Interunit Long Term Debt <sup>4</sup>	-	-	(59,223,581)	-	(59,223,581)	-	(59,223,581)
<b>Total Liabilities</b>	<b>-</b>	<b>(10,054,329)</b>	<b>(61,294,766)</b>	<b>-</b>	<b>(71,349,095)</b>	<b>(9,049,809)</b>	<b>(80,398,903)</b>
Common Stock	-	-	(69)	-	(69)	-	(69)
Paid in Capital	(120,526)	(75,502,981)	(31,665,719)	45,584,931	(61,704,294)	-	(61,704,294)
Retained Earnings	(527)	24,314,643	(32,220,117)	-	(7,906,001)	-	(7,906,001)
Accrued Other Comp Income	16,791	14,737,936	(9,765,706)	-	4,989,021	-	4,989,021
<b>Total Equity</b>	<b>(104,263)</b>	<b>(36,450,402)</b>	<b>(73,651,610)</b>	<b>45,584,931</b>	<b>(64,621,343)</b>	<b>-</b>	<b>(64,621,343)</b>
<b>Total Equity + Liabilities</b>	<b>(104,263)</b>	<b>(46,504,730)</b>	<b>(134,946,376)</b>	<b>45,584,931</b>	<b>(135,970,438)</b>	<b>(9,049,809)</b>	<b>(145,020,247)</b>
<i>Net Income/(Loss) for the Period</i>	<i>(71)</i>	<i>(2,783,867)</i>	<i>11,075</i>	<i>-</i>	<i>(2,772,863)</i>	<i>-</i>	<i>(2,772,863)</i>

**Notes**

(1) Balances are the sum of the following three Canadian entities:

- Payless ShoeSource Canada GP, Inc.
- Payless ShoeSource Canada LP
- Payless ShoeSource Canada, Inc.

(2) Breakdown of the interco AR/AP balance:

**Due from:**

- Payless Finance, Inc
- Payless ShoeSource Worldwide, Inc
- Total Interco Receivable**

**Due To:**

- Payless ShoeSource Canada Inc 101,316,877
- Payless ShoeSource Canada Inc 34,077
- 101,350,954**

**Due from:**

- Payless ShoeSource Canada LP
- Payless ShoeSource Canada LP
- Payless ShoeSource Canada LP
- Payless ShoeSource Canada LP
- Payless ShoeSource Canada LP
- Payless ShoeSource Canada LP
- Payless ShoeSource Canada Inc
- Total Interco Payable**

**Due To:**

- Payless ShoeSource Distribution, Inc (6,236,157)
- Payless ShoeSource Worldwide, Inc (2,278,634)
- Payless ShoeSource Merchandising, Inc (422,999)
- Payless Purchasing Services, Inc (94,082)
- Payless Finance, Inc (17,937)
- Collective Brands II Cooperatief UA (61,098,992)
- (70,148,800)**

(3) Summary of AP Trade

AP-Operating System Accruals	(1,030,256)
AP-Operating Accruals	(364,663)
Duty-Logistics (net)	(916,136)
AP-Merchandise Misc.	(94,787)
AP - RBC chequing (net)	(282,955)
<b>Total Accounts Payable Trade</b>	<b>(2,688,797)</b>

(4) Below is a summary of the combined Canadian intercompany position

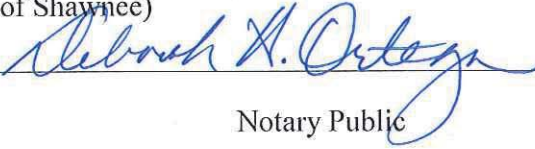
Interco AR	101,350,954
Interco AP	(70,148,800)
<b>Net Interco Positon</b>	<b>31,202,153</b>

(5) Trial balance accounts for the three Canadian entities listed in note (1) have been combined for presentation purposes. These financial statements have been prepared using unaudited internal company trial balance accounts and therefore may not be in compliance with IFRS/GAAP.

THIS IS **EXHIBIT "D"** REFERRED TO IN THE  
AFFIDAVIT OF MICHAEL SCHWINDLE, SWORN BEFORE  
ME THIS 6<sup>th</sup> DAY OF APRIL, 2017.

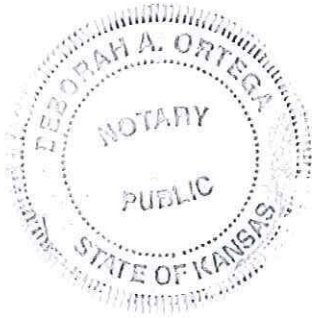
State of Kansas )

County of Shawnee)

  
\_\_\_\_\_

Notary Public

My Commission Expires: 12/2/20



Payless Finance, Inc.

AMENDED AND RESTATED PROMISSORY NOTE

Due: October 9, 2022

**THIS AMENDED AND RESTATED PROMISSORY NOTE (THIS “NOTE”) AMENDS, RESTATES AND REPLACES IN ITS ENTIRETY THAT CERTAIN PROMISSORY NOTE, DATED OCTOBER 9, 2012 (THE “ORIGINAL NOTE”), IN THE PRINCIPAL AMOUNT OF NINETY SIX MILLION FIVE HUNDRED NINETY TWO THOUSAND FOUR HUNDRED SIXTY THREE (US \$96,592,463) UNITED STATES DOLLARS BY PAYLESS FINANCE, INC., A NEVADA CORPORATION (FORMERLY KNOWN AS COLLECTIVE BRANDS FINANCE, INC.), PAYABLE TO PSS US INVESTMENTS LP, A NEVADA LIMITED PARTNERSHIP. ALL AMOUNTS OUTSTANDING UNDER THE ORIGINAL NOTE AS OF THE DATE HEREOF SHALL REMAIN OUTSTANDING HEREUNDER AS OF THE DATE HEREOF.**

**NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THIS NOTE IS SUBJECT TO, AND GOVERNED IN ALL RESPECTS BY, THAT CERTAIN INTERCOMPANY NOTE, DATED MARCH 11, 2014 (THE “INTERCOMPANY NOTE”), BY EACH OF THE ENTITIES SET FORTH ON THE SIGNATURE PAGES THERETO, AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, AND ANY AND ALL CLAIMS OF THE LENDER (AS DEFINED BELOW) AGAINST THE BORROWER (AS DEFINED BELOW) OR AGAINST THE BORROWER’S PROPERTIES SHALL BE SUBORDINATE AND SUBJECT IN RIGHT OF PAYMENT TO THE SENIOR INDEBTEDNESS (AS DEFINED THEREIN) IN ACCORDANCE WITH THE TERMS THEREOF. IN THE EVENT OF ANY CONFLICT BETWEEN THE PROVISIONS OR REQUIREMENTS OF THIS NOTE AND THE PROVISIONS OR REQUIREMENTS OF THE INTERCOMPANY NOTE, THE INTERCOMPANY NOTE SHALL CONTROL.**

**WHEREAS**, on October 9, 2012 (the “*Effective Date*”), Payless Finance, Inc., a Nevada corporation (formerly known as Collective Brands Finance, Inc., the “*Borrower*”), executed a Promissory Note (the “*Original Note*”) payable to PSS US Investments LP, a Nevada limited partnership (the “*Original Lender*”) in the principal amount of Ninety Six Million Five Hundred Ninety Two Thousand Four Hundred Sixty Three (US \$96,592,463) UNITED STATES DOLLARS; and

**WHEREAS**, following the Effective Date and prior to the date hereof, (i) the Original Lender was dissolved and, in connection therewith, the Note was distributed to its partners, Payless ShoeSource Canada Inc. (“*Payless ShoeSource Canada*”) and PSS Canada Investments, LP (“*PSS Canada Investments*”), (ii) following the transactions described in the foregoing clause (i), PSS Canada Investments was dissolved and its assets, including its interest in the Original Note, were distributed to its partners, Payless ShoeSource Canada and Payless ShoeSource Canada GP Inc. (“*Payless ShoeSource Canada GP*”), and (iii) following the transactions described in the foregoing clause (ii), Payless ShoeSource Canada GP distributed its interest in the Original Note to the holder of its common shares, Payless ShoeSource Canada; and

**WHEREAS**, following the transactions described in the foregoing recital, the parties to the Original Note were Payless ShoeSource Canada, as lender (the "**Lender**"), and the Borrower, as borrower; and

**WHEREAS**, the Borrower and the Lender wish to amend and restate the Original Note for certain purposes, including deleting the reference to "Regulation 4301(a) of the *Income Tax Act* (Canada)" therein and replacing it with a reference to "Regulation 4301(b) of the *Income Tax Act* (Canada)."

**NOW, THEREFORE**, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Original Note are hereby amended and restated in their entirety to read as follows:

**REFERENCE IS MADE** to the transfer, on October 9, 2012, by the Original Lender to the Borrower of (i) Cdn \$68,210,344 in cash and (ii) receivables then owing from Payless ShoeSource, Inc. in the amount of US \$7,000,000 and then owing from the Borrower in the amount of US \$19,726,291 (together, the "**Transferred Assets**"). The Borrower reaffirms its prior acknowledgement of receipt of the Transferred Assets and its confirmation that the Transferred Assets were transferred to the Borrower by the Original Lender as consideration for the issuance of the Original Note.

**FOR VALUE RECEIVED**, the Borrower **PROMISES TO PAY** to or to the order of the Lender, at such place as the Lender may designate, the principal amount of Ninety Six Million Five Hundred Ninety Two Thousand Four Hundred Sixty Three (US \$96,592,463) UNITED STATES DOLLARS on October 9, 2022, with interest on such amount at the rate, calculated in the manner and payable at the times specified in this Note.

The principal amount remaining from time to time unpaid and outstanding shall bear interest, both before and after the occurrence of an Event of Default (as hereinafter defined) and before and after judgment to the date of the repayment in full of the principal amount, at the Prescribed Rate. For purposes of this Note, "**Prescribed Rate**" means the prescribed rate for that calendar quarter pursuant to Regulation 4301(b) of the *Income Tax Act* (Canada), adjusted quarterly with each quoted or published change in such rate, all without the necessity of any notice to the Borrower or any other person. Interest at such rate shall accrue daily and be calculated on the basis of the actual number of days elapsed in a year of 365 days or 366 days, as the case may be, and shall be payable semi-annually, in arrears, on the first business day of each April 1 and October 1, commencing April 1, 2013. Overdue interest shall bear interest at the same rate, calculated as aforesaid.

The Borrower shall have the right and privilege of prepaying the whole or any portion of the principal amount of this Note from time to time remaining unpaid and outstanding at any time or times.

If an Event of Default occurs, then the whole of the principal amount of this Note remaining unpaid and all accrued unpaid interest shall be immediately due and payable upon demand.

The recording by the Lender in its accounts of principal amounts owing by the Borrower, accrued interest and repayments shall, in the absence of manifest mathematical error, be *prima facie* evidence of the same; provided that the failure of the Lender to record the same shall not affect the obligation of the Borrower to pay such amounts to the Lender.



The Borrower and all endorsers of this Note waive presentment for payment and notice of non-payment and agree and consent to all extensions or renewals of this Note without notice.

In this Note, the occurrence of each and any of the following events shall constitute an “*Event of Default*”, and as such, without prejudice to any of the Lender’s other rights and obligations under this Note or under applicable law or otherwise, the Lender may, at its sole option, terminate all of its obligations under this Note with immediate effect, and demand immediate payment of all outstanding amounts under this Note (including, without limitation, any interest and fees owed thereon), by notifying the Borrower in writing, if one of the following events occurs; *provided* that all such outstanding amounts (including, without limitation, any interest and fees owed thereon) shall become immediately due and payable without any action by the Lender and without any notice by the Lender to the Borrower upon the occurrence of any of the events set forth in clause 2 below:

1. The Borrower fails to pay any amount due to the Lender under this Note within five (5) days following the date when such amount becomes due and payable; or
2. The Borrower (i) becomes insolvent or generally not able to pay its debts as they become due, (ii) admits in writing its inability to pay its debts generally or makes a general assignment for the benefit of creditors, (iii) institutes or has instituted against it any proceeding seeking (x) to adjudicate it a bankrupt or insolvent, (y) liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors including any plan of compromise or arrangement or other corporate proceeding involving its creditors, or (z) the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its properties and assets, and in the case of any such proceeding instituted against it (but not instituted by it), either the proceeding remains undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties and assets) occurs, or (iv) takes any corporate action to authorize any of the above actions.

