

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

In re

PACIFIC SUNWEAR OF CALIFORNIA,
INC., a California corporation, *et al.*,¹

Debtors.

Chapter 11

Case No.: 16-10882 (___)

(Joint Administration Requested)

**DECLARATION OF CHRIS TEDFORD IN SUPPORT OF
FIRST DAY MOTIONS**

I, Chris Tedford, declare as follows:

1. I am the Interim Chief Financial Officer for Pacific Sunwear of California, Inc. (“Parent”). Parent, along with its wholly-owned subsidiaries, Miraloma Borrower Corporation (“Miraloma”) and Pacific Sunwear Stores Corp. (“PS Stores”), are the debtors and debtors in possession (the “Debtors”) in the above-captioned chapter 11 cases (the “Cases”). I also serve as Treasurer and Assistant Secretary for Miraloma, and as Interim Chief Financial Officer and Assistant Secretary for PS Stores. I am familiar with the day-to-day operations and business and financial affairs of the Debtors, having served in my current capacity since September 2, 2015, and having served before that since 2012 as the Debtors’ Senior Director and Controller. All facts set forth in this Declaration are based on my personal knowledge, my discussions with other members of the Debtors’ senior management, my review of relevant documents, or my opinion, based on my experience and knowledge of the Debtors’ operations and financial

¹ The Debtors and the last four digits of their respective federal taxpayer identification numbers are as follows: Pacific Sunwear of California, Inc. (9463-CA); Miraloma Borrower Corporation (0381-Del.); and Pacific Sunwear Stores Corp. (5792-CA). The Debtors’ address is 3450 East Miraloma Avenue, Anaheim, CA 92806.

conditions. If called as a witness, I could and would competently testify to the matters set forth herein based on my personal knowledge.

2. Before joining the Debtors, I served as Controller at Clean Energy Fuels Corp. and Multi-Fineline Electronix, Inc., both publicly traded companies. Prior to that, I was a Senior Manager at Deloitte & Touche LLP. I am a certified public accountant and have a Master's degree in Accounting from the University of Southern California and a Bachelor's degree from the University of California, Irvine.

3. On the date hereof (the "Petition Date"), each of the Debtors filed a voluntary petition for relief with the United States Bankruptcy Court for the District of Delaware (the "Court") under chapter 11 of the Bankruptcy Code, thus commencing these chapter 11 Cases. To enable the Debtors to operate effectively, minimize disruption to their operations, and maximize the value of their assets, the Debtors have filed various applications and motions seeking immediate or expedited relief. Specifically, the following have been filed on behalf of the Debtors (collectively, the "First Day Motions").

- (a) Debtors' Motion for Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (I) Approving Postpetition Financing, (ii) Authorizing Use of Cash Collateral, (iii) Granting Liens and Providing Superpriority Administrative Expense Status, (iv) Granting Adequate Protection, (v) Modifying Automatic Stay, (vi) Granting Related Relief, and (vii) Scheduling a Final Hearing (the "DIP Motion");
- (b) Debtors' Motion for Entry of an Order Directing Joint Administration of Related Chapter 11 Cases for Procedural Purposes Only (the "Joint Administration Motion");
- (c) Debtors' Motion for Entry of Interim and Final Order (i) Authorizing Payment of Certain Prepetition Employee Claims, Including Wages, Salaries, and Bonuses, (ii) Authorizing Payment of Certain Employee Benefits and Confirming Right to Continue Employee Benefits on Postpetition Basis, (iii) Authorizing Payment of Reimbursement to Employees for Prepetition Expenses, (iv) Authorizing Payment of Withholding and Payroll-Related Taxes, (v) Authorizing Payment of Prepetition Claims Owing to Administrators and Third Party Providers,

