

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**

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

July 26, 2017

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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**”) 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**”).
- 1.4 On April 7, 2017, Payless Holdings commenced proceedings (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; (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 On June 21, 2017, the Court issued a recognition order that recognized certain final orders of the US Court which granted the relief in the First Day Orders on a final basis.

1.7 On July 24, 2017, a confirmation hearing before the US Court occurred in respect of an order (the “**Confirmation Order**”) to confirm Payless’ Fifth Amended Joint Plan of Reorganization dated July 21, 2017 (the “**Plan**” or the “**Fifth Amended Plan**”) and the Plan Supplement dated July 10, 2017 (as amended, supplemented and otherwise modified, the “**Plan Supplement**”, and together with the Plan, the “**Confirmed Plan**”).

The US Court confirmed the Plan at the confirmation hearing and it is expected that the US Court will enter the Confirmation Order on or prior to July 27, 2017. The Foreign Representative has brought a motion to this Court returnable July 28, 2017 seeking, among other things, recognition of the Confirmation Order in Canada.

- 1.8 The Information Officer has filed a Pre-Filing Report dated April 7, 2017, a First Report dated June 7, 2017 (the “**First Report**”) and a Second Report dated June 19, 2017 (the “**Second Report**”) which provide further background in respect of the Restructuring Proceedings. The Information Officer’s reports can be found on the Information Officer’s website at <https://www.alvarezandmarsal.com/paylesscanada>.

2.0 TERMS OF REFERENCE

- 2.1 In preparing this report (the “**Third Report**”), A&M Canada has relied solely on information and documents provided by the Foreign Representative, the other Chapter 11 Debtors and their Canadian and U.S. legal counsel (collectively the “**Information**”). Except as otherwise described in this Third 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 Third 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 Third 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 Third Report should be read in conjunction with the Affidavit of Michael Schwindle, the Chief Financial Officer and Senior Vice President of Payless Holdings, and Vice President, Treasurer and a Director of each of the Payless Canada Group entities, sworn on July 25, 2017 (the “**Schwindle Affidavit**”).

2.4 Unless otherwise stated, all monetary amounts contained in this Third 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 Third Report is to provide the Court with information in respect of the motion brought by the Foreign Representative for an Order (the “**Confirmation Recognition Order**”):

- (a) recognizing and enforcing the Confirmation Order giving final confirmation to the Confirmed Plan;
- (b) authorizing and directing the Chapter 11 Debtors to take all steps and actions, and to do all things necessary or appropriate to enter into or implement the Confirmed Plan in accordance with its terms;
- (c) ordering that, as of the Effective Date, the Confirmed Plan shall inure to the benefit of and be binding and effective upon the Chapter 11 Debtors, the Canadian creditors of the Chapter 11 Debtors, the creditors of the Payless Canada Group, and all other persons affected thereby;
- (d) declaring that certain Assumed Executory Contracts (defined below) shall remain in full force and effect, and prohibiting any person from accelerating, terminating, rescinding, refusing to perform or otherwise repudiating their obligations under such contracts and leases;
- (e) terminating the Stay Period (as defined in the Supplemental Order) and stay of proceedings contained in the Initial Recognition Order in respect of the Chapter 11 Debtors (collectively with the Stay Period, the “**Stay**”) upon the Information Officer filing a certificate stating that the effective date of the Confirmed Plan (the “**Effective Date**”) has occurred;
- (f) authorizing the Payless Canada Group to enter into the Exit Facilities (defined below);

- (g) approving the releases, exculpations and injunctions set forth in the Confirmation Order and the Confirmed Plan and giving full force and effect to such releases, exculpations and injunctions as provided for in the Confirmed Plan and the Confirmation Order; and
- (h) approving this Third Report of the Information Officer and the activities of the Information Officer described therein.

