

Court File No. CV-19-00614629-00CL

**PAYLESS SHOESOURCE CANADA INC. and PAYLESS SHOESOURCE CANADA GP
INC.**

SECOND REPORT OF FTI CONSULTING CANADA INC., AS MONITOR

March 16, 2019

**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 A PLAN OF COMPROMISE OR ARRANGEMENT OF
PAYLESS SHOESOURCE CANADA INC. AND PAYLESS SHOESOURCE CANADA
GP INC.**

(the "**Applicants**")

**SECOND REPORT TO THE COURT SUBMITTED BY FTI
CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

A. INTRODUCTION

1. On February 18, 2019, Payless Holdings LLC and certain of its subsidiaries and affiliates (collectively, the "**U.S. Debtors**") commenced cases (collectively, the "**U.S. Proceedings**") under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the Eastern District of Missouri.
2. On February 19, 2019, Payless ShoeSource Canada Inc. and Payless ShoeSource Canada GP Inc. (the "**Applicants**"), which are debtors in the U.S. Proceedings, sought and obtained an initial order (the "**Initial Order**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). The benefits, protections, authorizations and restrictions of the Initial Order were also extended to Payless ShoeSource Canada LP ("**Payless Canada LP**", and together with the Applicants, the "**Payless Canada Entities**"). The proceedings commenced under the CCAA by the Payless Canada Entities are referred to herein as the "**CCAA Proceedings**".

3. The Initial Order, which is attached as Exhibit "A" to the Frankum Affidavit (as defined below) among other things:
 - (a) appointed FTI Consulting Canada Inc. ("**FTI**") as monitor of the Payless Canada Entities (in such capacity, the "**Monitor**") in the CCAA Proceedings;
 - (b) granted a stay of proceedings against the Payless Canada Entities until and including March 21, 2019;
 - (c) approved the engagement of Ankura Consulting Group, LLC ("**Ankura**") as Chief Restructuring Organization ("**CRO**") of the Payless Canada Entities;
 - (d) approved a cross-border protocol; and
 - (e) scheduled a comeback hearing for February 21, 2019 (the "**Comeback Hearing**").
4. At the Comeback Hearing on February 21, 2019, this Court granted an order (the "**Liquidation Consulting Agreement Approval Order**") approving a liquidation consulting agreement dated February 12, 2019 (the "**Liquidation Consulting Agreement**") between the U.S. Debtors, the Payless Canada Entities and a contractual joint venture comprised of Great American Group, LLC and Tiger Capital Group, LLC (together, the "**Consultant**"). Pursuant to the Liquidation Consulting Agreement, the U.S. Debtors and the Payless Canada Entities (together, the "**Debtors**") engaged the Consultant to advise the Debtors with respect to the liquidation of inventory and certain fixtures at the stores identified in the Liquidation Consulting Agreement. A copy of the Liquidation Consulting Agreement Approval Order is attached as Exhibit "B" to the Frankum Affidavit.
5. The purpose of this second report of the Monitor (the "**Second Report**") is to provide the Court with the Monitor's comments and recommendations regarding the following:
 - (a) the activities of the Payless Canada Entities and the Monitor since the Comeback Hearing;
 - (b) the Monitor's preliminary views on expected recoveries for creditors of the Payless Canada Entities;

- (c) the receipts and disbursements of the Payless Canada Entities for the three week period ended March 8, 2019;
- (d) the Payless Canada Entities' revised cash flow forecast for the period covering the weeks ending March 15, 2019 to June 7, 2019 (the "**Revised Cash Flow Forecast**"); and
- (e) the Payless Canada Entities' motion returnable March 20, 2019 (the "**March 20 Motion**") seeking, among other things:
 - i. an extension of the Stay Period (as defined in paragraph 18 of the Initial Order) to and including June 7, 2019 (the "**Stay Extension**"); and
 - ii. the approval of the Pre-Filing Report of FTI, in its capacity as proposed monitor of the Payless Canada Entities (in such capacity, the "**Proposed Monitor**") dated February 19, 2019, the First Report of FTI in its capacity as monitor of the Payless Canada Entities and the Second Report, to be filed, and approving the activities of the Proposed Monitor and the Monitor as described therein.