- (vi) Authorizing Banks to Honor Prepetition Checks and Fund Transfers for Authorized Payments, and (vii) Scheduling a Final Hearing (the “Employee Compensation and Benefits Motion”);
- (d) Debtors’ Motion for Entry of Interim and Final Orders (i) Authorizing Continued Use of Cash Management System, (ii) Authorizing the Continuation of Intercompany Transactions, (iii) Granting Administrative Priority Status to Postpetition Intercompany Transactions, (iv) Authorizing Use of Prepetition Bank Accounts, Account Control Agreements, and Certain Payment Methods, and (v) Waiving the Requirements of 11 U.S.C. § 345(b) on an Interim Basis (the “Cash Management Motion”);
- (e) Debtors’ Motion for Entry of an Order (i) Authorizing the Payment of Prepetition Sales, Use, and Franchise Taxes and Similar Taxes and Fees and (ii) Authorizing Banks and Other Financial Institutions to Receive, Process, Honor, and Pay Checks Issued and Electronic Payment Requests Made Relating to the Foregoing (the “Taxes Motion”);
- (f) Debtors’ Motion for Entry of Interim and Final Orders (i) Approving the Debtors’ Proposed Adequate Assurance of Payment for Future Utility Services, (ii) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services, (iii) Approving the Debtors’ Proposed Procedures for Resolving Adequate Assurance Requests, and (iv) Granting Related Relief (the “Utilities Motion”);
- (g) Debtors’ Motion for Entry of an Order Authorizing Maintenance, Administration, and Continuation of Certain Customer Programs (the “Customer Programs Motion”);
- (h) Debtors’ Motion for Entry of an Order Authorizing Payment of Certain Prepetition Shipping, Delivery, and Customs Charges (the “Shippers Motion”);
- (i) Debtors’ Motion for Entry of an Order Confirming Administrative Expense Priority Status of Debtors’ Undisputed Obligations for Postpetition Delivery of Goods Ordered Prepetition (the “Postpetition Goods Motion”);
- (j) Debtors’ Emergency *Ex Parte* Motion, Pursuant to Bankruptcy Code Sections 105(a), 362, and 541, for Entry of Interim and Final Orders Establishing Notification Procedures and Approving Restrictions on Certain Transfers of Equity Interests in and Claims Against the Debtors *Nunc Pro Tunc* to the Petition Date (the “NOL Motion”);
- (k) Debtors’ Motion for Entry of an Order Establishing Procedures for the Rejection of Executory Contracts and Unexpired Leases (the “Rejection Procedures Motion”); and

- (1) Debtors' Application for an Order Appointing Prime Clerk LLC as Claims and Noticing Agent for the Debtors Nunc Pro Tunc to the Petition Date (the "Section 156(c) Application").

4. This Declaration is submitted in support of the First Day Motions, which are described in greater detail below, and may serve as support for additional motions that may be filed on or after the Petition Date.

5. Part I of this Declaration describes the business operations and capital structure of the Debtors. Part II sets forth the facts relevant to each of the First Day Motions.

I. BACKGROUND

A. Overview of the Debtors

6. Founded in 1982 in Newport Beach, California as a surf shop, the Debtors are a leading specialty retail destination for men's and women's apparel, accessories, and footwear inspired by the unique and diverse influences of the California lifestyle. Rooted in the action sports, fashion, and music heritage of California, the Debtors operate a retail and e-commerce business selling a combination of branded and proprietary casual merchandise designed to appeal to teens and young adults.

7. The Debtors sell merchandise through their stores, online at pacsun.com, and through their mobile application. The Debtors feature two categories of merchandise:

(i) proprietary merchandise, including brands such as Bullhead Denim, On the Byas, and LA Hearts; and (ii) branded merchandise, including brands such as Brandy Melville, Kendall & Kylie, Nike SB, RVCA, Hurley, and Vans.

B. The Debtors' Business Operations.

1. Stores and Employees

8. The Debtors currently operate (i) approximately 593 retail stores, located in all 50 states and Puerto Rico, principally in mall locations, (ii) executive offices, located in Anaheim, California, and (iii) a distribution facility, located in Olathe, Kansas.

9. The Debtors employ approximately 1,995 individuals on a full time basis and 7,054 individuals on a part time basis. Approximately 526 of these individuals are employed by Parent and work either at the Debtors' executive offices in Anaheim, California or at the Debtors' distribution facility in Olathe, Kansas, and the other 8,523 individuals are employed by PS Stores and work in, or otherwise support, the Debtors' store locations.