4.0 OVERVIEW OF THE PLAN

Overview

- 4.1 Prior to commencing the Restructuring Proceedings, the Chapter 11 Debtors had a restructuring support agreement (the “**RSA**”) supported by approximately two-thirds of their first and second lien term loan lenders (the “**Prepetition Term Lenders**”). As reported in the First Report, on April 25, 2017, the Chapter 11 Debtors filed the Plan and a related disclosure statement (as amended, the “**Disclosure Statement**”) based on the RSA.
- 4.2 The Confirmed Plan provides for a comprehensive restructuring of the Chapter 11 Debtors’ capital structure. Upon the Effective Date, the Chapter 11 Debtors funded debt will be reduced by approximately 50% through a conversion of the majority of their prepetition secured debt to equity in the reorganized Chapter 11 Debtors. During the Restructuring Proceedings, the Chapter 11 Debtors also rationalized their store fleet in the United States and obtained \$80 million of new capital to finance their business. The Chapter 11 Debtors believe their business will emerge from these Restructuring Proceedings following the Effective Date with a sustainable capital structure and the

necessary liquidity to implement their long term business plan and effectively compete in the retail industry.

- 4.3 The Plan provides for eleven classes of claims, including intercompany claims, intercompany equity interests and equity interests. Four of the impaired classes of creditor claims were eligible to vote on the Plan pursuant to the US Code. Each of these voting classes accepted the Plan in accordance with the US Code with 99.2% of creditor claims by value and 96.1% of creditors by number who voted on the Plan voting in favour of the Plan. Exhibit “C” of the Schwindle Affidavit provides a tabulation of votes cast in respect of the Plan by timely and properly completed ballots
- 4.4 The classes under the Confirmed Plan are summarized in Appendix “B” to this Third Report, along with their status under the Confirmed Plan and projected recovery under the Confirmed Plan as compared to their projected recovery under a hypothetical liquidation. The Information Officer understands that the recovery analysis was prepared by Alvarez & Marsal North America, LLC (“**A&M US**”).¹
- 4.5 As set out in the First Report, under the Plan, holders of unsecured claims against Payless Canada, PSS GP Inc. and Payless LP (the “**Canadian General Unsecured Claims**”) formed a separate class. Canadian General Unsecured Claims include any damages or losses arising from termination of any Rejected Executory Contracts (defined below) to which a Payless Canada Group entity is a counterparty. The Canadian General Unsecured Claims are unimpaired by the Plan and will be reinstated following the Effective Date

¹ Robert Campagna of A&M US was appointed by the US Court as the Chapter 11 Debtors’ Chief Restructuring Officer and A&M US provides additional personnel necessary to fulfill that role.

(along with all of the Chapter 11 Debtors' defenses in respect of any such claims), 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 were deemed to have accepted the Plan.

Plan Amendments

4.6 Initially, the Official Committee of Unsecured Creditors (the “**Creditors’ Committee**”) did not support the Plan because, among other reasons, the Creditors’ Committee believed that the releases contemplated by the Plan were improper and general unsecured creditors did not receive sufficient value for the claims that the Chapter 11 Debtors potentially had against the equity holders of the Chapter 11 Debtors (the “**Sponsors**”) in respect of certain transactions occurring prior to the Filing Date. Following arm’s-length negotiations, on June 20, 2017, the Chapter 11 Debtors, the Creditors’ Committee, the Sponsors and the Prepetition Term Lenders party to the RSA entered into a global settlement agreement to resolve the outstanding disputes regarding the Plan. The settlement agreement provided, among other things, that the Sponsors will make a contribution of approximately \$21.19 million² to the Chapter 11 Debtors for distribution under the Plan and the general unsecured creditors of the Chapter 11 Debtors other than the Payless Canada Group and Payless ShoeSource Worldwide, Inc., will receive their respective *pro-rata* share of two recovery pools in the aggregate amount of \$32.316 million.

² Consisting of \$15.75 million in cash from the Sponsors and \$5.44 million in cash held by Payless Holdings LLC in which the Sponsors claim a beneficial interest.

