

Court File No. CV-17-011758-00CL

**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**

**SECOND REPORT OF THE INFORMATION OFFICER
ALVAREZ & MARSAL CANADA INC.**

June 19, 2017

TABLE OF CONTENTS

1.0	INTRODUCTION.....	1
2.0	TERMS OF REFERENCE AND DISCLAIMER	3
3.0	PURPOSE OF THIS REPORT	5
4.0	FINAL ORDERS OF THE US COURT.....	5
5.0	THE PLAN AND DISCLSOURE STATEMENT	9
6.0	PAYLESS CANADA GROUP CASH FLOW FORECAST.....	10
7.0	ACTIVITIES OF THE INFORMATION OFFICER	11
8.0	RECOMMENDATIONS.....	12

INDEX TO APPENDICES

Appendix A – Additional Chapter 11 Debtors

Appendix B – First Report of the Information Officer dated June 7, 2017

1.0 INTRODUCTION

- 1.1 On April 4, 2017 (the “**Filing Date**”), Payless Holdings LLC (“**Payless Holdings**”), Payless ShoeSource Canada Inc. (“**Payless Canada**”), Payless ShoeSource Canada GP Inc. (“**PSS GP Inc.**”) and Payless ShoeSource Canada LP (“**Payless LP**” and together with Payless Canada and PSS GP Inc., the “**Payless Canada Group**”) together with the other entities listed on **Appendix “A”** (collectively, “**Payless**” or the “**Chapter 11 Debtors**” and each, a “**Chapter 11 Debtor**”), commenced voluntary reorganization proceedings (the “**Chapter 11 Proceedings**”) in the United States Bankruptcy Court for the Eastern District of Missouri (the “**US Court**”) by filing voluntary petitions for relief under Chapter 11 of Title 11 of the *United States Code*, 11 U.S.C. 101-1532 (the “**US Code**”).
- 1.2 On April 5, 2017, the US Court made various orders in the Chapter 11 Proceedings (the “**First Day Orders**”), including an order authorizing Payless Holdings to act as foreign representative on behalf of the Chapter 11 Debtors’ estates. A number of the First Day Orders were granted on an interim basis.
- 1.3 On April 7, 2017, this Court made an order (the “**Initial Order**”) pursuant to sections 46, 47 and 48 of the *Companies’ Creditors Arrangement Act* (“**CCAA**”), among other things: (i) declaring that Payless Holdings is the “foreign representative” of the Chapter 11 Debtors; (ii) declaring the Chapter 11 Proceedings to be a “foreign main proceeding” under the CCAA; and (iii) granting a stay of proceedings in respect of the Chapter 11 Debtors.

- 1.4 On April 12, 2017, this Court issued an endorsement granting a supplemental order (the “**Supplemental Order**”) pursuant to section 49 of the CCAA, among other things: (i) recognizing and giving full force and effect in Canada to certain of the First Day Orders, except the Interim DIP Order (defined below); (ii) appointing Alvarez & Marsal Canada Inc. (“**A&M Canada**”) as the information officer in respect of these CCAA proceedings (the “**CCAA Recognition Proceedings**”, together with the Chapter 11 Proceedings, the “**Restructuring Proceedings**”) (in such capacity, the “**Information Officer**”); (iii) staying any claims, rights, remedies, liens or proceedings against or in respect of the Chapter 11 Debtors; and (iv) restraining the right of any person or entity to, among other things, discontinue or terminate any supply of products or services to the Chapter 11 Debtors.
- 1.5 On May 9, 2017 and May 15, 2017, the US Court heard motions for certain final orders and other relief requested by the Chapter 11 Debtors, among which were orders that made final certain of the First Day Orders that were initially issued on an interim basis (collectively, the “**Final Orders**”).
- 1.6 Included among the Final Orders was the *Final Order (i) Authorizing the Debtors to Obtain Postpetition 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, and (vi) Granting Related Relief* (the “**Final DIP Order**”). The Final DIP Order was entered by the US Court on May 17, 2017.
- 1.7 The Final DIP Order authorizes the Chapter 11 Debtors to borrow up to \$305 million under the DIP ABL credit facility and \$80 million under the DIP term loan facility, both

described in the Pre-Filing Report (defined below). The Foreign Representative is not seeking recognition of the Final DIP Order at this time.

- 1.8 On May 15, 2017, the US Court also granted certain other orders, including the *Order Establishing Bar Dates for Filing Proofs of Claim and Approving Form and Manner of Notice Thereof* (the “**Claims Bar Order**”). The Claims Bar Order established the bar dates for filing proofs of claim against the Chapter 11 Debtors, other than the Payless Canada Group. The bar dates are set out in the First Report.
- 1.9 The Claims Bar Order provides that, at this time, creditors of the Payless Canada Group are not required to file proofs of claim and are not subject to the bar dates established by the Claims Bar Order.
- 1.10 Further information regarding the background of the Restructuring Proceedings can be found in the Report of the Proposed Information Officer dated April 7, 2017 (the “**Pre-Filing Report**”) and the First Report of the Information Officer dated June 7, 2017 (the “**First Report**”), which is attached as **Appendix “B”**.

