



**No. S-171026**  
**Vancouver Registry**

**IN THE SUPREME COURT OF BRITISH COLUMBIA  
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE RECEIVERSHIP OF  
SHOEME TECHNOLOGIES LIMITED AND  
SHOES.COM TECHNOLOGIES INC.**

**THIRD REPORT OF THE RECEIVER**

**JUNE 19, 2017**



ALVAREZ & MARSAL

**IN THE SUPREME COURT OF BRITISH COLUMBIA  
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE RECEIVERSHIP OF  
SHOEME TECHNOLOGIES LIMITED AND  
SHOES.COM TECHNOLOGIES INC.**

**THIRD REPORT OF THE RECEIVER**

**TABLE OF CONTENTS**

1.0	INTRODUCTION AND BACKGROUND .....	- 3 -
2.0	PURPOSE OF REPORT .....	- 5 -
3.0	RECEIVER'S ACTIVITIES.....	- 5 -
4.0	RECEIVER'S INTERIM STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS ....	- 6 -
5.0	SECURED CLAIMS .....	- 7 -
6.0	GEODIS LIEN CLAIM .....	- 8 -
7.0	ESTIMATED NET RECOVERY TO SECURED CREDITORS .....	- 9 -
8.0	RECEIVER'S CONCLUSION AND RECOMMENDATION .....	- 11 -

## 1.0 INTRODUCTION AND BACKGROUND

- 1.1 On February 3, 2017 (the “**Shoeme Receivership Date**”) Alvarez & Marsal Canada Inc. was appointed Receiver (“**A&M**” or the “**Receiver**”) of all of the assets, undertakings and properties of Shoeme Technologies Limited (“**Shoeme**”) pursuant to an order of Honourable Mr. Justice Macintosh (the “**Shoeme Receivership Order**”).
- 1.2 On February 15, 2017 (the “**Shoes.com Technologies Receivership Date**”), A&M was appointed the receiver of all of the assets, undertakings and properties of Shoeme’s parent company, Shoes.com Technologies Inc. (“**Shoes.com Technologies**” and together with Shoeme, the “**Companies**”) pursuant to an order of Honourable Mr. Justice Grauer (the “**Shoes.com Technologies Receivership Order**”).
- 1.3 On February 2, 2017, an order appointing a general receiver (the “**US Receiver**”) in the matter of Shoes.com, Inc. and Onlineshoes.com, Inc. (“**Onlineshoes**”) was entered by the Superior Court of Washington for King County (the “**US Court**”).
- 1.4 On March 31, 2017, an order (the “**Walmart Sale Approval and Vesting Order**”) was granted in this proceeding that provides for, among other things:
  - a) approval of the sale of certain domain names and related intellectual property (the “**Shoes.com Assets**”) to Wal-Mart Stores, Inc. (“**Walmart**”);
  - b) a declaration that the bill of sale in respect of above noted transaction (the “**Walmart Bill of Sale**”) is commercially reasonable;
  - c) authorization and approval of the Receiver to execute the Walmart Bill of Sale and authorization and direction to the Receiver to take such steps and execute such additional documents as may be necessary or desirable to complete the sale of the Shoes.com Assets; and
  - d) vesting of all of Shoes.com Technologies’ rights, title and interest in the Shoes.com Assets in Walmart in fee simple, free and clear from any and all security interests, hypothecs, mortgages, trusts or deemed trusts, liens, executions, levies, charges or other financial or monetary claims.
- 1.5 On April 5, 2017, an order (the “**DSW Sale Approval and Vesting Order**”) was granted in this proceeding that provides for, among other things:
  - a) approval of the sale of certain inventory, domain names and intellectual property (the “**Shoeme Assets**”) to DSW Shoes Warehouse, Inc. (“**DSW**”);