10. The Debtors' stores are open for business during mall shopping hours. Each store has a manager, one or more assistant managers and approximately six to twelve part-time sales associates. District managers supervise approximately ten stores and approximately ten district managers report to a regional director.

2. The Debtors' Industry

11. The retail apparel, footwear and accessory business is highly competitive. The Debtors currently compete on a national level with leading specialty retail chains, department stores, and online retailers that offer similar brands and styles of merchandise including: Abercrombie & Fitch, Aéropostale, Amazon.com, American Eagle Outfitters, The Buckle, Forever21, H&M, Hollister, J.C. Penney, Karma Loop, Kohl's, Macy's, Nastygal, Nordstrom, Old Navy, Swell, Target, Tilly's, Top Shop, UNIQLO, Urban Outfitters, The Wet Seal, Zappos, Zara, and Zumiez, as well as a variety of regional and local specialty shops. The Debtors believe the principal competitive factors in the industry are fashion, merchandise assortment, quality, price, store location, environment, and customer service.

3. E-Commerce and Marketing

12. The Debtors operate an e-commerce site at www.pacsun.com. Sales through the e-commerce site represented approximately 7% of total net sales during each of fiscal years 2014, 2013, and 2012. The Debtors' e-commerce business currently accepts orders that ship across the United States and to 45 countries abroad. The Debtors operate an in-house e-commerce sales fulfillment center within their Olathe, Kansas distribution facility. The Debtors advertise their website as a shopping destination on certain internet portals and search engines, in addition to marketing the website in stores. The e-commerce business benefits from the nationwide retail presence of the Debtors' stores, the brand recognition of the Debtors, a tech-savvy customer base, and the availability of key brands.

13. In order to protect the integrity of their e-commerce site and brand image, the Debtors own several domain names in addition to the "Pacific Sunwear of California," "PacSun," "Pacific Sunwear" trademarks, and various other trademarks, all of which are registered with the United States Patent and Trademark Office.

14. During fiscal year 2012, the Debtors launched their "Golden State of Mind" ("GSOM") brand positioning which reflects the optimism, creativity and diversity of the Debtors' California heritage. The concept is being realized through print advertising, online social media, in-store elements, events, and the Debtors' website. In fiscal year 2013, the Debtors further defined the GSOM brand positioning by showcasing the Debtors' unique brands and selective music influences at their summer pop-up store in the heart of "Soho" on Broadway in lower Manhattan. In fiscal year 2014, the Debtors continued to expand their GSOM brand positioning by celebrating the official start of summer and the longest day of the year with the first annual GSOM Day, which began with sunrise in Puerto Rico and concluded with the sun

setting in Hawaii. Customer engagement included live events, in-store activations, and on-line sweepstakes.

4. Vendors and Merchandise

15. The Debtors provide their customers with a product assortment and shopping experience that highlight a mix of proprietary and branded merchandise related to action sports, fashion, art, and the musical influences of the California lifestyle. Sales of branded merchandise accounted for approximately 51% of total net sales in fiscal year 2014. The Debtors complement those name-brand collections with a variety of proprietary brands. These proprietary brands provide the Debtors the opportunity to broaden their customer base by offering merchandise of comparable quality to brand name merchandise, capitalize on emerging fashion trends when branded merchandise is not available in sufficient quantities, and exercise a greater degree of control over the flow of merchandise. Proprietary brand merchandise accounted for approximately 49% of total net sales in fiscal year 2014.

16. The Debtors generally purchase merchandise from vendors that target distribution through specialty retailers, small boutiques and, in some cases, particular department stores, rather than distribution through mass-market channels. To encourage the design and development of new merchandise, the Debtors frequently share ideas regarding fashion trends and merchandise sell-through information with their vendors. The Debtors also suggest merchandise design and fabrication to certain vendors.

17. The Debtors have cultivated their proprietary brand sources with a view toward high-quality merchandise, production reliability and consistency of fit. The Debtors source their proprietary brand merchandise both domestically and internationally in order to benefit from the shorter lead times associated with domestic manufacturing and the lower costs associated with international manufacturing.