2.0 TERMS OF REFERENCE AND DISCLAIMER

- 2.1 In preparing this Second Report of the Information Officer (the “**Second Report**”), A&M Canada has relied solely on information and documents provided by the Foreign Representative, the other Chapter 11 Debtors and their Canadian legal counsel (collectively the “**Information**”). Except as otherwise described in this Second Report in respect of the Payless cash flow forecast:

- (a) The Information Officer has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the

Information Officer has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the Chartered Professional Accountants of Canada Handbook (the “**Handbook**”) and accordingly, the Information Officer expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

(b) Some of the Information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the Handbook, has not been performed.

2.2 Future-oriented financial information referred to in this Second Report was prepared based on estimates and assumptions made by Payless’s management. Readers are cautioned that, since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results may vary from the projections, and the variations could be significant.

2.3 This Second Report should be read in conjunction with the First Report and the Affidavit of Michael Schwindle, the Chief Financial Officer and Senior Vice President of Payless Holdings sworn on June 19, 2017 (the “**Second Schwindle Affidavit**”).

2.4 Unless otherwise stated, all monetary amounts contained in this Second Report are expressed in United States dollars, which is the Chapter 11 Debtors’ common reporting currency.

3.0 PURPOSE OF THIS REPORT

3.1 The purpose of this Second Report is to provide the Court and stakeholders with information in respect of the following:

- (a) certain Final Orders that the Foreign Representative is seeking to have recognized and given effect in Canada by this Court pursuant to section 49 of the CCAA;
- (b) developments in the Chapter 11 Proceedings and the CCAA Recognition Proceedings and the impact of such developments on Canadian stakeholders; and
- (c) the activities of the Information Officer since the date of the Pre-Filing Report.

4.0 FINAL ORDERS OF THE US COURT

4.1 The Final Orders that the Foreign Representative is seeking recognition of in Canada are as follows:

- (a) *Final Order (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* (the “**Final Employee Wages Order**”) which authorizes the continuation of the Chapter 11 Debtors’ prepetition employee obligations in the ordinary course, and permits them to pay and honour certain prepetition claims in respect of, among other things: (i) unpaid wages and salary obligations for the employees of the Payless Canada Group; (ii) unpaid withholding obligations; (iii) outstanding reimbursable expenses of employees of the Payless Canada Group; (iv) outstanding obligations under the Canada Store Leader Extreme Rewards Incentive Program and the Canada Group

Leader Incentive Program (both of which are defined and described in the Employee Wages Motion);

- (b) *Final Order (I) Authorizing the Debtors to (A) Continue Using the Cash Management System and (B) Maintain Existing Bank Accounts and Business Forms; (II) Authorizing Continued Intercompany Transactions; (III) Granting Superpriority Administrative Expense Status to Post-Petition Intercompany Payments; and (IV) Granting Related Relief (the “**Final Cash Management Order**”) which authorizes the Chapter 11 Debtors to, among other things, continue using their cash management system, including the Canadian bank accounts, and permits ongoing intercompany advances. The cash management system of the Payless Canada Group is described in the Pre-Filing Report;*
- (c) *Final Order (I) Authorizing the Payment of Certain Prepetition Taxes and Fees and (II) Granting Related Relief (the “**Final Tax Order**”) which authorizes the Chapter 11 Debtors to, among other things, pay certain taxes and fees that were incurred and/or accrued but not paid prepetition, and to continue to collect, withhold, and incur various taxes and fees, and remit them to various federal, state, local and foreign governments, including those in Canada in order to avoid potential disruption to business operations;*
- (d) *Final Order (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 (the “**Final Insurance Order**”) which authorizes the Chapter 11 Debtors to pay certain prepetition amounts outstanding in respect of policy audit*

fees, deductible fees and brokerage and insurance administrator fees associated with the Chapter 11 Debtors' insurance programs and to continue the Chapter 11 Debtors' insurance policies and to renew, supplement, modify or purchase insurance policies to the extent that such action is in the interest of their estates;

- (e) *Final Order (I) Authorizing the Debtors to (A) Honour 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 (the “**Final Customer Programs Order**”)* which authorizes the Chapter 11 Debtors to honour and continue various customer programs, including but not limited to gift card programs, returns, exchanges and refunds, product warranty programs, merchant credit card agreements and other similar policies, programs and practices, all of which are considered essential to maintaining customer loyalty and goodwill;
- (f) *Final Order (I) Authorizing the Debtors to Continue and Renew Surety Bond Program on an Uninterrupted Basis, and (II) Granting Related Relief (the “**Final Surety Bond Order**”)* which authorizes the Chapter 11 Debtors to continue to post surety bonds to secure their payment or performance obligations, including customs and tax obligations to Canada Revenue Agency and others, to remit certain prepetition premiums in respect of same, and to continue paying associated premiums as they come due;
- (g) *Final Order (I) Authorizing the Debtors to pay Certain Prepetition Claims of (I) Critical Vendors and (II) Carriers, Warehousemen, and Section 503(B)(9) Claimants and (B) Granting Related Relief (the “**Final Critical Vendors Order**”)*

which authorizes the Chapter 11 Debtors to pay certain prepetition amounts, up to a maximum combined total of \$113 million to critical vendors that provide specific merchandise, and critical carriers and warehousemen that transport and store that merchandise to avoid jeopardizing the Chapter 11 Debtors' ability to continue serving their customers; and

- (h) *Final Order (I) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Utility Services, (II) Determining Adequate Assurance of Payment for Future Utility Service, (III) Establishing Procedures for Determining Adequate Assurance of Payment, and (IV) Granting Related Relief* (the "**Final Utilities Order**") which, among other things: (i) prohibits all utility providers from altering, refusing or discontinuing service on account of any unpaid prepetition charges, the commencement of the Chapter 11 Proceedings, or any perceived inadequacy of the adequate assurance security provided by the Chapter 11 Debtors; (ii) authorizes the Chapter 11 Debtors to pay any prepetition or postpetition obligations in respect of utility agent fees consistent with prepetition practices; and (iii) approves certain adequate assurance procedures for future utility services.