B. TERMS OF REFERENCE

- 6. In preparing the Second Report, the Monitor has relied upon audited and unaudited financial information provided by the Debtors, including their books and records, financial information, forecasts and analysis, in addition to discussions with various parties, including senior management ("**Management**") of, and advisors to, the Payless Canada Entities, the other Debtors, the Consultant, Malfitano Advisors, and Ankura (collectively, the "**Information**").
- 7. Except as otherwise described in the Second Report:
 - (a) the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and

- (b) the Monitor has not examined or reviewed the financial forecasts or projections referred to in the Second Report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
8. Future-oriented financial information reported in or relied on in preparing the Second Report is based on Management's and Ankura's assumptions regarding future events. Actual results will vary from these forecasts and such variations may be material.
9. The Monitor has prepared the Second Report in connection with the March 20 Motion. The Second Report should not be relied on for any other purpose.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
11. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Affidavit of Adrian Frankum sworn March 13, 2019 (the "**Frankum Affidavit**") filed in support of the March 20 Motion, the Pre-Filing Report and/or the First Report.

C. THE ACTIVITIES OF THE PAYLESS CANADA ENTITIES AND THE MONITOR SINCE THE COMEBACK HEARING

12. To date, Management and Ankura have provided the Monitor with their full co-operation and all necessary access to the Payless Canada Entities' premises, books and records and personnel.

Notices and Communications – Monitor

13. Pursuant to the Initial Order, the Monitor has established, and is maintaining, a website at <http://cfcanada.fticonsulting.com/paylesscanada/> (the "**Monitor's Website**") on which the Monitor posts periodic updates on the CCAA Proceedings, together with all non-confidential court materials filed in the CCAA Proceedings. In addition, the Monitor has posted a "Payless Canada Employee's Q&A", in both English and French, a "Vendor FAQ" and a "Customer FAQ" for the benefit of the various stakeholders.
14. In accordance with the Initial Order, the Monitor:

- (a) posted the Initial Order on the Monitor's Website on February 19, 2019;
 - (b) published an initial notice containing the information prescribed by the CCAA in both *Le Devoir* and the *Globe and Mail* (National Edition) on February 22, 2019 and March 8, 2019, respectively;
 - (c) sent a notice in the prescribed manner to every known creditor with a claim against the Payless Canada Entities of more than \$1,000, and also made this notice available on its website in both English and French; and
 - (d) published a list of known creditors of the Payless Canada Entities, excluding personal information, on the Monitor's Website February 21, 2019.
15. The Monitor has established a dedicated email address and phone numbers for stakeholders who may have questions with respect to the CCAA Proceedings. To date, the Monitor has responded to approximately 100 inquiries received via its dedicated email address and phone numbers. Responses to these inquiries have been provided in both English and French as appropriate.

Notices and Communications – Payless Canada Entities

16. Following the issuance of the Initial Order, and the subsequent approval of the Liquidation Consulting Agreement, the Payless Canada Entities sent out a number of notices of termination to the applicable employees and government authorities in connection with the first round of store closures, as discussed below.
17. The Monitor understands that the Payless Canada Entities are in the process of providing applicable notices in connection with further store closures. The Monitor understands that the Payless Canada Entities intend to terminate the employment of all remaining store-level employees on or before April 30, 2019, and all remaining head office employees on or before May 31, 2019.

Disclaimer of Leases and Potential Lease Transactions

18. On March 1, 2019 and March 15, 2019, the Payless Canada Entities delivered 120 and 11 notices of disclaimer, respectively, (collectively, the "**Notices of Disclaimer**") to the landlords of stores that the Payless Canada Entities intend to close by March 31, 2019

and April 15, 2019, respectively. The Monitor approved each of the Notices of Disclaimer.

19. The Monitor understands that the Payless Canada Entities expect to deliver lease disclaimers to the landlords of all remaining Canadian stores that are not subject to potential lease transactions no later than March 29, 2019.
20. The Monitor understands that there are currently a number of interested parties who are in the process of performing due diligence with respect to potential lease assignment and/or lease surrender transactions; however, no transactions have been finalized at this time.