18. The Debtors' merchants are responsible for reviewing branded merchandise lines from new and existing vendors, identifying emerging fashion trends, and selecting branded and proprietary brand merchandise styles in quantities, colors and sizes to meet inventory levels established by management. The Debtors' planning and allocation team is responsible for management of inventory levels by store and by class, allocation of merchandise to stores and inventory replenishment based upon information generated by the Debtors' merchandise management information systems.

19. Generally, the Debtors' merchandise is delivered to the Debtors' distribution facility in Olathe, Kansas where it is inspected, received, allocated to stores, ticketed when necessary and boxed for distribution to the Debtors' stores or packaged for delivery to the Debtors' e-commerce customers. Each store is typically shipped merchandise twice a week, providing a steady flow of new merchandise. The Debtors use both national and regional carriers to ship merchandise to stores and e-commerce customers. The Debtors may occasionally use air freight to ship merchandise to stores when necessary.

5. Revenues

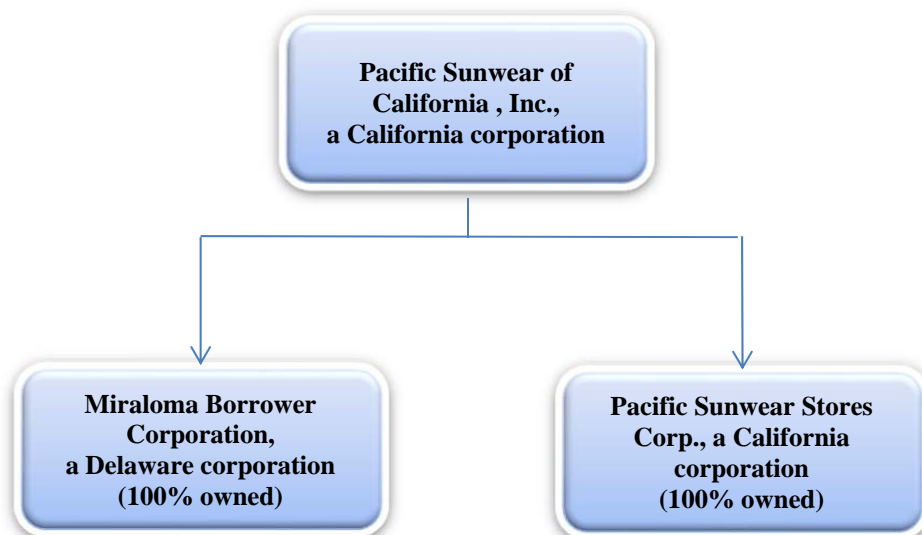
20. The Debtors derive revenues primarily from their retail store business and their e-commerce business. Net sales for fiscal 2015 were \$800.9 million versus net sales of \$826.8 million for fiscal 2014. Comparable store sales decreased 2.6% during fiscal 2015. On a GAAP basis, the Debtors reported a net loss of \$9.2 million, or \$(0.13) per diluted share, for the 2015 fiscal year, compared to a net loss of \$29.4 million, or \$(0.42) per diluted share for the 2014 fiscal year. The net loss for the 2015 fiscal year included a non-cash gain of \$27.7 million, or \$0.40 per diluted share, compared to a non-cash gain of \$2.3 million, or \$0.03 per diluted share for the 2014 fiscal year, related to a derivative liability. On a non-GAAP basis, excluding the non-cash gain on the derivative liability, and assuming a tax benefit of approximately \$11.3

million, the Debtors would have incurred a net loss for the 2015 fiscal year of \$23.4 million, or \$(0.34) per diluted share, as compared to a net loss of \$18.5 million, or \$(0.27) per diluted share, for the 2014 fiscal year.

21. The Debtors' business is seasonal in nature, with a significant portion of the Debtors' income typically realized during the six to seven week selling periods for each of the back-to-school and holiday seasons. In recent years, peak selling seasons have become more concentrated, with incidents such as inclement weather adversely impacting mall traffic and consumer buying patterns. The holiday and back-to-school seasons generally account for approximately 35% to 40% of the Debtors' annual net sales.