- 4.7 On June 23, 2017, after entering into the global settlement agreement, the Chapter 11 Debtors filed a fourth amended and restated Plan (the “**Fourth Amended Plan**”) and a revised Disclosure Statement. The Information Officer understands that the Creditors’ Committee supported the Fourth Amended Plan. The revisions to the Plan did not affect the treatment of Canadian General Unsecured Claims.
- 4.8 The Fourth Amended Plan revised the treatment 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**”) and general unsecured claims against Payless ShoeSource Worldwide, Inc (the “**Worldwide General Unsecured Claims**”). Under the Confirmed Plan, holders of Other General Unsecured Claims are to recover: (i) their *pro-rata* share of \$3.658 million shared with only other holders of Other General Unsecured Claims; and (ii) their share of \$25 million shared with holders of Worldwide General Unsecured Claims in accordance with the Plan. Holders of Worldwide General Unsecured Claims are to receive: (i) their *pro-rata* share of \$3.658 million shared with only holders of Worldwide General Unsecured Claims; and (ii) their share of the \$25 million shared with the holders of Other General Unsecured Claims in accordance with the Plan. Pursuant to the settlement and the Fourth Amended Plan, the deficiency claims of the Prepetition Term Lenders are not entitled to share in the distributions available to the holders of Other General Unsecured Claims and holders of Worldwide General Unsecured Claims.
- 4.9 Under the Fourth Amended Plan, holders of Worldwide General Unsecured Claims were no longer able to elect to receive new equity in the reorganized Chapter 11 Debtors.

- 4.10 The Information Officer understands that under the Confirmed Plan the estimated recovery for Other General Unsecured Claims is approximately 18.1% and the estimated recovery for Worldwide General Unsecured Claims is approximately 22.1%.
- 4.11 On June 21, 2017, the Chapter 11 Debtors filed the Fifth Amended Plan that included minor modifications and clarifications to the Plan.
- 4.12 The Confirmation Order that will be entered by the US Court will approve the Fifth Amended Plan.

Plan Supplement

- 4.13 On July 10, 2017, the Chapter 11 Debtors filed the Plan Supplement. The Plan Supplement consists of documents necessary for implementation of the Confirmed Plan, including: (i) organizational documents in respect of the reorganized Chapter 11 Debtors; (ii) the New First Lien Term Loan Credit Agreement (defined below); (ii) the New ABL Term Sheet (defined below); (iii) a schedule listing the executory contracts and unexpired leases intended to be assumed by the Chapter 11 Debtors (the “**Assumed Executory Contracts**”); and (v) a schedule listing the executory contracts and unexpired leases that are deemed to be rejected by the Chapter 11 Debtors (the “**Rejected Executory Contracts**”). The Chapter 11 Debtors filed amendments to the Plan Supplement on July 17, 22, and 23.
- 4.14 The Information Officer understands that with the exception of 25 contracts discussed below, the Plan Supplement provides for assumption of all contracts and leases to which a Payless Canada Group entity is a counterparty. To ensure no contract of the Payless Canada Group was deemed to be rejected without notice, the Plan Supplement specified

that contracts to which any member of the Payless Canada Group is a counterparty will be assumed, unless the contract is expressly listed on the schedule of Rejected Executory Contracts.

4.15 The Rejected Executory Contracts to which a Payless Canada Group entity is a counterparty consist of 14 employment agreements and 11 other agreements. The Information Officer understands that the rejected employment agreements consist of 11 agreements in respect of employees who are no longer employed by the Payless Canada Group and three agreements with employees who are no longer employed in the role to which the agreement applies. The other agreements consist of two intercompany licensing agreements, two settlement agreements and seven service agreements. Multiple Chapter 11 Debtors beyond the Payless Canada Group entities are party to certain of these contracts. The Information Officer understands that these contracts are being rejected because they are no longer necessary to the operation of the Payless Canada Group.

4.16 Exhibit “G” to the Schwindle Affidavit lists the Rejected Executory Contracts to which a Payless Canada Group entity is a counterparty.

Exit Facilities

4.17 The Confirmed Plan contemplates that the Chapter 11 Debtors will enter into an exit ABL credit facility (the “**New ABL Facility**”) and an exit first lien term loan facility (the “**New First Lien Term Loan Facility**”) and together with the New ABL Facility, the “**Exit Facilities**”) to finance the payments and distributions contemplated by the Confirmed Plan and general corporate purposes of the reorganized Chapter 11 Debtors

following the Effective Date. The Plan Supplement contained a copy of the term sheet setting out the terms of the New ABL Facility (the “**New ABL Term Sheet**”) and the credit agreement in respect of the New First Lien Term Loan Facility (the “**New First Lien Term Loan Credit Agreement**”). Copies of the New ABL Term Sheet and New First Lien Term Loan Credit Agreement are also attached as Exhibits “D” and “E”, respectively, to the Schwindle Affidavit.