This Note is governed by, and will be interpreted and construed in accordance with, the laws of the Province of Ontario and the federal laws of Canada applicable therein.

It is the intention of the Borrower and the Lender to conform strictly to all applicable usury laws now or hereafter in force, and any interest payable under this Note shall be subject to reduction to the amount not in excess of the maximum legal amount allowed under the applicable usury laws as now or hereafter construed by the courts having jurisdiction over such matters. If the maturity of this Note is accelerated by reason of an election by the Lender, then earned interest may never include more than the maximum amount permitted by law, computed from the date hereof until payment, and any interest in excess of the maximum amount permitted by law shall be canceled automatically and, if theretofore paid, shall at the option of the Lender either be rebated to the Borrower or credited on the principal amount pursuant to this Note, or if this amount has been paid in full, then the excess shall be rebated to the Borrower. The aggregate of all interest (whether designated as interest, service charges, points or otherwise) contracted for, chargeable, or receivable under this Note shall under no circumstances exceed the maximum legal rate upon the unpaid principal balance of this Note remaining unpaid from time to time. If such interest does exceed the maximum legal rate, it shall be deemed a mistake and such excess shall be canceled automatically and, if theretofore paid, rebated to

the Issuer or credited on the principal amount pursuant to this Note, or if this amount has been repaid in full, then such excess shall be rebated to the Borrower.

The Borrower (a) consents to the amendment and restatement of the Original Note by this Note; (b) acknowledges and agrees that the obligations owing to the Lender pursuant to the Original Note shall be in respect of the obligations of the Borrower under this Note; and (c) reaffirms all of the obligations owing to the Lender. The Borrower hereby confirms and agrees that all outstanding principal, interest and fees (including such accrued and unpaid principal, interest, and fees set forth in the immediately preceding sentence) and other obligations under the Original Note prior to the date hereof shall, to the extent not paid on the date hereof, from and after the date hereof, be, without duplication, obligations owing and payable pursuant to this Note.

This Note does not extinguish the obligations for the payment of money outstanding under the Original Note or discharge or release the obligations. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Original Note, which shall remain in full force and effect, except as modified hereby. Nothing expressed or implied in this Note shall be construed as a release or other discharge of the Borrower from any of its obligations or liabilities under the Original Note.

**IN WITNESS WHEREOF** the Borrower has executed this Note as of the date first written above.

**PAYLESS FINANCE, INC.**

By: 

Name: Gary C. Madsen

Title: Vice President and Assistant  
Treasurer

**ACKNOWLEDGED AND AGREED:**

**PAYLESS SHOESOURCE CANADA INC.**

By: 

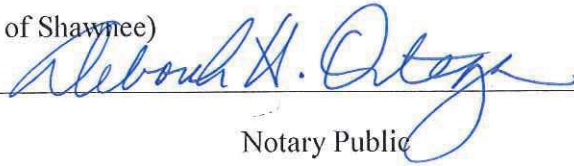
Name: Laurie L. Tietjen

Title: Vice President

THIS IS **EXHIBIT "E"** REFERRED TO IN THE  
AFFIDAVIT OF MICHAEL SCHWINDLE, SWORN BEFORE  
ME THIS 6<sup>th</sup> DAY OF APRIL, 2017.

State of Kansas )

County of Shawnee)

  
\_\_\_\_\_

Notary Public

My Commission Expires: 12/2/20



## INTERCOMPANY NOTE

FOR VALUE RECEIVED, each of the entities set forth on the signature pages hereto (together with their registered assigns, each a “Payor”), hereby severally, and not jointly, promises to pay to the order of each entity identified as a lender or Payee (together with their registered assigns, each a “Payee”), in lawful money of the United States of America in immediately available funds, at such location as Payee shall from time to time designate, the unpaid principal amount of all loans and advances made by Payee to or on behalf of the applicable Payor and such interest as the parties have determined and established on their respective books and records. Notwithstanding anything to the contrary contained herein, this Intercompany Note shall evidence all loans and advances from each Payee to each Payor, regardless of whether evidenced by another note, instrument or writing.

The principal balance of all loans and advances made by each Payee to each Payor, together with all accrued interest thereon, shall be due and payable in full on demand, unless otherwise agreed in writing by such Payor and Payee, as applicable. Each Payor may prepay all or any part of the principal or accrued interest at any time and from time to time, without premium or penalty. All partial prepayments shall be applied first to accrued and unpaid interest and then to the unpaid principal amount of the loans.

Upon the commencement of any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar proceeding of any jurisdiction relating to any Payor, the unpaid principal amount hereof with respect to the applicable Payor shall become immediately due and payable without presentment, demand, protest or notice of any kind in connection with this Intercompany Note.

This Intercompany Note (“Intercompany Note”) is subject to the terms of each of the Credit Agreements and is to be pledged by each Payee that is a Loan Party (as defined in each Credit Agreement) pursuant to each Security Agreement (as defined in each Credit Agreement). Each Payor hereby acknowledges and agrees that, upon the occurrence and during the continuance of an Event of Default (as defined in each Credit Agreement), each of the ABL Administrative Agent (defined below), the TL Administrative Agent (defined below) and the Second Lien TL Administrative Agent (defined below), as the case may be, may, subject to the terms of the (i) Intercreditor Agreement, dated as of March 11, 2014 among the ABL Administrative Agent, the TL Administrative Agent and the other parties thereto (as amended, restated, modified, or otherwise supplemented from time to time, the “ABL/TL Intercreditor Agreement”) and (ii) Intercreditor Agreement dated as of March 11, 2014 among the TL Administrative Agent and the Second Lien TL Administrative Agent and the other parties thereto (as amended, restated, modified, or otherwise supplemented from time to time, the “Term Loan Intercreditor Agreement”), exercise all the rights and remedies provided in each such Security Agreement (as such term is defined in each Credit Agreement) to which it is a party with respect to this Intercompany Note.