C. Organizational Structure

22. Parent, one of the Debtors, is a California corporation that was incorporated in August 1982. The other Debtors are wholly-owned subsidiaries of Parent: (i) Miraloma Borrower Corporation, a Delaware corporation and (ii) Pacific Sunwear Stores Corp., a California corporation. The following chart illustrates the corporate structure of the Debtors as of the Petition Date:



D. Capital Structure.

1. Secured Debt.

a. ABL Facility

23. As of the Petition Date, the Debtors were indebted to Wells Fargo Bank, N.A. (the “ABL Lender”), pursuant to a borrowing base revolver of up to \$100 million (the “ABL Facility”) under that certain Credit Agreement, dated as of December 7, 2011 (as amended, the “ABL Credit Agreement”), by and among Parent, as lead borrower, PS Stores, as an additional borrower, the lenders party thereto from time to time, Wells Fargo Bank, N.A., as the administrative agent and collateral agent (the “ABL Agent”), and Wells Fargo Capital Finance, LLC, as syndication agent and documentation agent. As of the Petition Date, the Debtors had not less than \$41.6 million (consisting of revolving credit loans in the outstanding principal amount of approximately \$31.0 million and issued and outstanding letters of credit in the amount of approximately \$10.6 million) outstanding under the ABL Facility. The ABL Facility is scheduled to mature on December 7, 2016. Miraloma is an unsecured guarantor under the ABL Facility pursuant to that certain Unsecured Guaranty, dated as of December 7, 2011, with a limit of \$100 million of Unsecured Guaranteed Obligations (as defined therein).

24. As of the Petition Date, the ABL Facility was secured, pursuant to that certain Security Agreement, dated as of December 7, 2011, by liens and security interests on substantially all the assets of Parent and PS Stores other than Excluded Property (as defined therein). Excluded Property (as defined therein) includes all of the real and personal property securing the PS Stores Note (defined below). The ABL Facility is likewise not secured by

mortgages on the Debtors' real property leases. Pursuant to that certain Intercreditor Agreement, dated as of December 7, 2011 (the "Intercreditor Agreement"), by and between the ABL Lender and Term Loan Lenders, the ABL Lender has (i) a first priority security interest in the current and certain related assets of Parent and PS Stores including cash, cash equivalents, deposit accounts, securities accounts, accounts, credit card receivables, inventory, and all other assets evidencing, derived from, or related to the foregoing, in all cases, as more specifically described therein (the "ABL Priority Collateral") and (ii) a second priority security interest in assets and properties of Parent and PS Stores other than the ABL Priority Collateral (such other assets, the "Term Loan Priority Collateral").

b. Term Loan

25. As of the Petition Date, the Debtors were indebted to PS Holdings of Delaware, LLC – Series A and PS Holdings of Delaware, LLC – Series B (together, the "Term Loan Lenders") pursuant to a term loan in the original principal amount of \$60 million (the "Term Loan") under that certain Credit Agreement, dated as of December 7, 2011 (as amended, the "Term Loan Credit Agreement"), by and among Parent, as borrower, PS Stores, as guarantor, the Term Loan Lenders, and PS Holdings Agency Corp., as the administrative agent (the "Term Loan Agent"). As of the Petition Date, the current indebtedness under the Term Loan is approximately \$88.1 million (inclusive of accrued interest and a prepayment amount). The Term Loan is scheduled to mature on December 7, 2016.

26. In conjunction with the Term Loan, Parent issued the Series B Preferred stock, which has a liquidation value of \$0.1 million, to the Term Loan Lenders, which gives the Term Loan Lenders the right to purchase up to 13.5 million shares of Parent's common stock, representing, as of December 7, 2011, 19.9% of Parent's common stock outstanding, or 16.7% on a fully-diluted basis, at an initial conversion price of \$1.75 per share of underlying common

stock. In addition, the Term Loan Lenders were granted the right to appoint two members to Parent's board of directors. PS Stores is a secured guarantor of the Term Loan pursuant to that certain Guaranty, dated as of December 7, 2011. Miraloma is an unsecured guarantor of the Term Loan pursuant to that certain Unsecured Guaranty, dated as of December 7, 2011, with a limit of \$60 million of Unsecured Guaranteed Obligations (as defined therein).