4.18 Each of the entities constituting the Payless Canada Group will be a guarantor under the Exit Facilities.

4.19 The Confirmation Order approved the Exit Facilities and authorized the Chapter 11 Debtors to consummate the transactions contemplated by the New ABL Term Sheet, the New First Lien Term Loan Credit Agreement and other definitive credit documents. The Confirmation Order also makes certain declarations in respect of the Exit Facilities, including a declaration that the guarantees, mortgages, pledges, liens and other security interests granted in connection with the Exit Facilities are granted in good faith, for a legitimate business purpose, and are deemed to be reasonable and not constitute a fraudulent conveyance or fraudulent transfer and shall not be subject to recharacterization or equitable subordination.

4.20 Below is a summary of the material terms of the New ABL Term Sheet which are to be incorporated into a definitive credit agreement:

(a) Borrowers: Payless Inc. and certain other of its domestic subsidiaries (collectively, the “**ABL Borrowers**”);

- (b) Guarantors: WBG – PSS Holdings LLC and its direct and indirect subsidiaries, including existing and future, direct and indirect Canadian subsidiaries (other than Lifestyle Brands Corporation) (collectively, the “**ABL Guarantors**”);
- (c) Exit Facility: A \$260,000,000 senior secured exit credit facility, consisting of:
 - (i) a \$250,000,000 revolving facility which shall include a sublimit for standby letters of credit and a sublimit for swingline loans; and
 - (ii) a \$10,000,000 senior exit first in, last out term loan.

Availability of the New ABL Facility is subject to a borrowing base limit calculated in accordance with the New ABL Term Sheet. The assets of the Payless Canada Group are to be included in the borrowing base upon satisfaction of certain eligibility requirements;

- (d) Purpose: The proceeds of the New ABL Facility will be used to pay outstanding amounts under the DIP ABL credit facility and prepetition ABL credit facility, finance certain payments under the Confirmed Plan and for working capital and capital expenditures of the Chapter 11 Debtors;
- (e) Closing: The New ABL Facility shall close upon execution of definitive loan documentation and satisfaction of the conditions precedent to closing, occurring no later than September 9, 2017 (the “**Closing Date**”);
- (f) Maturity: The earliest of:
 - (i) five years after the Closing Date; and

- (ii) three months prior to the maturity of the New First Lien Term Loan Facility;
- (g) Interest Rate: The revolving facility will bear interest at LIBOR, plus either 1.75% or 2.00% per annum depending on excess availability under the revolving facility. The senior exit first in, last out term loan facility will bear interest at LIBOR, plus 3.50% per annum;
- (h) Security: All of the present and after acquired real and personal property of the ABL Borrowers and ABL Guarantors, including all of the entities in the Payless Canada Group. The liens and security interests in respect of the New ABL Facility shall rank in priority to the New First Lien Term Loan Facility on “ABL Priority Collateral” consisting primarily of the ABL Borrowers’ and ABL Guarantors’ working capital assets and subordinate to the New First Lien Term Loan Facility on “Term Priority Collateral” consisting primarily of the ABL Borrowers’ and ABL Guarantors’ fixed assets; and
- (i) Bankruptcy Orders: The New ABL Term Sheet requires the Chapter 11 Debtors to have obtained the Confirmation Order from the U.S. Court by no later than July 27, 2017 and a recognition order from this Court under the CCAA no later than seven business days following the entry of the Confirmation Order.

4.21 Below is a summary of the material terms of the New First Lien Term Loan Credit Agreement:

- (b) Borrowers: Payless Inc., Payless ShoeSource, Inc., Payless Finance Inc., and Payless ShoeSource Distribution, Inc. (collectively, the “**Term Loan Borrowers**”);
- (c) Guarantors: WBG – PSS Holdings LLC and certain of its direct and indirect subsidiaries, including the Payless Canada Group (collectively, the “**Term Loan Guarantors**”);
- (d) Term Loans: The New First Lien Term Loan Facility consists of:
 - (i) \$80,000,000 of Tranche A-1 term loans which are a roll-over of the DIP term loan facility; and
 - (ii) \$200,000,000 of Tranche A-2 term loans which are to be distributed on a *pro-rata* basis to the first lien prepetition term lenders upon the Effective Date;
- (e) Closing: The New First Lien Term Loan Facility shall close upon execution of definitive loan documentation and satisfaction of the conditions precedent to closing in the New First Lien Term Loan Credit Agreement (the “**Closing Date**”);
- (f) Maturity: The Tranche A-1 term loans mature four and a half years following the Closing Date and the Tranche A-2 term loans mature five years following the Closing Date;
- (g) Interest Rate:
 - (i) Tranche A-1 term loans: LIBOR + 8%