Each Payee agrees that any and all claims of such Payee against any Payor that is a Loan Party or any endorser of the obligations of any Payor that is a Loan Party under this Intercompany Note, or against any of their respective properties, shall be subordinate and subject in right of payment to the Senior Indebtedness until all of the obligations (other than unasserted

contingent indemnification obligations and unasserted expense reimbursement obligations ) have been performed under the Credit Agreements and all Senior Indebtedness has been paid in full in immediately available funds, no Letters of Credit are outstanding and the Commitments have been terminated (in each case, as such terms are defined in the ABL Credit Agreement) under the ABL Credit Agreement; *provided*, that each Payor may make payments to the applicable Payee so long as such payments are permitted pursuant to each of the Credit Agreements.

**This Intercompany Note shall be binding upon each Payor and its successors and assigns, and the terms and provisions of this Intercompany Note shall inure to the benefit of each Payee and their respective successors and assigns, including subsequent holders hereof. Notwithstanding anything to the contrary contained herein, in any other Loan Document (as defined in each Credit Agreement) or in any other promissory note or other instrument, this Intercompany Note (i) replaces and supersedes any and all promissory notes or other instruments which create or evidence any loans or advances made on or before the date hereof by any Payee to Holdings or any of its Subsidiaries, including, without limitation, those arrangements described on Schedule I attached hereto (as updated from time to time), and the existing intercompany note dated as of October 9, 2012, which shall be null and void as of the effective date of this Intercompany Note, and (ii) shall not be deemed replaced, superseded or in any way modified by any promissory note or other instrument entered into on or after the date hereof which purports to create or evidence any loan or advance by any Payee to Holdings or any of its Subsidiaries unless such replacement or modification is not prohibited under each Credit Agreement and such promissory note is delivered to the TL Administrative Agent pursuant to Section 7.8 of the TL First Lien Credit Agreement (as defined below) or, after the Discharge of First Lien Obligations (as defined in the Term Loan Intercreditor Agreement) has occurred, the Second Lien TL Administrative Agent.**

From time to time after the date hereof, additional subsidiaries of Holdings may become parties hereto (as Payor and/or Payee, as the case may be) by executing a counterpart signature page to this Intercompany Note (each additional Subsidiary, an “Additional Party”). Upon delivery of such counterpart signature page to the Payees, notice of which is hereby waived by the other Payors, each Additional Party shall be a Payor and/or a Payee, as the case may be, and shall be as fully a party hereto as if such Additional Party were an original signatory hereof. Each Payor expressly agrees that its obligations arising hereunder shall not be affected or diminished by the addition or release of any other Payor or Payee hereunder. This Intercompany Note shall be fully effective as to any Payor or Payee that is or becomes a party hereto regardless of whether any other person becomes or fails to become or ceases to be a Payor or Payee hereunder.

As used herein, “Credit Agreement” shall mean each of (i) that certain First Lien Term Loan and Guarantee Agreement, dated as of March 11, 2014, among WBG – Holdings LLC (“Holdings”), Payless Inc. (the “Borrowing Agent”), the other Borrowers party thereto (as such term is defined therein), the subsidiary guarantors from time to time party thereto, the lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as Administrative Agent, (the “TL Administrative Agent”), and the other parties thereto (as amended, restated, refinanced, modified and/or supplemented from time to time, the “TL First Lien Credit Agreement”), (ii) that certain Second Lien Credit Agreement shall mean that certain Second Lien

Term Loan and Guarantee Agreement, dated as of March 11, 2014, among Holdings, the Borrowing Agent, the other Borrowers party thereto (as such term is defined therein), the subsidiary guarantors from time to time party thereto, the lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as Administrative Agent (the “Second Lien TL Administrative Agent”), and the other parties thereto (as amended, restated, refinanced, modified and/or supplemented from time to time (the “TL Second Lien Credit Agreement”) and (iii) that certain Credit Agreement, dated as of October 9, 2012, among Holdings, the Borrowing Agent, the other parties thereto from time to time as borrowers and guarantors, the lenders party thereto from time to time, Wells Fargo Bank, National Association, as agent (the “ABL Administrative Agent”), and the other parties thereto (as amended, restated, refinanced, modified and/or supplemented from time to time, the “ABL Credit Agreement”).

As used herein, “Senior Indebtedness” shall mean:

(i) all Obligations (as defined in the TL First Lien Credit Agreement) (including, without limitation, (x) all interest accruing after the filing of a petition in bankruptcy or any other act which constitutes a default or event of default pursuant to Section 10.1(f) of the TL First Lien Credit Agreement, at the stated contract rate, regardless of whether allowed or allowable in the respective bankruptcy or other proceeding, and (y) Obligations which, but for the automatic stay under Section 362(a) of the Bankruptcy Code, would become due) and liabilities (including, without limitation, indemnities, fees and interest thereon that are due and payable in accordance with the terms of the TL First Lien Credit Agreement) of each Loan Party (whether as obligor, guarantor or otherwise) to the Secured Parties under the TL First Lien Credit Agreement (other than unasserted contingent indemnification obligations and unasserted expense reimbursement obligations), whether now existing or hereafter incurred under, arising out of or in connection with each Loan Document (as defined in the TL First Lien Credit Agreement), Secured Swap Agreement and Secured Cash Management Agreement to which it is at any time a party (including, without limitation, all such obligations and liabilities of each Loan Party under the TL First Lien Credit Agreement (if a party thereto) and under any guarantee by it of obligations pursuant to the TL First Lien Credit Agreement) and the due performance and compliance by each Loan Party with the terms of each such Loan Document, Secured Swap Agreement and Secured Cash Management Agreement;