27. As of the Petition Date, the Term Loan was secured, pursuant to that certain Security Agreement, dated as of December 7, 2011, by liens and security interests on substantially all the assets of Parent and PS Stores, other than Excluded Property (as defined therein). Excluded Property (as defined therein) includes all of the real and personal property securing the PS Stores Note (as defined below). The Term Loan is likewise not secured by mortgages on the Debtors' real property leases. Pursuant to the Intercreditor Agreement, the Term Loan Lenders have (i) a first priority security interest in the Term Loan Priority Collateral and (ii) a second priority security interest in the ABL Priority Collateral.

c. Mortgage Debt

28. The Debtors' Anaheim, California headquarters property is subject to a non-recourse deed of trust in the initial amount of \$16.8 million pursuant to that certain Deed of Trust, Assignment of Rents and Security Agreement, dated August 20, 2010 (as amended, the "Miraloma Note"), by Miraloma, as borrower, to First American Title Insurance Company, as trustee, for the benefit of American National Insurance Company ("ANICO").

29. Pursuant to that certain Trust Indenture, dated as of July 1, 2007, the city of Olathe, Kansas (the "City") and U.S. National Bank Association, as trustee, entered into an industrial revenue bond financing transaction with respect to the distribution center in Olathe, Kansas (the "Olathe Property"). The City purchased the Olathe Property from PS Stores through the issuance to PS Stores of industrial revenue bonds due January 1, 2018 in an aggregate

principal amount of approximately \$23 million (the “IRBs”) and contemporaneously leased the land and building to PS Stores for an identical term pursuant to that certain Lease Agreement, dated as of July 1, 2007 between the City and PS Stores (the “Olathe Property Lease”).² PS Stores’ leasehold interest in the Olathe Property Lease is subject to a mortgage in the initial amount of \$13.0 million pursuant to that certain Mortgage, Security Agreement, Financing Statement and Fixture Filing, dated as of August 20, 2010 (as amended, the “PS Stores Note”), by PS Stores, as borrower, in favor of ANICO. Parent is a guarantor under the PS Stores Note.

30. On July 1, 2014, the Debtors modified certain terms associated with the Miraloma Note and the PS Stores Note. The note modification executed by Miraloma (i) provided for an additional advance of \$0.3 million to fund the payment of fees, commissions and expenses incurred by the Debtors in connection with the Miraloma Note, resulting in a new principal balance of \$15.9 million; (ii) extended the maturity date of the Miraloma Note to July 1, 2021; (iii) reduced the interest rate to 5.25% per annum; and (iv) provided that the Miraloma Note may not be prepaid prior to July 1, 2017 and thereafter may be prepaid only upon payment of prepayment fees pursuant to a schedule set forth in the Miraloma Note. The amended note executed by PS Stores (i) provided for an additional advance of \$0.2 million to fund the payment of fees, commissions and expenses incurred by the Debtors in connection with the PS Stores Note, resulting in a new principal balance of \$12.3 million; (ii) extended the maturity date of the PS Stores Note to July 1, 2021; (iii) reduced the interest rate to 5.25% per annum; and (iv) provided that the PS Stores Note may not be prepaid prior to July 1, 2017 and thereafter may

² PS Stores, as holder of the IRBs, is due interest at 7% per annum with interest payable semi-annually in arrears on January 1 and July 1. This interest income is directly offset by the interest-only lease payments on the Olathe Property, which are due at the same time and in the same amount as the interest income. If, at any time, PS Stores chooses to call the IRBs, PS Stores is required to use the proceeds from the IRBs to immediately terminate the Olathe Property Lease and repurchase the Olathe Property.

be prepaid only upon payment of prepayment fees pursuant to a schedule set forth in the PS Stores Note.

31. Other than the ABL Facility, the Term Loan, the Miraloma Note, and the PS Stores Note, the Debtors do not have any material secured debt.