Liquidation

21. Following this Court's approval of the Liquidation Consulting Agreement on February 21, 2019, the liquidation of inventory and certain fixtures and equipment commenced in Canada. The U.S. liquidation commenced prior to that, on or about February 17, 2019.
22. The liquidation is scheduled to be substantially completed in Canada by April 30, 2019. While the liquidation sales in Canada have been consistent with forecasts and exceeded expectations in some regards, the Payless Canada Entities, in consultation with the Monitor and based on input and analysis by Management, the Consultant, Malfitano Advisors and Ankura, have determined that recoveries are likely to be improved if certain stores remain open longer than initially planned. The planned closure of certain stores have therefore been delayed from March 31, 2019 to April 15, 2019 and April 30, 2019. The additional occupancy and payroll related costs to be incurred are reflected in the Revised Cash Flow Forecast. The Monitor understands that the Payless Canada Entities intend to continue to actively manage store closures and sale discount rates to maximize realization on the remaining store inventory and exit all stores prior to April 30, 2019.

Additional Activities of the Monitor

23. In addition to the activities noted above, the Monitor has also, among other things,

undertaken the following activities since the commencement of the CCAA Proceedings:

- (a) monitored the Payless Canada Entities' receipts and disbursements;
- (b) worked closely with the CRO, Management and counsel to the Payless Canada Entities with respect to various day-to-day issues that have arisen in the CCAA Proceedings;
- (c) maintained the Service List with the assistance of Bennett Jones for these CCAA Proceedings and posted regular updates of the Service List to the Monitor's Website;
- (d) participated in ongoing discussions with Management, counsel to the Payless Canada Entities, Ankura and PJ Solomon, relating to the business affairs of the Payless Canada Entities generally, as well as the March 20 Motion;
- (e) assisted the CRO and Management in the preparation of the Revised Cash Flow Forecast;
- (f) approved all of the Notices of Disclaimer;
- (g) worked and communicated with A&G Realty Partners, LLC. in connection with its marketing of the Debtors' lease portfolio;
- (h) worked with the Payless Canada Entities to ensure appropriate accounting for post-filing obligations;
- (i) engaged in discussions and analysis with the Debtors and their various advisors to understand potential recoveries for Canadian creditors;
- (j) worked with counsel and other professionals to provide stakeholders with financial and other information; and
- (k) prepared the Second Report.

24. Since the beginning of the CCAA Proceedings, the Payless Canada Entities, its Management and the Monitor have worked closely with various stakeholder groups in order to ensure continued and uninterrupted progress of the liquidation and day-to-day

operations of the business.

D. MONITOR'S PRELIMINARY VIEWS ON EXPECTED RECOVERIES

25. The Monitor has been engaged, and continues to engage, with the Payless Canada Entities, Ankura and PJ Solomon with respect to expected stakeholder recovery.
26. Based on the net recoveries to date in both the U.S. Proceedings and CCAA Proceedings, the projected liquidation sales and expenses to completion, and other anticipated recoveries, it appears that the term lenders under the Term Loan Credit Facility (as defined in the Initial Order) hold the fulcrum interest in these proceedings and will not be paid in full. Accordingly, based on recoveries to date, and expected future recoveries, it is unlikely that funds will be available to unsecured creditors of the Payless Canada Entities. The Monitor is unfortunately unable to provide financial details of expected recoveries at this stage as disclosure of such information could prejudice ongoing confidential discussions with respect to the monetization of certain of the Debtors' assets.
27. The Monitor understands that the Term Loan Credit Facility (both Tranches A1 and A2) have been trading in the range of approximately 29 cents to 51 cents on the dollar, respectively. In the past thirty days, Tranche A2 has traded in the range of 29 cents to 37 cents on the dollar, and tranche A1 has been in the range of 51 cents to 52 cents on the dollar.

E. RECEIPTS & DISBURSEMENTS FOR THE THREE-WEEK PERIOD ENDED MARCH 8, 2019

28. The Payless Canada Entities' actual net cash flow on a consolidated basis for the three-week period ending March 8, 2019 was approximately \$10.5 million, compared to a forecasted amount of approximately \$2.8 million as noted in in the initial Cash Flow Forecast filed as Appendix "C" to the Pre-Filing Report – representing a positive variance of approximately \$7.7 million as summarized below:

Payless Canada Entities Variance Report (CAD \$000s)	For the 3 week period ending March 8, 2019		
	Forecast	Actual	Variance
Operating Receipts	13,779	17,404	3,626
Operating Disbursements			
Payroll and Employee Related Costs	(3,670)	(2,996)	675
Occupancy Costs	(3,281)	(2,404)	877
Operating Expenses, Corporate, and Other	(920)	(26)	894
Sales Taxes	(292)	(123)	169
Intercompany	(100)	-	100
Total Operating Disbursements	(8,263)	(5,549)	2,714
Cash Flow From Operations	5,516	11,855	6,339
Professional Fees	(2,252)	(1,134)	1,118
Liquidation Costs	(501)	(200)	302
Total Non-Operating Disbursements	(2,753)	(1,334)	1,420
Net Cash Inflows / (Outflows)	2,763	10,522	7,759
Cash			
Beginning Balance	3,597	3,562	(35)
Net Cash Inflows / (Outflows)	2,763	10,522	7,759
Canadian Excess Proceeds	-	-	-
Ending Balance	6,359	14,083	7,724

29. Explanations for the significant variances in actual receipts and disbursements as compared to the initial Cash Flow Forecast are as follows:

- (a) Operating Receipts were approximately \$17.4 million compared to a forecast amount of approximately \$13.8 million, which resulted in a positive variance of approximately \$3.6 million. This positive variance is a result of higher than forecast sales during the period. Given that the Payless Canada Entities are not receiving any inventory replenishments and that total inventory available for the liquidation sale is fixed, this positive variance is expected to partially reverse in future forecast periods;
- (b) Total Operating Disbursements were approximately \$5.5 million compared to a forecast amount of approximately \$8.2 million, which resulted in a positive timing variance of approximately \$2.7 million primarily due to the following:
 - i. the positive timing variance in Payroll and Employee Related Costs of approximately \$0.7 million is due to lower staffing levels than forecast during the current period and is expected to reverse in future forecast periods. The Payless Canada Entities intend to actively monitor and manage

staffing levels going forward to meet the store requirements for the liquidation sale;

- ii. the positive timing variance in Occupancy Costs of approximately \$0.9 million is expected to reverse in future forecast periods, and is due to differences in the timing of receipt of invoices related to property taxes, percentage rent adjustments, common areas maintenance, and other amounts payable under certain leases that are invoiced and paid on a periodic basis rather than monthly; and
 - iii. the positive variance in Operating Expenses, Corporate and Other Disbursements of approximately \$0.9 million is a timing difference and expected to reverse in future forecast periods as invoices are received and settled for post-filing goods and services rendered to the Payless Canada Entities.
- (c) Total Non-Operating Disbursements were approximately \$1.3 million compared to a forecast amount of approximately \$2.7 million, which resulted in a positive timing variance of approximately \$1.4 million primarily due to the following:
- i. the positive timing variance in Professional Fees of approximately \$1.1 million is a result of lower than forecast disbursements during the period and is expected to reverse in subsequent periods as additional amounts are invoiced and payments are made; and
 - ii. the positive variance of approximately \$0.3 million in liquidation costs is a timing variance that is expected to reverse in future forecast periods as additional amounts are invoiced and payments are made.

F. REVISED CASH FLOW FORECAST FOR THE PERIOD ENDING JUNE 7, 2019

30. The Payless Canada Entities have reviewed and updated their cash flow forecast for the

13-week period covering the remainder of the liquidation sale and up to June 7, 2019 (the “**Revised Cash Flow Forecast**”). The Revised Cash Flow Forecast is attached hereto as Appendix "A", and is summarized below:

Payless Canada Entities Cash Flow Forecast Summary	Total CAD (\$000s)
Operating Receipts	26,847
Operating Disbursements	<u>(19,672)</u>
Cash Flow From Operations	7,174
<i>Non-Operating Disbursements:</i>	
Professional Fees	(6,714)
Liquidation Costs	<u>(2,903)</u>
Total Non-Operating Disbursements	(9,617)
Net Cash Inflows / (Outflows)	(2,443)
Cash	
Beginning Balance	14,083
Net Cash Inflows / (Outflows)	(2,443)
Canadian Excess Proceeds	<u>(8,973)</u>
Ending Balance	<u>2,667</u>