(ii) all Obligations (as defined in the ABL Credit Agreement) (including, without limitation, (x) all interest accruing after the filing of a petition in bankruptcy or any other act which constitutes a default or event of default pursuant to Section 8.01(f) or (g) of the ABL Credit Agreement, at the stated contract rate, regardless of whether allowed or allowable in the respective bankruptcy or other proceeding, and (y) Obligations which, but for the automatic stay under Section 362(a) of the Bankruptcy Code of the United States, would become due) and liabilities (including, without limitation, indemnities, fees and interest thereon that are due and payable in accordance with the terms of the ABL Credit Agreement) of each Loan Party (whether as obligor, guarantor or otherwise) to the Credit Parties (as defined in the ABL Credit Agreement) (other than unasserted contingent indemnification obligations and unasserted expense reimbursement obligations), whether now existing or hereafter incurred under, arising out of or in connection with each Loan Document (as defined in the ABL Credit Agreement), Bank Products (as defined in the ABL Credit Agreement) and any related agreements to which it is at any time a party (including, without limitation, all such obligations and liabilities of each

Loan Party under the ABL Credit Agreement (if a party thereto) and under any guarantee by it of obligations pursuant to the ABL Credit Agreement) and the due performance and compliance by each Loan Party with the terms of each such Loan Document, Bank Products and related agreements; and

(iii) Subject to the Term Loan Intercreditor Agreement, all Obligations (as defined in the TL Second Lien Credit Agreement) (including, without limitation, (x) all interest accruing after the filing of a petition in bankruptcy or any other act which constitutes a default or event of default pursuant to Section 10.1(f) of the TL Second Lien Credit Agreement, at the stated contract rate, regardless of whether allowed or allowable in the respective bankruptcy or other proceeding, and (y) Obligations which, but for the automatic stay under Section 362(a) of the Bankruptcy Code, would become due) and liabilities (including, without limitation, indemnities, fees and interest thereon that are due and payable in accordance with the terms of the TL Second Lien Credit Agreement) of each Loan Party (whether as obligor, guarantor or otherwise) to the Secured Parties under the TL Second Lien Credit Agreement (other than unasserted contingent indemnification obligations and unasserted expense reimbursement obligations), whether now existing or hereafter incurred under, arising out of or in connection with each Loan Document (as defined in the TL Second Lien Credit Agreement).

All payments under this Intercompany Note shall be made without offset, counterclaim or deduction of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.


This Intercompany Note may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Intercompany Note by telecopy or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Intercompany Note.

**THIS INTERCOMPANY NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES).**

[Signature Page Follows]

This Intercompany Note is dated as of March 11, 2014.

WBG - PSS HOLDINGS LLC

By:   
Name: Douglas J. Treff  
Title: President

PAYLESS INC.

By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS SHOESOURCE DISTRIBUTION,  
INC.

By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS SHOESOURCE, INC.

By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

COLLECTIVE LICENSING, LP

By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

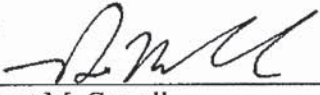


This Intercompany Note is dated as of March 11, 2014.

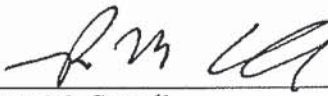
WBG - PSS HOLDINGS LLC

By: \_\_\_\_\_  
Name: Douglas J. Treff  
Title: President

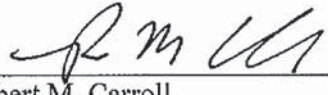
PAYLESS INC.

By:  \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

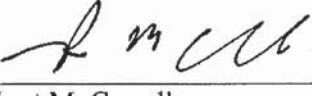
PAYLESS SHOESOURCE DISTRIBUTION,  
INC.

By:  \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS SHOESOURCE, INC.

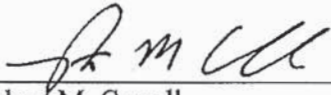
By:  \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

COLLECTIVE LICENSING, LP

By:  \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Vice President and Secretary

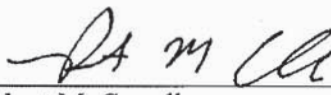
COLLECTIVE BRANDS, LLC

By: Payless ShoeSource Worldwide, Inc.  
Its: Managing Member

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

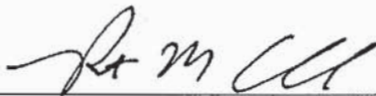
PAYLESS COLLECTIVE GP, LLC,

By: Payless ShoeSource Worldwide, Inc.  
Its: Managing Member

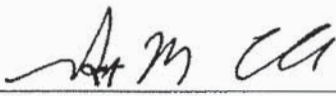
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

COLLECTIVE BRANDS FRANCHISING  
SERVICES, LLC


By: Payless ShoeSource Worldwide, Inc.  
Its: Managing Member

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

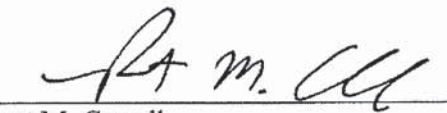
PAYLESS INTERNATIONAL FRANCHISING,  
LLC

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

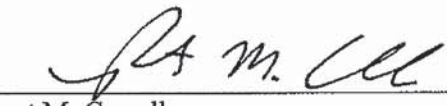
PAYLESS GOLD VALUE CO, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

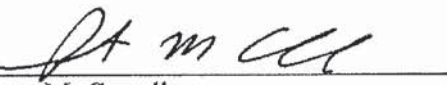
CLINCH, LLC

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary


PAYLESS FINANCE, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

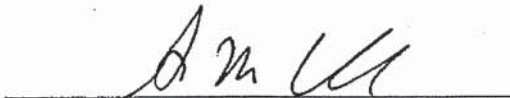
COLLECTIVE BRANDS SERVICES, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

COLLECTIVE LICENSING  
INTERNATIONAL, LLC

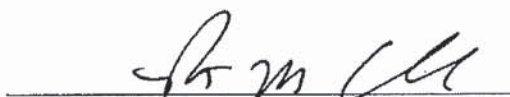
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS NYC, INC.