4.2 These Final Orders grant on a final basis substantially the same relief that was granted on an interim basis by the US Court on April 5, 2017. With the exception of the Final Utilities Order, this Court recognized and enforced the interim versions of each of these Final Orders in the Supplemental Order.

4.3 Given that the Payless Canada Group and the Information Officer have been addressing a number of inquiries from certain Canadian utility service providers, the Foreign

Representative is of the view that it is appropriate to now also recognize the Final Utilities Order in order to allow the Payless Canada Group and the other Chapter 11 Debtors to adopt a coordinated approach to addressing matters in respect of utility services.

- 4.4 The Final Orders are discussed in the Second Swindle Affidavit and are attached to the affidavit of Michael Shakra sworn June 16, 2017 as Exhibits “B” through “I”.

5.0 THE PLAN AND DISCLOSURE STATEMENT

- 5.1 As discussed in the First Report, on April 25, 2017, the Chapter 11 Debtors filed their proposed plan of reorganization (as amended, the “**Plan**”) and related disclosure statement (as amended, the “**Disclosure Statement**”). Since initially filing the Plan and Disclosure Statement, the documents have been amended on three occasions. Most recently, the Chapter 11 Debtors filed a third amended and restated Plan and third amended and restated Disclosure Statement on June 15, 2017.

- 5.2 The amendments to the Plan and Disclosure Statement reflected in the version filed on June 15, 2017 did not impact the treatment of claims as described in the First Report. Under the Plan, unsecured claims against the Payless Canada Group are proposed to be unimpaired and will be reinstated following the effective date of the Plan. As indicated in the First Report, the Information Officer notes that the Plan and the treatment of claims against the Payless Canada Group may be amended prior to confirmation of the Plan by the US Court.

5.3 On June 15, 2017, the US Court entered an order approving the Disclosure Statement and process for solicitation of votes in respect of the Plan. The schedule approved by the US Court is as follows:

Event/Deadline	Date
Record Date	June 14, 2017 for all claims filed before such date, and for any claims filed after such date, the applicable claims bar date
Solicitation Deadline	June 21, 2017
Deadline to Publish the Confirmation Hearing Notice	June 21, 2017
Plan Supplement Filing Date	July 10, 2017
Voting Resolution Deadline	July 12, 2017 at 4:00 p.m. (prevailing Central Time)
Voting Deadline	July 17, 2017 at 4:00 p.m. (prevailing Central Time)
Plan Objection Deadline	July 17, 2017 at 4:00 p.m. (prevailing Central Time)
Deadline to Reply to Confirmation Objections	July 21, 2017 at 4:00 p.m. (prevailing Central Time)
Deadline to file Voting Report	July 21, 2017 at 10:00 a.m. (prevailing Central Time)
Confirmation Hearing	July 24, 2017 at 10:00 a.m.

5.4 Due to their unimpaired treatment under the Plan, holders of claims against the Payless Canada Group are not eligible to vote on the Plan and are deemed to accept the Plan pursuant to the US Code.

6.0 PAYLESS CANADA GROUP CASH FLOW FORECAST

6.1 As at June 12, 2017, the Payless Canada Group had cash on hand of approximately \$10.8 million.

6.2 The current cash flow projections of the Payless Canada Group indicate that the Canadian business will remain cash flow positive and have sufficient liquidity to support its

operations (including inventory purchases on a cash-on-delivery basis) to the anticipated effective date of the Plan which is August 10, 2017.

7.0 ACTIVITIES OF THE INFORMATION OFFICER

7.1 The activities of the Information Officer since the date of the Pre-Filing Report, being April 7, 2017, have included:

- (a) attending the motions before the Court on April 7 and 10, 2017 and the 9:30 appointments scheduled before the Court;
- (b) continuing to make non-confidential materials filed with the Court publicly available on the website maintained by the Information Officer in respect of these CCAA Recognition Proceedings at www.alvarezandmarsal.com/paylesscanada;
- (c) responding to inquiries of stakeholders regarding the Restructuring Proceedings;
- (d) periodically updating the Court on material developments in the Restructuring Proceedings;
- (e) monitoring the Chapter 11 Debtors' restructuring website maintained by Prime Clerk LLC for activity and developments in the Chapter 11 Proceedings;
- (f) discussion with legal counsel, the Chapter 11 Debtors' Canadian and U.S. legal counsel, the DIP lenders' Canadian legal counsel, the financial advisor to the Chapter 11 Debtors and certain management of the Chapter 11 Debtors regarding matters relevant to the Restructuring Proceedings;
- (g) communicating and/or meeting with legal counsel, the Chapter 11 Debtors' Canadian and U.S. legal counsel, DIP Lenders' legal counsel, the U.S. financial

advisor to the Chapter 11 Debtors, certain management of the Chapter 11 Debtors and legal counsel to certain of the Canadian landlords to discuss and resolve certain matters of concern to the Canadian landlords; and

- (h) preparing the First Report and this Second Report and reviewing draft materials of the Foreign Representative in connection with the CCAA Recognition Proceedings.