- (ii) Tranche A-2 term loans: LIBOR + 9%; and
- (h) Security: All of the present and after acquired real and personal property of the Term Loan Borrowers and Term Loan Guarantors, including all of the entities in the Payless Canada Group. The liens and security interests in respect New First Lien Term Loan Facility shall rank subordinate to the New ABL Facility on the “ABL Priority Collateral” consisting primarily of the Term Loan Borrowers’ and Term Loan Guarantors’ working capital assets and in priority to the New ABL Facility on the “Term Priority Collateral” consisting primarily of the Term Borrowers’ and Term Loan Guarantors’ fixed assets.

Effective Date

- 4.22 The Effective Date of the Confirmed Plan is to occur on the first business day after the US Court enters the Confirmation Order on which: (i) no stay of the Confirmation Order is in effect, and (ii) all conditions precedent to the Effective Date under the Confirmed Plan have been satisfied or waived in accordance with the terms of the Confirmed Plan.
- 4.23 The Information Officer understands that the Effective Date is anticipated to occur the week of August 7, 2017.

5.0 CCAA RECOGNITION PROCEEDINGS

Executory Contracts and Cure Costs

- 5.1 As set out above, the Confirmed Plan contemplates that certain executory contracts and unexpired leases of the Chapter 11 Debtors will be assumed by the reorganized Chapter 11 Debtors. Pursuant to the US Code, in order to assume these agreements the Chapter 11

Debtors are required to pay cure costs for defaults arising under the agreements prior to their assumption.

- 5.2 The Plan Supplement contains a list of the Assumed Executory Contracts and their respective cure costs according to the Chapter 11 Debtors' books and records. Following filing of the Plan Supplement, the Chapter 11 Debtors sent notices to the counterparties of Assumed Executory Contracts to give notice of the assumption of their Assumed Executory Contract and the proposed cure costs owing by the Chapter 11 Debtors. The deadline for filing a cure cost objection in the Chapter 11 Proceedings was July 24, 2017 at 4:00 p.m.
- 5.3 Prior to the cure cost objection deadline, certain landlords raised concerns with the Information Officer that their claims would be effectively determined through the cure process in the Chapter 11 Proceedings despite there being no claims process in respect of Canadian General Unsecured Claims and the intention for all Canadian General Unsecured Claims to be reinstated following the Effective Date of the Confirmed Plan. The Confirmed Plan does specify that cure claims are deemed to be fully satisfied and released beyond the amount listed in the Plan Supplement if no objection is received by the Chapter 11 Debtors by the cure objection deadline.
- 5.4 Upon learning about the potential for claims of Canadian creditors to be effectively determined without a claims process, the Information Officer advised the concerned landlords that if the landlords did not agree with the cure cost amount specified in the Plan Supplement it was prudent to file an objection in the Chapter 11 Proceedings to preserve their rights. The Information Officer also raised the concern with Canadian counsel to the Foreign Representative.

- 5.5 To resolve the potential issue, the proposed Confirmation Recognition Order specifies that the unaffected treatment of Canadian General Unsecured Claims “includes the reinstatement of any Claims related to the assumption or rejection of an Executory Contract including but not limited to the Cure amount specified in the Plan Supplement and the proviso that all rights and defenses, whether legal, equitable, or otherwise, in respect of any Canadian General Unsecured Claims (including any right of counterclaim or set off) are expressly preserved.” The proposed language in the Confirmation Recognition Order clarifies that any deficiency between the cure cost amount specified in the Plan Supplement and any claim owing under the Assumed Executory Contract shall be treated as a Canadian General Unsecured Claim and reinstated following the Effective Date of the Confirmed Plan. If such a deficiency exists, the counterparty to the Assumed Executory Contract will be able to claim the amount from the Payless Canada Group in the ordinary course following the Effective Date.
- 5.6 The Chapter 11 Debtors have also granted extensions of the cure cost objection deadline to certain Canadian landlords in order for such landlords to determine whether they need to file a cure cost objection in the Chapter 11 Proceedings.