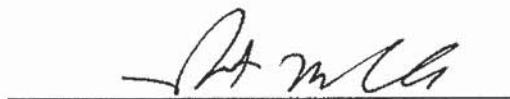
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS SHOESOURCE LEASING, LLC

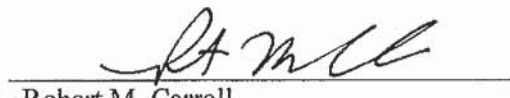
By: Payless ShoeSource, Inc.  
Its: Managing Member

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

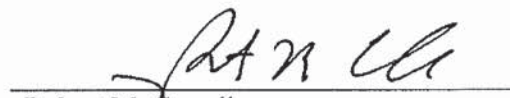
PAYLESS SHOESOURCE MERCHANDISING,  
INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

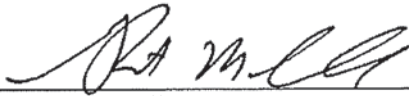
PAYLESS SHOESOURCE WORLDWIDE, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

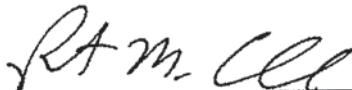
PSS DELAWARE COMPANY 2, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

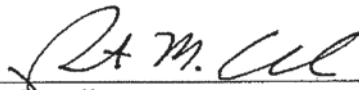
PSS DELAWARE COMPANY 4, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

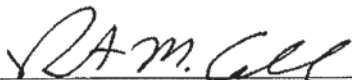
SHOE SOURCING, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

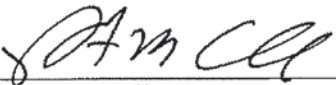
COLLECTIVE INDONESIA FRANCHISING,  
LLC

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

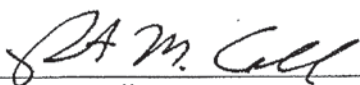
PAYLESS SHOESOURCE URUGUAY SRL

By:   
Name: Robert M. Carroll  
Title: Power of Attorney

PAYLESS SHOESOURCE OVERSEAS S.R.L.

By:   
Name: Robert M. Carroll  
Title: Power of Attorney

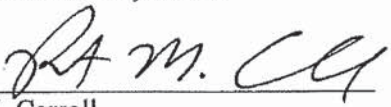
PAYLESS SHOESOURCE LIMITADA &  
COMPANIA LIMITADA (NICARAGUA)

By:   
Name: Robert M. Carroll  
Title: Power of Attorney

COLLECTIVE BRANDS HOLDINGS,  
LIMITED

By:   
Name: Robert M. Carroll  
Title: Director

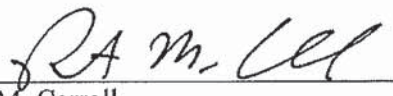
PAYLESS SHOESOURCE DE LA  
REPUBLICA DOMINICANA, S.R.L.

By:   
Name: Robert M. Carroll  
Title: Power of Attorney


PAYLESS INTERNATIONAL FINANCE B.V.

By:   
Name: Robert M. Carroll  
Title: Managing Director


LIFESTYLE BRANDS CORPORATION

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

COLLECTIVE BRANDS II COOPERATIEF  
U.A.

By:   
Name: Robert M. Carroll  
Title: Managing Director

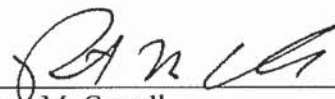
PAYLESS SHOESOURCE OF ST. LUCIA,  
LTD.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

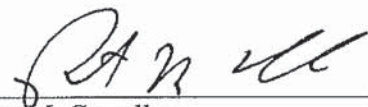
PAYLESS SHOESOURCE OF TRINIDAD  
UNLIMITED

By:   
Name: Robert M. Carroll  
Title: Assistant Secretary

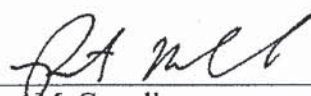
PAYLESS SHOESOURCE AU HOLDINGS  
PTY LTD

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

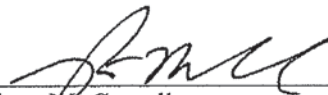
PAYLESS SHOESOURCE INTERNATIONAL  
LIMITED

By:   
Name: Robert M. Carroll  
Title: Director

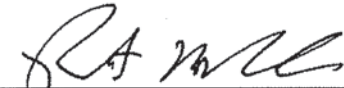
COLLECTIVE BRANDS COOPERATIEF U.A.

By:   
Name: Robert M. Carroll  
Title: Managing Director

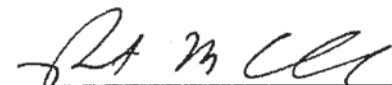
PAYLESS SHOESOURCE SPAIN, S.L.

By:   
Name: Robert M. Carroll  
Title: Vice Chairman

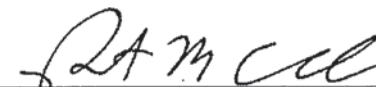
PAYLESS SHOESOURCE SAIPAN, INC.

By:   
Name: Robert M. Carroll  
Title: Secretary

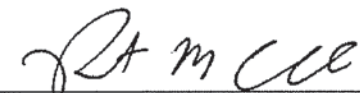
PSS CANADA, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

PSS INVESTMENT I, INC.

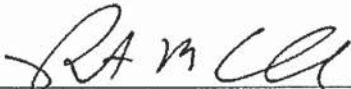
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

PSS INVESTMENT III, INC.

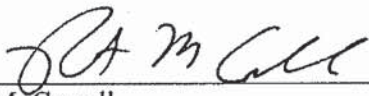
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary



COLLECTIVE BRANDS INTERNATIONAL  
FRANCHISING, LLC

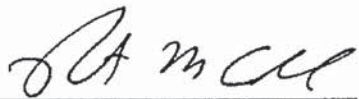
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

COLLECTIVE BRANDS LOGISTICS,  
LIMITED

By:   
Name: Robert M. Carroll  
Title: Director

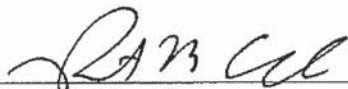
COLLECTIVE BRANDS TRUST I

By: COLLECTIVE BRANDS LOGISTICS,  
LIMITED, its Trustee

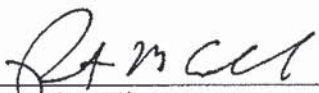
By:   
Name: Robert M. Carroll  
Title: Director

COLLECTIVE BRANDS TRUST II

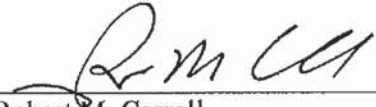
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LIMITED, its Trustee