7.2 The Foreign Representative is seeking approval of the First Report, this Second Report and the activities of the Information Officer set out therein.

8.0 RECOMMENDATIONS

8.1 The Information Officer has reviewed the Final Orders that the Foreign Representative is requesting this Court to recognize and enforce and believes that they are reasonable and appropriate in the circumstances. Such orders do not, in the Information Officer's view, treat Canadian stakeholders of the Chapter 11 Debtors in an unfair or prejudicial manner.

8.2 The Information Officer understands that the Final Orders for which recognition is being sought are necessary to the Chapter 11 Debtors' continued business operations and that, absent these Final Orders being recognized, the reorganization efforts could be impaired.

8.3 The Information Officer and its legal counsel have also reviewed the terms of the order being sought by the Foreign Representative, and believe that the relief sought by the Foreign Representative, as set out in the form of order submitted to the Court for approval, is reasonable in the circumstances.

8.4 Based on the foregoing, the Information Officer respectfully recommends that this Court grant the relief requested by the Foreign Representative.

ALL OF WHICH IS RESPECTFULLY SUBMITTED at Toronto, Ontario this 19th day of June, 2017.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as the Information Officer of Payless Holdings LLC
and the other Applicants listed on Appendix "A",
and not in its personal or corporate capacity.**



Per: Alan J. Hutchens
Senior Vice-President

APPENDIX “A”

ADDITIONAL CHAPTER 11 DEBTORS

Payless Intermediate Holdings LLC
WBG PSS Holdings LLC
Payless Inc.
Payless Finance, Inc.
Collective Brands Services, Inc.
PSS Delaware Company 4, Inc.
Shoe Sourcing, Inc
Payless ShoeSource, Inc
Eastborough, Inc.
Payless Purchasing Services, Inc.
Payless ShoeSource Merchandising, Inc.
Payless Gold Value CO, Inc.
Payless ShoeSource Distribution, Inc.
Payless ShoeSource Worldwide, Inc.
Payless NYC, Inc.
Payless ShoeSource of Puerto Rico, Inc.
Payless Collective GP, LLC
Collective Licensing, LP
Collective Licensing International LLC
Clinch, LLC
Collective Brands Franchising Services, LLC
Payless International Franchising, LLC
Collective Brands Logistics, Limited
Dynamic Assets Limited
PSS Canada, Inc.

APPENDIX “B”

Court File No. CV-17-011758-00CL

**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**

**FIRST REPORT OF THE INFORMATION OFFICER
ALVAREZ & MARSAL CANADA INC.**

June 7, 2017

TABLE OF CONTENTS

1.0	INTRODUCTION.....	1
2.0	TERMS OF REFERENCE	3
3.0	PURPOSE OF THIS REPORT	4
4.0	THE CHAPTER 11 PROCEEDINGS	4
5.0	THE PLAN	7
6.0	OTHER UPDATES	10

INDEX TO APPENDICES

APPENDIX “A” – Additional Chapter 11 Debtors

APPENDIX “B” – List of Key US Orders

1.0 INTRODUCTION

- 1.1 On April 4, 2017 (the “**Filing Date**”), Payless Holdings LLC (“**Payless Holdings**”), Payless ShoeSource Canada Inc. (“**Payless Canada**”), Payless ShoeSource Canada GP Inc. (“**PSS GP Inc.**”) and Payless ShoeSource Canada LP (“**Payless LP**” and together with Payless Canada and PSS GP Inc., the “**Payless Canada Group**”) together with the other entities listed on **Appendix “A”** (collectively, “**Payless**”, or the “**Chapter 11 Debtors**” and each, a “**Chapter 11 Debtor**”) commenced voluntary reorganization proceedings (the “**Chapter 11 Proceedings**”) in the United States Bankruptcy Court for the Eastern District of Missouri (the “**US Court**”) by filing voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. 101-1532 (the “**US Code**”).
- 1.2 On the Filing Date, the Chapter 11 Debtors filed a number of motions for interim and final orders (the “**First Day Motions**”) in the Chapter 11 Proceedings to permit the Chapter 11 Debtors to continue to operate their business in the ordinary course and to advance their reorganization. The First Day Motions, which were heard by the US Court on April 5, 2017, included a motion for entry of an order (the “**Foreign Representative Order**”) authorizing Payless Holdings to act as foreign representative on behalf of the Chapter 11 Debtors’ estates.
- 1.3 On April 5, 2017, the US Court granted the Foreign Representative Order and a series of other orders in respect of the First Day Motions (the “**First Day Orders**”), as described below.

- 1.4 On April 7, 2017, Payless Holdings commenced, by notice of application, an application (the “**CCAA Recognition Proceedings**”, together with the Chapter 11 Proceedings, the “**Restructuring Proceedings**”) before this Court (the “**Court**”) pursuant to Part IV of the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). On the same date, the Court granted an initial recognition order (the “**Initial Recognition Order**”) pursuant to sections 46, 47 and 48 of the CCAA, among other things: (i) declaring that Payless Holdings is a “foreign representative” (the “**Foreign Representative**”); (ii) declaring that the Chapter 11 Proceedings are recognized as a “foreign main proceeding” under the CCAA; and (iii) granting a stay of proceedings in respect of the Chapter 11 Debtors.
- 1.5 On April 12, 2017, the Court issued an endorsement granting a supplemental order (the “**Supplemental Order**”) pursuant to section 49 of the CCAA, among other things: (i) recognizing in Canada and enforcing certain First Day Orders, except for the Interim DIP Order (as defined below); (ii) appointing Alvarez & Marsal Canada Inc. (“**A&M Canada**”) as the information officer in respect of the CCAA Recognition Proceedings (in such capacity, the “**Information Officer**”); (iii) staying any claims, rights, remedies, liens or proceedings against or in respect of the Chapter 11 Debtors; and (iv) restraining the right of any person or entity to, among other things, discontinue or terminate any supply of products or services to the Chapter 11 Debtors.
- 1.6 Further information regarding the background of the Restructuring Proceedings can be found in the Report of the Proposed Information Officer dated April 7, 2017 (the “**Pre-Filing Report**”).