31. The Revised Cash Flow Forecast shows Operating Receipts of approximately \$26.8 million, Operating Disbursements of approximately \$19.6 million, Non-Operating Disbursements of approximately \$9.6 million, and Net Cash Outflows of approximately \$2.4 million for the 13-week period for the weeks ending March 15, 2019 to June 7, 2019.
32. Generally, the underlying assumptions and methodology utilized in the Cash Flow Forecast have remained the same for this Revised Cash Flow Forecast; however, the Monitor notes the following:
- (a) The forecast period was extended from the week ending May 17, 2019 to the week ending June 7, 2019;
 - (b) Sales receipts in the Revised Cash Flow Forecast have been updated to reflect liquidation period to date sales and other updated assumptions, including inventory levels on hand by store, sale sell-thru rates, estimated discount levels by week, store closures and timing, inventory mix, as well as other liquidation sale metrics and data;
 - (c) Disbursements not incurred during the 3-week period ending March 8, 2019

have been shifted forward as they are expected to be incurred in future weeks;

- (d) 173 stores were scheduled to close as of March 31, 2019 in the Cash Flow Forecast. This number was subsequently reduced to 120 stores to be closed as of March 31, 2019 in the Revised Cash Flow Forecast based on liquidation sale data from the initial sale weeks, store inventory levels, and other factors, which were considered by Management, Ankura, the Consultant, and Malfitano Advisors with the goal of maximizing net recoveries from the liquidation sale. The Revised Cash Flow Forecast also contemplates the closure of 11 stores on April 15, 2019 with the remaining stores to be closed on April 30, 2019.
33. The Monitor understands that the Revised Cash Flow Forecast contemplates an initial distribution to Wells Fargo pertaining to the week ended March 15, 2019. Distributions are calculated and distributed in the subsequent week after completion of the accounting and budget-to-actual analysis based on actual results for the previous week. As previously undertaken to this Court, no distribution has been made, or will be made, to Wells Fargo prior to the March 20 Motion.

G. REQUEST FOR EXTENSION OF THE STAY PERIOD

34. The Stay Period (as defined in the Initial Order) is currently set to expire on March 21, 2019. The Payless Canada Entities are seeking an extension of the Stay Period to June 7, 2019 as they require additional time to:
- (a) continue the liquidation in accordance with the terms of the Liquidation Consulting Agreement and the Liquidation Consulting Agreement Approval Order;
 - (b) perform post-liquidation reconciliation and accounting as required, which often requires a period of several weeks to complete and can only be completed subsequent to completion of the liquidation; and
 - (c) determine the appropriate next steps in connection with the CCAA Proceedings.
35. The Revised Cash Flow Forecast demonstrates that, subject to its underlying

assumptions, the Payless Canada Entities have sufficient liquidity to fund their operations during the CCAA Proceedings to June 7, 2019.

36. The Monitor believes that the Payless Canada Entities have acted and continue to act in good faith and with due diligence to maximize value for their stakeholders. The Monitor believes that circumstances exist that make an extension of the Stay Period appropriate.
37. The Monitor believes, based on the information currently made available to it, that the creditors and other stakeholders of the Payless Canada Entities would not be materially prejudiced by an extension of the Stay Period to June 7, 2019.
38. Accordingly, the Monitor supports the Payless Canada Entities' request for the Stay Extension to June 7, 2019.

H. CONCLUSION

39. For the reasons stated in the Second Report, the Monitor supports the relief sought by the Payless Canada Entities in connection with the March 20 Motion.

The Monitor respectfully submits to the Court this, its Second Report.

Dated this 16th day of March, 2019.

FTI Consulting Canada Inc.,
solely in its capacity as Monitor of Payless ShoeSource Canada Inc.,
Payless ShoeSource Canada GP Inc. and Payless ShoeSource Canada LP,
and not in its personal capacity



Greg Watson
Senior Managing Director



Paul Bishop
Senior Managing Director

APPENDIX "A"

[ATTACHED]

Payless Canada
 CCAA Cash Flow Forecast
 (\$CAD in 000's)