By:   
Name: Robert M. Carroll  
Title: Director

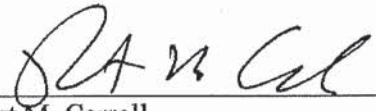
PAYLESS PURCHASING SERVICES, INC.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

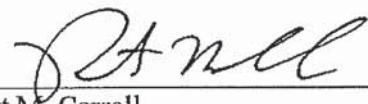
PAYLESS SERVICIOS, S.A. DE C.V.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

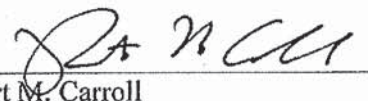
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By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

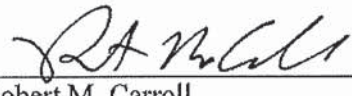
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By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

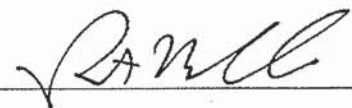
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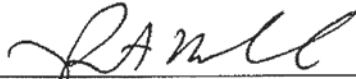
By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS CONTROLADORA, S.A. DE C.V.

By:   
Name: Robert M. Carroll  
Title: Vice President and Secretary

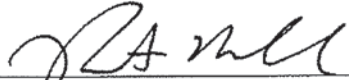
PAYLESS INDIA FRANCHISING, LLC

By: 



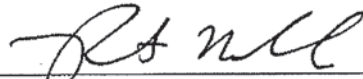
Name: Robert M. Carroll  
Title: Vice President and Secretary

PAYLESS SHOESOURCE ASIA PTE. LTD.



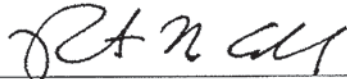
By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Director

COLLECTIVE BRANDS SERVICES, LIMITED



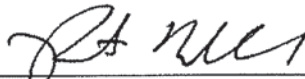
By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Director

DYNAMIC ASSETS LIMITED



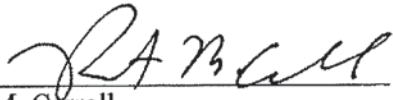
By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Director

PT COLLECTIVE BRANDS INDONESIA



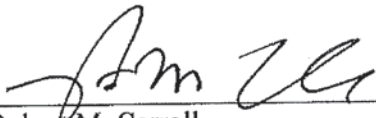
By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Board of Commissioner

IMPORT SOLUTIONS DE MEXICO, S DE R.L.  
DE C.V.



By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Manager

PAYLESS SHOESOURCE JAMAICA  
LIMITED

By:   
Name: Robert M. Carroll  
Title: Director

PSS INTERNATIONAL HOLDINGS, LIMITED

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Assistant Treasurer

COLLECTIVE FRANCHISING, LTD.

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Treasurer

PAYLESS SHOESOURCE CANADA INC.

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Assistant Treasurer

PAYLESS SHOESOURCE CANADA LP

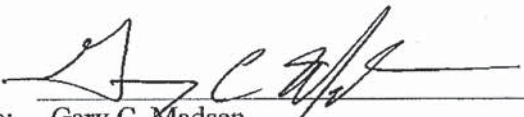
By: PAYLESS SHOESOURCE CANADA GP  
INC., its General Partner

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Assistant Treasurer

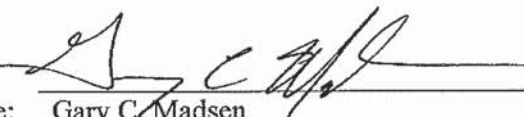
PAYLESS SHOESOURCE JAMAICA  
LIMITED

By: \_\_\_\_\_  
Name: Robert M. Carroll  
Title: Director

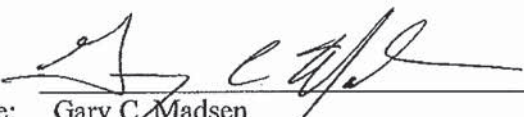
PSS INTERNATIONAL HOLDINGS, LIMITED

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

COLLECTIVE FRANCHISING, LTD.

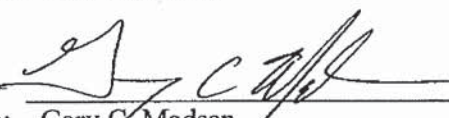
By:   
Name: Gary C. Madsen  
Title: Treasurer

PAYLESS SHOESOURCE CANADA INC.

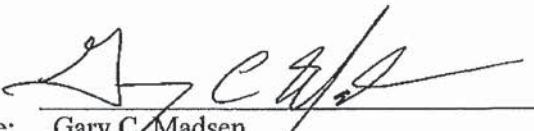
By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

PAYLESS SHOESOURCE CANADA LP

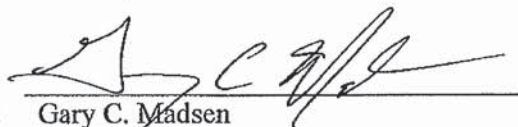
By: PAYLESS SHOESOURCE CANADA GP  
INC., its General Partner

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

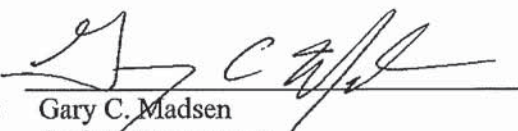
PAYLESS SHOESOURCE OF PUERTO RICO,  
INC.