2.0 TERMS OF REFERENCE

2.1 In preparing this Report of the Information Officer (the “**First Report**”), A&M Canada has relied solely on information and documents provided by the Foreign Representative, the other Chapter 11 Debtors and their Canadian legal counsel (collectively the “**Information**”). Except as otherwise described in this First Report in respect of the Payless cash flow forecast:

- (a) The Information Officer has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Information Officer has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CAS**”) pursuant to the *Chartered Professional Accountants of Canada Handbook* (the “**Handbook**”), and accordingly, the Information Officer expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and
- (b) Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the Handbook, has not been performed.

2.2 Future-oriented financial information referred to in this First Report was prepared based on estimates and assumptions made by Payless’s management. Readers are cautioned that, since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, and the variations could be significant.

2.3 Unless otherwise stated, all monetary amounts contained in this First Report are expressed in United States dollars, which is the Chapter 11 Debtors' common reporting currency.

3.0 PURPOSE OF THIS REPORT

3.1 The purpose of this First Report is to update the Court and stakeholders about developments in the Chapter 11 Proceedings and CCAA Recognition Proceedings and the impact of such developments on Canadian stakeholders.

4.0 THE CHAPTER 11 PROCEEDINGS

4.1 On May 9, 2017 and May 15, 2017, the US Court heard motions for certain final orders and other relief requested by the Chapter 11 Debtors. The US Court also held a hearing on May 31, 2017 on a number of motions. A listing of the key orders (the “**US Orders**”) entered by the US Court as at June 2, 2017 is appended to this First Report as **Appendix “B”**. Copies of the US Orders are available at the website maintained by the Chapter 11 Debtors' Noticing Agent, Prime Clerk LLC (“**Prime Clerk**”), at <https://cases.primeclerk.com/payless/>. The US Orders of particular relevance to Canadian stakeholders are discussed below.

Final DIP Order

4.2 On May 15, 2017, the US Court granted the *Final Order (i) Authorizing the Debtors to Obtain Postpetition 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, and*

(vi) *Granting Related Relief* (the “**Final DIP Order**”). The Final DIP Order was entered by the US Court on May 17, 2017.

- 4.3 The Final DIP Order authorizes the Chapter 11 Debtors to borrow up to \$305 million under the DIP ABL credit facility and \$80 million under the DIP term loan facility, both described in the Pre-Filing Report.
- 4.4 The Final DIP Order provides that the Foreign Representative may seek recognition of this Court of the Final DIP Order on such additional terms and conditions related solely to the property of the Payless Canada Group as the Chapter 11 Debtors may determine are necessary and desirable in respect of the creditors of the Payless Canada Group to obtain this Court’s recognition of the Final DIP Order, and provided that such additional terms and conditions shall be in form and substance satisfactory to the Chapter 11 Debtors, the DIP ABL Agent, Tranche A-1 Agent, the Required Term Lenders and the Creditors’ Committee (each as defined in the Final DIP Order).
- 4.5 The Information Officer understands that the Foreign Representative currently does not intend to seek recognition of the Final DIP Order at the next motion to recognize certain of the other US Orders. The Foreign Representative has scheduled a motion on June 21, 2017 at 11:30 a.m. for recognition of certain of the other US Orders.
- 4.6 The Chapter 11 Debtors have entered into a series of Extension Agreements with the DIP ABL Lenders extending the milestone under the DIP ABL Credit Agreement by which the Foreign Representative is required to obtain recognition of the Interim DIP Order (as those terms are defined below) in the CCAA Recognition Proceedings. The milestone was recently removed from the DIP ABL Credit Agreement pursuant to the latest

Extension Agreement. The Extension Agreements are discussed below at paragraphs 6.5 and 6.6.

Claims Bar Date Order

- 4.7 At the hearing on May 15, 2017, the US Court granted the *Order Establishing Bar Dates for Filing Proofs of Claim and Approving Form and Manner of Notice Thereof* (the “**Claims Bar Order**”). The Claims Bar Order established bar dates for filing proofs of claim against the Chapter 11 Debtors, other than Payless Canada, PSS GP Inc. and Payless LP. The Claims Bar Order was entered by the US Court on May 16, 2017.
- 4.8 Creditors of the Payless Canada Group are not required to file proofs of claim pursuant to the Claims Bar Order. The Claims Bar Order provides that claims against Payless Canada, PSS GP Inc. and Payless LP will not be affected or barred if a proof of claim is not filed in the Chapter 11 Proceedings. Due to the treatment of claims against the Payless Canada Group under the Plan (as defined and described below), the Chapter 11 Debtors did not believe it was necessary for proofs of claim to be filed in respect of claims against the Payless Canada Group.
- 4.9 However, if a Canadian creditor believes it has a claim arising prior to the Filing Date against any Chapter 11 Debtor other than Payless Canada, PSS GP Inc. and Payless LP, it should file a proof of claim in accordance with the procedures established by the Claims Bar Order by the applicable bar date.
- 4.10 The general bar date for pre-filing claims is June 19, 2017 (the “**General Bar Date**”), the government bar date for claims of governmental units is October 2, 2017 (the “**Governmental Bar Date**”) and the rejection bar date for claims arising from or relating

to the rejection of executory contracts or unexpired leases is the later of: (i) the General Bar Date or Governmental Bar Date (as applicable); and (ii) the date that is 30 days after the entry of the relevant order or the deemed rejection date.