- b) a declaration that the bill of sale in respect of above noted transaction (the “**DSW Bill of Sale**”) is commercially reasonable;
  - c) authorization and approval of the Receiver to execute the DSW Bill of Sale and authorization and direction to the Receiver to take such steps and execute such additional documents as may be necessary or desirable to complete the sale of the Shoeme Assets;
  - d) directing the Receiver to provide reasonable assistance in transferring the Shoeme Assets;
  - e) vesting of all of the Shoeme’s rights, title and interest in the purchased assets in DSW in fee simple, free and clear from any and all security interests, hypothecs, mortgages, trusts or deemed trusts, liens, executions, levies, charges or other financial or monetary claims; and
  - f) declaring that the net proceeds from the sale of the Shoeme Assets shall stand in the place and stead of the purchased assets for the purpose of determining the nature and priority of claims against Shoeme.
- 1.6 On June 19, 2017, the Receiver filed a Notice of Application for an order (the “**Interim Distribution Order**”) which provides for:
- a) upon Wells Fargo Bank, N.A. (“**Wells Fargo**”), the senior secured creditor of Shoes.com Technologies, being paid in full from the proceeds of the concurrent receivership in Washington State of Onlineshoes and Shoes.com, Inc., authorization for the Receiver to make a payment to Deans Knight Capital Management Limited (“**Deans Knight**”) in the amount of \$10.8 million plus per diem accrued interest;
  - b) authorization for the Receiver to make payment to Geodis Logistics LLC (“**Geodis**”) payment in the aggregate amount of \$300,937 in satisfaction of its statutory lien claim (the “**Geodis Lien Claim**”) in respect of Shoeme’s assets located at 300 Kennedy Road South, Unit B, Brampton, Ontario (the “**Brampton Facility**”); and
  - c) authorization for and direction to the Receiver to hold the balance of the receivership funds in trust pending further order of this Honourable Court, provided that the Receiver may make such expenditures and payments as are permitted pursuant to the Shoeme Receivership Order and Shoes.com Technologies Receivership Order.
- 1.7 The Receivership Order and other motion materials are available on the Receiver’s website at [www.alvarezandmarsal.com/shoes](http://www.alvarezandmarsal.com/shoes).
- 1.8 Capitalized terms not defined in this third report of the Receiver (the “**Third Report**”) are as defined in the Shoeme Receivership Order and Shoes.com Technologies Receivership Order.
- 1.9 All references to dollars are in Canadian currency unless otherwise noted.

## **2.0 PURPOSE OF REPORT**

2.1 The Third Report is intended to provide this Honourable Court with the following:

- a) an update on the activities of the Receiver since the date of the last reports filed in the Shoeme and Shoes.com Technologies receivership proceedings;
- b) a summary of the Receiver's interim statement of cash receipts and disbursements for Shoeme for the period February 3, 2017 to June 16, 2017 and for Shoes.com Technologies for the period from February 15, 2017 to June 16, 2017;
- c) information with respect to the Geodis Lien Claim;
- d) a summary of secured claims against the Companies;
- e) a summary statement of estimated realizations and pro forma distributions to secured creditors;
- f) information with respect to the Receiver's application for the Interim Distribution Order; and
- g) the Receiver's conclusions and recommendations.

## **3.0 RECEIVER'S ACTIVITIES**

3.1 The Receiver's activities since the date of the last reports filed in the Shoeme and Shoes.com Technologies receivership proceedings have included the following:

- a) closing the sale of certain Shoes.com Technologies domain names and intellectual property to Walmart pursuant to the Walmart Sale Approval and Vesting Order;
- b) closing the sale of certain Shoeme inventory, domain names and intellectual property to DSW pursuant to the DSW Sale Approval and Vesting Order;
- c) communicating with various stakeholders including Wells Fargo, Deans Knight, Caleres Investment Co., Inc. ("**Caleres**"), Daniel Gerler, Geodis and their respective legal counsel;
- d) discussions with legal counsel for Geodis with respect to the Geodis Lien Claim;
- e) managing the sale of inventory stored at Amazon under the Fulfilled by Amazon program;
- f) attending to record retention matters;
- g) responding to information requests from federal agencies including Canada Revenue Agency, Canada Border Services Agency and Service Canada;
- h) administering claims of former employees of Shoeme under the *Wage Earner Protection Program Act*;
- i) responding to enquiries from trade suppliers, former employees, Canada Revenue Agency, Canada Border Services Agency and other creditors; and
- j) preparation of this Third Report.

#### 4.0 RECEIVER'S INTERIM STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

##### Shoeme

- 4.1 The Receiver's interim statement of cash receipts and disbursements with respect to Shoeme for the period February 3, 2017 to June 16, 2017 is summarized as follows:

<b>Shoeme Technologies Limited - in Receivership</b>	
<b>Receiver's Interim Statement of Cash Receipts and Disbursements</b>	
<b>For the period February 3, 2017 to June 16, 2017</b>	
<b>\$000's</b>	
<b>Receipts</b>	<b>Total</b>
Cash on hand	\$ 15
Receiver's borrowings from Deans Knight	100
Sale of equipment	17
Sale of inventory	849
Sale of domain names and intellectual property	67
Cost recoveries from US Receiver	32
Other receipts	9
<b>Total receipts</b>	<b>1,089</b>
<b>Disbursements</b>	
Wages and contractor payments	141
Occupation rent	124
Utilities and services	10
Receiver's fees and expenses	241
Legal fees and expenses	44
Repayment of Receiver's borrowings	103
Other disbursements	5
<b>Total disbursements</b>	<b>667</b>
<b>Closing cash balance</b>	<b>\$ 422</b>