By:   
Name: Gary C. Madsen  
Title: Vice President and Treasurer

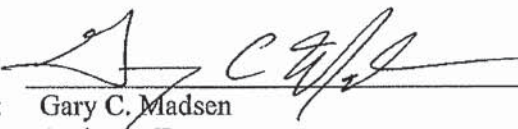
COLLECTIVE BRANDS INTERNATIONAL  
HOLDINGS, LIMITED I

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

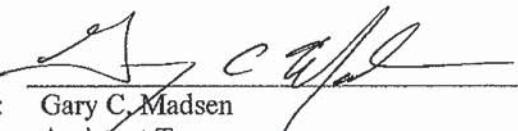
COLLECTIVE BRANDS INTERNATIONAL  
HOLDINGS, LIMITED II

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer


PSS HOLDINGS

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

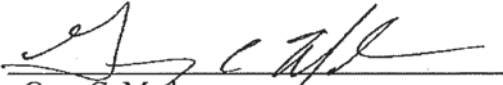
COLLECTIVE BRANDS CAYMAN FINANCE,  
LIMITED

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer


COLLECTIVE BRANDS CAYMAN FINANCE,  
LIMITED II

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer


PSS LATIN AMERICA HOLDINGS

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

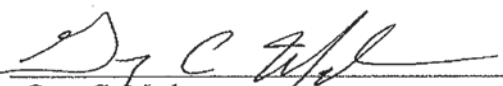
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HOLDINGS

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

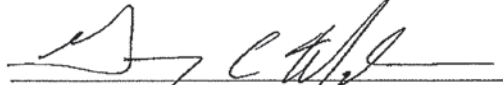
PAYLESS CA MANAGEMENT LTD.

By:   
Name: Gary C. Madsen  
Title: Vice President and Treasurer

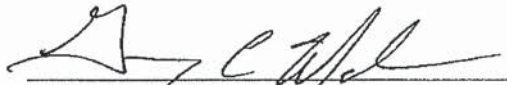
PAYLESS CO MANAGEMENT LTD.

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

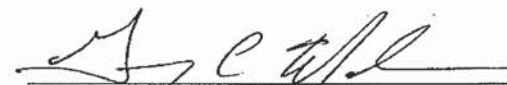
PAYLESS SHOESOURCE (BVI) HOLDINGS,  
LTD.

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

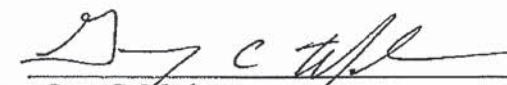
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LTD.

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

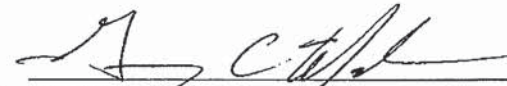
PAYLESS SHOESOURCE DE GUATEMALA,  
LTDA

By:   
Name: Gary C. Madsen  
Title: Power of Attorney

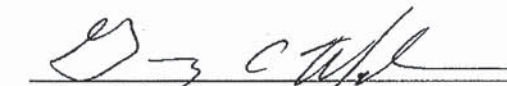
PAYLESS SHOESOURCE (BARBADOS) SRL

By:   
Name: Gary C. Madsen  
Title: Assistant Treasurer

PAYLESS SHOESOURCE LIMITADA

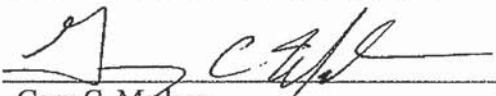
By:   
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE OF EL SALVADOR,  
LTDA. DE C.V.


By:   
Name: Gary C. Madsen  
Title: Power of Attorney



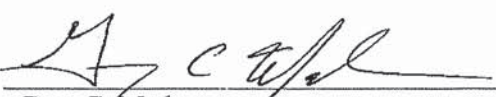
PAYLESS SHOESOURCE (PANAMA) S.A.

By:   
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE HONDURAS S DE  
RL

By:   
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE ECUADOR CIA.  
LTDA.

By:   
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE INTERNATIONAL  
SERVICOS TECNICOS E INSPETORIA DE  
CALCADOS S/C LTDA

By: \_\_\_\_\_  
Name: Gilberto Schmidt Schattschneider  
Title: Manager

COLLECTIVE BRANDS SERVICES  
VIETNAM COMPANY LTD.

By: \_\_\_\_\_  
Name: Laurie L. Tietjen  
Title: MC Member

PAYLESS SHOESOURCE (PANAMA) S.A.

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Power of Attorney


PAYLESS SHOESOURCE HONDURAS S DE  
RL

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE ECUADOR CIA.  
LTDA.

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE INTERNATIONAL  
SERVICOS TECNICOS E INSPETORIA DE  
CALCADOS S/C LTDA

By:   
Name: Gilberto Schmidt Schattschneider  
Title: Manager

COLLECTIVE BRANDS SERVICES  
VIETNAM COMPANY LTD.

By: \_\_\_\_\_  
Name: Laurie L. Tietjen  
Title: MC Member

PAYLESS SHOESOURCE (PANAMA) S.A.

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Power of Attorney

PAYLESS SHOESOURCE HONDURAS S DE  
RL

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Power of Attorney


PAYLESS SHOESOURCE ECUADOR CIA.  
LTDA.

By: \_\_\_\_\_  
Name: Gary C. Madsen  
Title: Power of Attorney

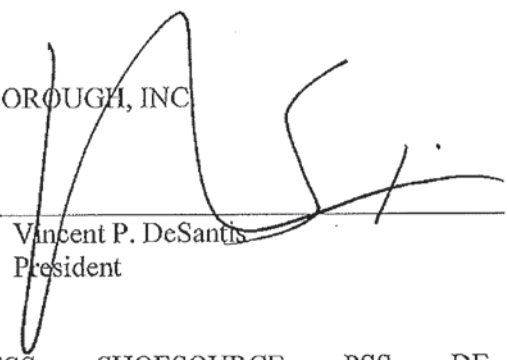
PAYLESS SHOESOURCE INTERNATIONAL  
SERVICOS TECNICOS E INSPETORIA DE  
CALCADOS S/C LTDA

By: \_\_\_\_\_  
Name: Gilberto Schmidt Schattschneider  
Title: Manager

COLLECTIVE BRANDS SERVICES  
VIETNAM COMPANY LTD.

By:   
Name: Laurie L. Tietjen  
Title: MC Member

EASTBOROUGH, INC

By:   
Name: Vincent P. DeSantis  
Title: President

PAYLESS SHOESOURCE PSS DE  
COLOMBIA S.A.S.

By: \_\_\_\_\_  
Name: Patricia Bruges Hernandez  
Title: Legal Representative

PAYLESS SHOESOURCE INTERNATIONAL  
LIMITED (SHENZHEN)

By: \_\_\_\_\_  
Name: Michael F. McBreen  
Title: Director