- 4.11 Proof of claim forms may be filed: (i) electronically on the US Court's website at <http://www.moeb.uscourts.gov/epoc.htm>; (ii) by first-class mail or overnight courier to the Clerk of the US Court; or (iii) by first-class mail, overnight courier or hand delivery to Prime Clerk at the following address: Payless Holdings LLC Claims Processing Center, c/o Prime Clerk LLC, 830 3rd Avenue, 3rd Floor, New York, NY 10022.
- 4.12 The Information Officer notes that the Claims Bar Order reserves the Chapter 11 Debtors' right to seek an order of the US Court fixing a date by which creditors of the Payless Canada Group must file proofs of claim.

5.0 THE PLAN

- 5.1 On April 25, 2017, the Chapter 11 Debtors filed the *Debtors' Motion for Entry of an Order (I) Approving the Adequacy of the Disclosure Statement; (II) Fixing Dates and Deadlines Related to Confirmation of the Plan; (III) Approving Certain Procedures for Soliciting and Tabulating the Votes on, and for Objecting to, the Plan; (IV) Approving the Procedures Related to the Rights Offering and Authorizing the Retention of Financial Balloting Group LLC In Connection Therewith; and (V) Approving the Manner and Form of the Various Notices and Documents Relating Thereto* (the "**Plan Motion**"). The plan of reorganization proposed by the Chapter 11 Debtors (as amended, the "**Plan**") and related disclosure statement (as amended, the "**Disclosure Statement**") were filed on the

same date. The Plan Motion was recently adjourned by the US Court on May 29, 2017 until June 14, 2017 at 10:00 a.m. C.S.T.

5.2 On June 5, 2017, the Debtors filed an amended Plan and amended Disclosure Statement.

5.3 The Plan Motion seeks to establish a procedure and timetable for voting on the Plan. The current schedule proposed by the Chapter 11 Debtors, which has been amended since filing of the Plan Motion, is as follows:

Event/Deadline	Date
Filing of Plan and Disclosure Statement	April 25, 2017
Date of Service of Disclosure Statement Hearing Notice	April 26, 2017
Disclosure Statement Objection Deadline	June 9, 2017 at 4:00 p.m. (prevailing Central Time)
Disclosure Statement Hearing	June 14, 2017 at 10:00 a.m. (prevailing Central Time)
Record Date	June 14, 2017
Solicitation Deadline	June 21, 2017
Deadline to Publish the Confirmation Hearing Notice	June 21, 2017
Plan Supplement Filing Date	July 10, 2017
Voting Resolution Deadline	July 12, 2017 at 4:00 p.m. (prevailing Central Time)
Voting Deadline	July 17, 2017 at 4:00 p.m. (prevailing Central Time)
Plan Objection Deadline	July 17, 2017 at 4:00 p.m. (prevailing Central Time)
Deadline to Reply to Confirmation Objections	July 21, 2017 at 4:00 p.m. (prevailing Central Time)
Deadline to file Voting Report	July 21, 2017 at 10:00 a.m. (prevailing Central Time)
Confirmation Hearing	July 24, 2017 at 10:00 a.m.

5.4 The Plan, if implemented, will reduce the Chapter 11 Debtors secured debt from approximately \$847 million to approximately \$397 million through a conversion of pre-filing debt to equity in the reorganized Payless. The Plan is based on the framework provided by the Restructuring Support Agreement described in the Pre-Filing Report. The

Chapter 11 Debtors believe that the Plan will provide their business with the liquidity and sustainable capital structure necessary to implement their long term business plan and effectively compete in the evolving retail industry.

5.5 Under the Plan, holders of unsecured claims of against Payless Canada, PSS GP Inc. and Payless LP (“**Canadian General Unsecured Claims**”) form a separate class. The Canadian General Unsecured Claims are proposed to be unimpaired by the Plan and will be reinstated following the effective date of the Plan (along with all of the Chapter 11 Debtors’ defenses in respect of any such claims, which shall continue following the implementation of the Plan), unless such claim has been paid during the Restructuring Proceedings or the creditor agrees to a less favourable treatment with the Chapter 11 Debtors. Pursuant to the US Code, the Canadian General Unsecured Claims are deemed to have accepted the Plan due to their proposed treatment.

5.6 Holders of general unsecured claims against the Chapter 11 Debtors other than the Payless Canada Group and Payless ShoeSource Worldwide, Inc. (the “**Other General Unsecured Claims**”) form another separate class. Under the Plan, a holder of a Other General Unsecured Claim is proposed to receive its *pro-rata* share of: (i) \$1 million in the event the class votes to accept the Plan; or (ii) \$250,000 in the event the class votes to reject the Plan. The Other General Unsecured Claims are estimated to total approximately \$121.8 million which implies a percentage recovery for holders of Other General Unsecured Claims of approximately 0.8% in the event the class votes in favour of the Plan.