- 4.2 Receipts of approximately \$1.1 million include Receiver's borrowings of \$100,000, proceeds from the sale of inventory of \$849,000, proceeds from the sale of domain names and intellectual property of \$67,000 and \$73,000 of other receipts.
- 4.3 Disbursements include \$141,000 of wages and contractor payments, \$124,000 of occupation rent, \$285,000 of professional fees and disbursements for the Receiver and its legal counsel, \$103,000 for repayment of Receiver's borrowings including interest and \$14,000 of other disbursements.

##### Shoes.com Technologies

- 4.4 The Receiver's interim statement of cash receipts and disbursements with respect to Shoes.com Technologies for the period February 15, 2017 to June 16, 2017 is summarized as follows:

**Shoes.com Technologies Inc. - in Receivership**  
**Receiver's Interim Statement of Cash Receipts and Disbursements**  
**For the period February 15, 2017 to June 16, 2017**  
**\$000's**

<b>Receipts</b>	<b>Total</b>
Cash on hand	\$ 322
Sale of domain names and intellectual property	12,074
Other receipts	5
<b>Total receipts</b>	<b>12,400</b>
<b>Disbursements</b>	
Wages and contractor payments	50
Utilities and services	10
Receiver's fees and expenses	128
Legal fees and expenses	71
Other disbursements	3
<b>Total disbursements</b>	<b>262</b>
<b>Closing cash balance</b>	<b>\$ 12,139</b>

4.5 Receipts of \$12.4 million are comprised of cash on hand at the Shoes.com Technologies Receivership Date of \$322,000, proceeds from the sale of domain names and intellectual property of \$12.1 million which includes a gain on foreign exchange of \$266,000 and \$5,000 of other receipts.

4.6 Disbursements include \$50,000 of wages and contractor payments, \$199,000 of professional fees and disbursements for the Receiver and its legal counsel and \$13,000 of other disbursements.

## **5.0 SECURED CLAIMS**

5.1 The amounts recorded as owing to secured creditors by the Companies as at June 12, 2017 are summarized in the following table:

Secured Parties	Description	Value	Security Interest
Wells Fargo	Loan due to Wells Fargo by Onlineshoes.com, Inc. and Shoes.com Holdings (USA), Inc. and guaranteed by Shoes.com Technologies	US\$4.2 million	All Shoes.com Technologies property including IP and domain names
Deans Knight	Secured Convertible Debentures	CAD\$10.8 million	All present and after-acquired property of Shoeme  All present and after-acquired property of Shoes.com Technologies, subordinated to Wells Fargo
Caleres	Secured convertible note payable due to Caleres by Shoes.com Holdings (USA), Inc. and guaranteed by Shoes.com Technologies and Shoeme	US\$7.5 million  (plus accrued interest and costs)	Shoeme inventory  Shoes.com Technologies domain names

- 5.2 On June 12, 2017 the US Receiver was granted an order by the US Court providing for, among other things, allowance of the Wells Fargo secured claim of US\$4.2 million (the “**Wells Fargo Claim**”) in the United States receivership proceedings and authorization for the US Receiver to pay the Wells Fargo Claim.
- 5.3 On June 13, 2017, the US Receiver confirmed that the Wells Fargo Claim was paid in full by the US Receiver, subject to an adjustment for certain recoverable fees and expenses and subject to a refund from Wells Fargo in due course related to certain expired letters of credit. Accordingly, Wells Fargo has no further claims against Shoes.com Technologies and Deans Knight is the senior secured creditor of both Shoes.com Technologies and Shoeme.
- 5.4 The Receiver has obtained independent legal opinions on the security interests held by Deans Knight against the Companies which indicate that Deans Knight holds valid and enforceable security interests against Shoeme and Shoes.com Technologies which ranks in priority to Caleres, subject to standard qualifications.
- 5.5 Deans Knight continues to accrue interest at approximately \$4,000 per day with potential additional charges for legal and enforcement costs.

## 6.0 GEODIS LIEN CLAIM

- 6.1 Geodis operates the Brampton Facility which provided warehousing and logistics services to Shoeme under a contract with Onlineshoes. Inventory owned by Shoeme and stored at the



location as at the Shoeme Receivership Date was ultimately sold by the Receiver to DSW pursuant to the DSW Sale Approval and Vesting Order.