Week Ending	15-Mar-19	22-Mar-19	29-Mar-19	5-Apr-19	12-Apr-19	19-Apr-19	26-Apr-19	3-May-19	10-May-19	17-May-19	24-May-19	31-May-19	7-Jun-19	13 - Week	
CCAA Filing Week	4	5	6	7	8	9	10	11	12	13	14	15	16	Total	
Receipts															
Trade Receipts	[2]	6,892	5,280	5,090	3,446	2,178	1,690	1,361	909	-	-	-	-	-	26,847
Other Receipts		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts		6,892	5,280	5,090	3,446	2,178	1,690	1,361	909	-	-	-	-	-	26,847
Operating Disbursements															
Payroll and Employee Related Costs	[3]	(6)	(2,313)	(5)	(1,654)	(1,327)	(918)	(124)	(860)	(1,406)	(20)	-	(20)	(234)	(8,887)
Occupancy Costs	[4]	(2,637)	(37)	(37)	(1,020)	(21)	(891)	(17)	(17)	-	-	-	-	-	(4,677)
Operating Expenses, Corporate, and Other	[5]	(978)	(68)	(68)	(68)	(38)	(32)	(30)	(30)	(29)	(12)	(12)	(12)	-	(1,378)
Sales Taxes	[6]	(169)	-	-	(1,464)	-	-	-	(2,366)	-	-	-	-	(360)	(4,358)
Intercompany	[7]	(100)	-	-	-	(93)	-	-	-	(120)	-	-	-	(60)	(372)
Total Operating Disbursements		(3,889)	(2,418)	(110)	(4,206)	(1,479)	(1,841)	(172)	(3,273)	(1,555)	(32)	(12)	(32)	(654)	(19,672)
Net Operating Cash Inflows / (Outflows)		3,003	2,862	4,980	(760)	699	(150)	1,189	(2,364)	(1,555)	(32)	(12)	(32)	(654)	7,174
Professional Fees	[8]	(1,711)	(573)	(491)	(461)	(528)	(517)	(513)	(484)	(318)	(325)	(228)	(287)	(277)	(6,714)
Liquidation Costs	[9]	(301)	(417)	(292)	(213)	(742)	(151)	(83)	(80)	(625)	-	-	-	-	(2,903)
Net Cash Inflows / (Outflows)		991	1,873	4,197	(1,434)	(571)	(819)	593	(2,928)	(2,498)	(357)	(240)	(319)	(931)	(2,443)
Cash															
Beginning Balance		14,083	14,197	12,447	15,499	13,632	10,944	9,347	9,941	7,012	4,514	4,157	3,917	3,597	14,083
Net Cash Inflows / (Outflows)		991	1,873	4,197	(1,434)	(571)	(819)	593	(2,928)	(2,498)	(357)	(240)	(319)	(931)	(2,443)
Canadian Excess Proceeds		(877)	(3,623)	(1,144)	(434)	(2,117)	(778)	-	-	-	-	-	-	-	(8,973)
Ending Balance		14,197	12,447	15,499	13,632	10,944	9,347	9,941	7,012	4,514	4,157	3,917	3,597	2,667	2,667
Reserve	[10]	(8,127)	(8,890)	(9,419)	(8,218)	(5,770)	(5,849)	(5,766)	(3,439)	(1,343)	(850)	(850)	(850)	(28)	

Notes:

[1] The purpose of this cash flow forecast is to estimate the liquidity requirements of the Payless Canada Entities during the forecast period.

[2] Forecast Trade Receipts include collections from store closing sales conducted and operated by the Payless Canada Entities with the assistance of a third-party liquidator assisting solely in a consulting capacity to the Payless Canada Entities.

[3] Forecast Payroll and Employee Related Costs are based on recent payroll amounts and include accrued vacation to be paid upon termination, and termination payments statutorily required for employees in B.C., Saskatchewan, and P.E.I.

[4] Forecast Occupancy Costs includes payment to landlords, common-area maintenance costs, utility providers, and property taxes.

[5] Forecast Operating Expenses include store level expenses, IT costs, and directors' and officers' insurance.

[6] Forecast Sales Taxes reflects net GST, HST, and PST amounts remitted to/from the federal and provincial governments. Payments are generally made one month in arrears.

[7] Forecast Intercompany Fees include on-going expenses for shared services between Payless entities.

[8] Forecast Professional Fees include legal, monitor, chief restructuring officer, and real estate appraiser fees associated with the CCAA proceedings and are based on estimates provided by the advisors.

[9] Forecast Liquidation Costs include agency fees, liquidation expenses, store incentive programs, and anticipated gift card redemptions.

[10] Represents the estimated amount of sales tax, payroll, accrued vacation, severance, employer retirement savings plan, workers' compensation reserves for the week noted in the cash flow.