Pre-Filing Rent

- 5.7 As reported in the First Report, the Information Officer received C\$460,754 (the “**Escrow Amount**”) from Payless for the Canadian pre-filing April rent (“**Unpaid April Rent**”). The Information Officer continues to hold the Escrow Amount pending further order of this Court.

5.8 The proposed Confirmation Recognition Order does not address the Escrow Amount at this time. The Unpaid April Rent will be wholly or partially satisfied with payments under or pursuant to the Confirmed Plan. The Information Officer intends to work with the Chapter 11 Debtors and their advisors to determine the net Unpaid April Rent owing to each Canadian landlord thereafter will return to this Court with a proposed method for distributing the Escrow Amount.

Stay

5.9 The proposed Confirmation Recognition Order seeks to terminate the Stay upon the Information Officer filing a certificate with this Court stating that the Effective Date has occurred. Terminating the Stay will effectively allow the Payless Canada Group to emerge from the CCAA Recognition Proceedings following the Effective Date, while allowing the Foreign Representative to seek appropriate relief in respect of discharging the CCAA Recognition Proceedings at a later date, as explained further below.

Termination of the CCAA Recognition Proceedings

5.10 The proposed Confirmation Recognition Order does not terminate the CCAA Recognition Proceedings. The Information Officer understands that the Foreign Representative intends to return to this Court following the Effective Date to seek an order terminating the CCAA Recognition Proceedings, distributing the Escrow Amount and discharging the Information Officer, among other things. The Information Officer intends to seek approval of its and its counsel's fees at that time.

6.0 ACTIVITIES OF THE INFORMATION OFFICER

6.1 The activities of the Information Officer since the date of the Second Report, being June 19, 2017, have included:

- (a) 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;
- (b) responding to inquiries of stakeholders regarding the Restructuring Proceedings;
- (c) monitoring the Chapter 11 Debtors' restructuring website maintained by Prime Clerk LLC for activity and developments in the Chapter 11 Proceedings;
- (d) 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;
- (e) 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
- (f) preparing this Third Report and reviewing draft materials of the Foreign Representative in connection with the CCAA Recognition Proceedings.

6.2 The Foreign Representative is seeking approval of this Third Report and the activities of the Information Officer set out herein.

7.0 RECOMMENDATIONS

7.1 The Information Order and its legal counsel have reviewed the terms of the proposed Confirmation Recognition Order, and believe that the relief sought by the Foreign Representative is reasonable in the circumstances. The Confirmation Recognition Order will allow for the Confirmed Plan to be implemented in Canada resulting in payment of Canadian General Unsecured Claims in full in the ordinary course and emergence of a reorganized Payless from the Restructuring Proceedings.

7.2 Based on the foregoing, the Information Officer respectfully recommends that this Court grant the relief requested by Foreign Representative in the Confirmation Recognition Order.

ALL OF WHICH IS RESPECTFULLY SUBMITTED at Toronto, Ontario this 26th
day of July, 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”

Class	Name of Class Under Plan	Status	Estimated Percentage Recovery Under the Plan	Recovery Under Hypothetical Liquidation (Low)	Recovery Under Hypothetical Liquidation (High)
1	Other Priority Claims	Unimpaired	100.0%	100.0%	100.0%
2	Other Secured Claims	Unimpaired	100.0%	100.0%	100.0%
3	Prepetition First Lien Credit Agreement Claims	Impaired	83.0%	32.0%	40.0%
4	Prepetition Second Lien Credit Agreement Claims	Impaired	15.0%	0.0%	0.0%
5A	Other General Unsecured Claims	Impaired	18.1%	0.0%	0.0%
5B	Worldwide General Unsecured Claims	Impaired	22.1%	0.0%	0.0%
5C	Canadian General Unsecured Claims	Unimpaired	100.0%	100.0%	100.0%
6	Intercompany Claims	Unimpaired/ Impaired	100.0% / 0.0%	0.0%	0.0%
7	Existing Equity Interests	Impaired	0.0%	0.0%	0.0%
8	Intercompany Interests	Unimpaired	100.0%	0.0%	0.0%
9	Section 510(b) Claims	Impaired	0.0%	0.0%	0.0%

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

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

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**THIRD REPORT OF THE INFORMATION
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