5.7 Holders of general unsecured claims against Payless ShoeSource Worldwide, Inc (the “**Worldwide General Unsecured Claims**”) also form a separate class under the Plan.

Payless ShoeSource Worldwide, Inc holds equity interests in certain foreign subsidiaries that operate in Latin America, Puerto Rico, Saipan, and Mexico. Approximately 35% of these equity interests were unencumbered by the prepetition first and second lien term loans and therefore, the value of these assets is proposed to flow to the benefit of the holders of Worldwide General Unsecured Claims. Under the Plan, each holder of a Worldwide General Unsecured Claim shall receive: (i) its *pro-rata* share of 2.9% of the new equity of the reorganized Payless, subject to certain dilution; or (ii) if the holder makes a cash-out election, a cash payment equal to no less than the lesser of (A) 50% of the value of the equity the holder would have otherwise been entitled to; and (B) its *pro-rata* share of approximately \$3.66 million. The implied percentage recovery for the holders of Worldwide General Unsecured Claims is approximately 15.7%.

5.8 It is expected that the Payless Canada Group will be guarantors under the new ABL exit financing contemplated by the Plan.

5.9 The Information Officer notes that the Plan and treatment of Canadian General Unsecured Claims may be amended prior to confirmation of the Plan by the US Court. The Information Officer also urges creditors to review the Plan and Disclosure Statement which are available on Prime Clerk's website at <https://cases.primeclerk.com/payless/>.

6.0 OTHER UPDATES

Pre-Filing Rent

6.1 As set out in the endorsement of the Court dated April 27, 2017, due to concerns of certain Canadian landlords, the Chapter 11 Debtors proposed to pay pre-filing April rent of the Payless Canada Group to the Information Officer pending further order of the

Court. On April 28, 2017, the Information Officer received C\$460,754.85 from Payless for the Canadian pre-filing April rent. The Information Officer is currently holding the amount in escrow and will distribute the amount as directed by further order of the Court.

Store Operations

- 6.2 With the exception of the temporary cessation of inventory shipments in effect from approximately April 18 to May 8, 2017 (discussed below), the Information Officer understands that the Payless Canada Group's stores have continued to operate in the ordinary course during the Restructuring Proceedings. All store locations, other than one, have remained open and the Payless Canada Group has not issued any notices of disclaimer or resiliation in respect of any leases of the Canadian stores or sought authority from the US Court to close any Canadian stores.
- 6.3 The Information Officer understands that one Canadian store was closed consensually in conjunction with the expiry of the term of its lease.

Inventory Shipments

- 6.4 As described in the Pre-Filing Report, the Chapter 11 Debtors entered into a debtor-in-possession credit agreement dated April 5, 2017 (the "**DIP ABL Credit Agreement**") in connection with commencement of the Chapter 11 Proceedings. The DIP ABL Credit Agreement required the Chapter 11 Debtors to obtain a recognition order from this Court under Part IV of the CCAA no later than five (5) business days following the entry of the interim order of the US Court approving the DIP ABL Credit Agreement (the "**Interim DIP Order**").

- 6.5 On April 12, 2017, this Court issued an endorsement recognizing certain First Day Orders with the exception of the Interim DIP Order. As the Interim DIP Order was not recognized by this Court, the Chapter 11 Debtors sought an extension of the recognition milestone from the lenders under the DIP ABL Credit Agreement (the “**DIP ABL Lenders**”). The Chapter 11 Debtors have entered into a series of limited consents with the DIP ABL Lenders extending the recognition milestone (the “**Extension Agreements**”). Pursuant to the most recent Extension Agreement, the DIP ABL Lenders have agreed to remove the requirement that the Payless Canada Group obtain recognition of the Interim DIP Order from the DIP ABL Credit Agreement.
- 6.6 Under the Extension Agreements, the US-incorporated Chapter 11 Debtors agreed not to make an investment in the Payless Canada Group or sell, transfer, or otherwise dispose of any assets to the Payless Canada Group, except inventory if sold on “cash-on-delivery” terms. Due to complications with converting Payless’ intercompany systems to cash-on-delivery, on or about April 18, 2017, the Chapter 11 Debtors temporarily ceased inventory shipments to the Payless Canada Group. Management believed that the business of the Payless Canada Group would be minimally impacted by temporarily halting inventory shipments for a short time period.
- 6.7 The Chapter 11 Debtors were subsequently able to modify their internal systems to allow inventory shipments to be made on a cash-on-delivery basis. The Information Officer understands that on or about May 8, 2017 inventory shipments to Canada resumed on a weekly basis, provided the Payless Canada Group continues to generate sufficient cash flow to pay for such inventory.

6.8 As at June 2, 2017, the Payless Canada Group had cash on hand of approximately \$15.0 million and cash flow projections to the end of June, 2017 currently indicate that the Payless Canada Group will remain cash flow positive and have sufficient cash available to continue to replenish its inventory.

6.9 The Information Officer will report further in respect of the cash flow forecast of the Payless Canada Group in its next report to be served in connection with the hearing for recognition of certain of the US Orders scheduled for June 21, 2017.