- 6.2 Counsel for Geodis has asserted a contractual lien claim against the inventory and proceeds thereof of \$497,000 which is comprised of the following amounts:
- a) \$300,937 for amounts due to Geodis for warehousing and storage services provided prior to the Shoeme Receivership Date;
  - b) \$30,000 for unamortized startup expenses; and
  - c) \$166,000 for unamortized capital costs.
- 6.3 Geodis has not produced a contract between Geodis and Shoeme to substantiate its contractual lien claim. However, the Receiver is advised by its legal counsel that based on available documentation, Geodis does have a valid statutory lien for the amounts due for warehousing services pursuant to the *Repair and Storage Liens Act*, RSO 1990, c. R.25.
- 6.4 The DSW Sale and Vesting Order provided for Geodis to be deemed to remain in possession of the inventory for the purposes of Geodis' asserted statutory lien.
- 6.5 Based on the advice of its legal counsel, the Receiver is satisfied that Geodis has a statutory lien in the amount of \$300,937 for the unpaid pre-receivership invoices in priority to the secured creditors of Shoeme and that this amount should be paid to Geodis from the proceeds received for the sale of the subject inventory to DSW.
- 7.0 ESTIMATED NET RECOVERY TO SECURED CREDITORS**
- 7.1 The Receiver estimates that there will be sufficient realizations from the assets of the Companies to pay out Deans Knight in full with a surplus of approximately \$1.3 million available for subordinate secured creditors as set out in the table below:

**Shoes.com Technologies Inc. and Shoeme Technologies Ltd. - in Receivership**  
**Estimated Net Realizations**  
**As at June 16, 2017**  
**\$000's**

	<b>Shoes.com Technologies Inc.</b>	<b>Shoeme Technologies Ltd.</b>	<b>Combined</b>
<b>Cash held in Receiver's trust accounts</b>	\$ 12,139	\$ 422	\$ 12,561
<b>Estimated net realizations from remaining assets</b>			
Cost recoveries from the US Receiver	-	33	33
Sale of inventory	-	15	15
Other	-	10	10
<b>Total assets available for realization</b>	<u>12,139</u>	<u>480</u>	<u>12,619</u>
<b>Less:</b>			
Accrued Receiver's fees to May 31, 2017	(48)	(45)	(93)
Estimated cost to complete administration of the estate	(100)	(50)	(150)
Geodis Lien Claim	-	(301)	(301)
<b>Estimated recovery to secured creditors</b>	<u>11,990</u>	<u>85</u>	<u>12,075</u>
<b>Deans Knight secured convertible debentures</b>	<u>(10,772)</u>	<u>-</u>	<u>(10,772)</u>
<b>Estimated recovery to subordinate secured creditors</b>	<u>\$ 1,219</u>	<u>\$ 85</u>	<u>\$ 1,304</u>

- 7.2 The Receiver is currently holding approximately \$12.6 million in its trust accounts (including GICs) and expects to realize additional recoveries from the following assets of Shoeme:
- a) cost recoveries for fees incurred by the Receiver on behalf of the US Receiver of \$33,000;
  - b) net proceeds from the sale of inventory being sold by Amazon of \$15,000; and
  - c) other realizations including an earned premium refund on Shoeme's property and general corporate insurance policies and GST refunds of \$10,000.
- 7.3 After payment of accrued professional fees of \$93,000, estimated costs to complete administration of the two receivership estates of \$150,000 and payment of the Geodis Lien Claim, it is estimated that there will be net proceeds available for distribution to secured creditors of approximately \$12.1 million.
- 7.4 After repayment of Deans Knight, it is estimated that there will be approximately \$1.3 million available to subordinate secured creditors.


**8.0 RECEIVER'S CONCLUSION AND RECOMMENDATION**

- 8.1 Based on the Wells Fargo Claim having been paid in full by the US Receiver, the Receiver anticipates that the surplus funds in the estates once the Geodis lien and the Deans Knight have been repaid will exceed the costs of administering the estates to their conclusion.
- 8.2 Timely payment of the distributions contemplated by the Interim Distribution Order will avoid further interest accruing on the Deans Knight secured convertible debentures and will thereby avoid erosion of the potential recoveries of subordinate secured creditors.
- 8.3 Based on the foregoing, the Receiver respectfully recommends that this Honourable Court grant the Interim Distribution Order.


\*\*\*\*\*

All of which is respectfully submitted to this Honourable Court this 19<sup>th</sup> day of June, 2017.

**Alvarez & Marsal Canada Inc.,**  
in its capacity as Receiver of  
Shoeme Technologies Limited and  
Shoes.com Technologies Inc.



Per: Todd M. Martin  
Senior Vice President



Per: Tom Powell  
Vice President