ALL OF WHICH IS RESPECTFULLY SUBMITTED at Toronto, Ontario this 7th
day of June, 2017.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Information Officer of
Payless Holdings LLC and the other Applicants listed on Appendix "A",
and not in its personal or corporate capacity.**



Per: Alan J. Hutchens
Senior Vice-President

APPENDIX “A”

ADDITIONAL CHAPTER 11 DEBTORS

Payless Intermediate Holdings LLC
WBG PSS Holdings LLC
Payless Inc.
Payless Finance, Inc.
Collective Brands Services, Inc.
PSS Delaware Company 4, Inc.
Shoe Sourcing, Inc
Payless ShoeSource, Inc
Eastborough, Inc.
Payless Purchasing Services, Inc.
Payless ShoeSource Merchandising, Inc.
Payless Gold Value CO, Inc.
Payless ShoeSource Distribution, Inc.
Payless ShoeSource Worldwide, Inc.
Payless NYC, Inc.
Payless ShoeSource of Puerto Rico, Inc.
Payless Collective GP, LLC
Collective Licensing, LP
Collective Licensing International LLC
Clinch, LLC
Collective Brands Franchising Services, LLC
Payless International Franchising, LLC
Collective Brands Logistics, Limited
Dynamic Assets Limited
PSS Canada, Inc.

APPENDIX “B”

LIST OF KEY US ORDERS

1. Order Authorizing Payless Holdings LLC to Act as Foreign Representative
2. Order Authorizing the Debtors to Prepare a List of Creditors in Lieu of Submitting a Formatted Mailing Matrix, File a Consolidated List of the Debtors 50 Largest Creditors, Authorizing the Debtors to Redact Certain Personal Identification Information for Individual Creditors, Approving the Manner of Notifying Creditors of Commencement of these Chapter 11 Cases
3. Order Granting Motion For Joint Administration
4. Order Granting Motion to Extend Time to (A) File Schedules of Assets and Liabilities, Schedules of Current Income and Expenditures, Schedules of Executory Contracts and Unexpired Leases, Statements of Financial Affairs and Rule 2015.3 Financial Reports And (B) Schedule the Meeting of Creditors and (II) Granting Related Relief
5. Order Granting Application to Employ Prime Clerk as Notice and Claims Agent
6. Order (I) Granting Motion to Extend Time Within Which the Debtors Must Assume or Reject Unexpired Leases Of Nonresidential Real Property and (II) Granting Related Relief
7. Order Authorizing and Approving the Employment of Armstrong Teasdale LLP
8. Order Authorizing and Approving the Employment of Guggenheim Securities, LLC
9. Order Authorizing and Approving the Employment of Kirkland & Ellis LLP
10. Order Authorizing and Approving the Employment of Munger, Tolles & Olson LLP
11. Order Authorizing and Approving the Employment of RCS Real Estate Advisors
12. Final Order (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
13. Final Order (I) Authorizing the Payment of Certain Prepetition Taxes and Fees and (II) Granting Related Relief
14. Final Order (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
15. Final Order (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

16. Final Order (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
17. Order Approving Notification and Hearing Procedures for Certain Transfers and Declarations of Worthlessness with Respect to Common Stock
18. Order Authorizing the Debtors to Retain and Compensate Professionals Utilized in the Ordinary Course of Business and Granting Related Relief
19. Final Order (I) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Utility Services, (II) Determining Adequate Assurance of Payment for Future Utility Service, (III) Establishing Procedures for Determining Adequate Assurance of Payment, and (IV) Granting Related relief
20. Order Authorizing and Approving the Employment of Robert A Campagna
21. Order Establishing Bar Dates for Filing Proofs of Claim and Approving Form and Matter of Notice Thereof
22. Final Order (I) Authorizing the Debtors to Continue and Renew the Surety Bond Program on an Uninterrupted Basis, and (II) Granting Related Relief
23. Order Authorizing the Debtors to Assume the Consulting Agreement and Approving Procedures for Store Closing Sales
24. Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Retained Professionals
25. Order (I) Authorizing and Approving Procedures to Reject or Assume Executory Contracts and Unexpired Leases; and (II) Granting Related Relief
26. Final Order (I) Authorizing the Debtors to Obtain Postpetition 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, and (VI) Granting Related Relief
27. Order Granting Relief From Stay by Consent and Approving the Terms of the Stipulation Authorizing the Abandonment of Certain Property Between the Harnet Trust and John A Harrison and Linda M Harrison, as Trustees of the Harnet Trust and Payless Shoesource Inc
28. Final Order (I) Authorizing the Debtors to (A) Continue Using the Cash Management System and (B) Maintain Existing Bank Accounts and Business Forms; (II) Authorizing Continued Intercompany Transactions; (III) Granting Superiority Administrative Expense Status to Post-Petition Intercompany Payments; and (IV) Granting Related Relief

29. Second Amended Order (I) Authorizing and Approving Procedures To Reject or Assume Executory Contracts and Unexpired Leases and (II) Granting Related Relief
30. Order Clarifying the Requirements to Provide Access to Confidential or Privileged Information
31. Order Authorizing and Approving the Employment of Pachulski Stang Ziehl & Jones LLP as Lead Counsel to the Official Committee of Unsecured Creditors
32. Order Authorizing Employment and Retention of Polsinelli PC as Local Counsel to the Official Committee of Unsecured Creditors
33. Order Authorizing the Retention and Employment of Keen Summit Capital Partners LLC as Real Estate Advisor for the Debtors
34. Order Authorizing and Approving the Employment of Province, Inc. as Financial Advisor to the Official Committee of Unsecured Creditors