2. Unsecured Debt.

32. As of the Petition Date, the Debtors believe that unsecured claims against the Debtors approximate \$60,000,000. Unsecured claims against the Debtors, excluding the litigation claims described below, include: (i) accrued and unpaid trade and other unsecured debt incurred in the ordinary course of the Debtors' business, (ii) unpaid amounts owed to the Debtors' vendors, and (iii) claims by landlords for unpaid rent and other obligations under the Debtors' leases. If leases are rejected during the Cases, the amount of unsecured claims could increase significantly.

3. Equity Interests.

33. Parent is publicly-owned and has one class of common stock and one class of preferred stock. The number of shares of common stock, par value \$0.01 per share, outstanding as of February 16, 2016, was 70,221,822. As of the Petition Date, the Term Loan Lenders hold Series B Preferred stock, which has a liquidation value of \$0.1 million and which gives the Term Loan Lenders the right to purchase up to 13.5 million shares of Parent's common stock, representing, as of December 7, 2011, 19.9% of Parent's common stock outstanding, or 16.7% on a fully-diluted basis, at an initial conversion price of \$1.75 per share of underlying common stock. In addition, the Term Loan Lenders were granted the right to appoint two members to Parent's board of directors.

II. FACTS IN SUPPORT OF FIRST DAY MOTIONS

34. In order to ensure a smooth transition of the Debtors' business operations into chapter 11, the Debtors have requested various types of relief in the First Day Motions filed concurrently with this Declaration. A summary of the relief sought in each First Day Motion, as well as the factual basis for each First Day Motion, is set forth below.

35. I have reviewed each of these First Day Motions (including the exhibits and schedules thereto). The facts stated therein are true and correct to the best of my knowledge, information and belief, and I believe that the type of relief sought in each of the First Day Motions: (i) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption to their current business operations; and (ii) is essential to maximizing the value of the Debtors' assets for the benefit of their estates and creditors.

A. DIP Motion

36. The Debtors are seeking interim and final orders authorizing the Debtors to obtain the use of cash collateral and senior secured postpetition financing on an interim and final basis pursuant to the terms set forth in that certain Debtor-in-Possession Credit Agreement, dated as of April 7, 2016 (the "DIP Credit Agreement"), by and among the Debtors, the lenders party thereto from time to time, and the ABL Agent, as DIP Agent. The DIP Credit Agreement provides for a \$100 million senior secured, super-priority credit facility (the "DIP Facility"). Loans under the DIP Facility will be capped at the lesser of this commitment and a borrowing base (which is subject to reserves). The Debtors may use the proceeds of the DIP Facility for (i) payment of transaction expenses, (ii) purposes permitted by orders of the Bankruptcy Court, including ongoing debtor-in-possession working capital and capital expenditure purposes, (iii) the payment of fees, costs, and expenses, and (iv) other general corporate purposes, in each case in accordance with the approved budget.

37. The reasons supporting the Debtors' request for authority to enter into the DIP Facility are compelling. As explained in greater detail in the DIP Motion, the DIP Facility will be used to provide liquidity for working capital and other general corporate purposes of the Debtors. The funds available under the DIP Facility will provide the Debtors with funds necessary for the operation of their business, including meeting their payroll and other business obligations. Additionally, it provides the Debtors with the time and runway that they need to implement their goals in these Cases. I believe that access to the funds available under the DIP Facility is crucial to the Debtors' ability to avoid immediate and irreparable harm to their estates, employees, customers, and creditors.

38. Acting under my supervision, and with the assistance of the Debtors' investment banker, Guggenheim Securities LLC, and financial advisors, FTI Consulting, Inc., the Debtors' management has developed cash flow and operating projections ("Projections") set forth in **Exhibit A** hereto. As reflected in the Projections, the Debtors have an immediate need to access of \$62.5 million of the DIP Facility (consisting of revolving credit loans and issued and outstanding letters of credit)³ at any one time outstanding, and, upon entry of the final order approving the DIP Facility, the Debtors will need access to the balance of the DIP financing for the remainder of the Cases. The DIP Facility will provide the Debtors with sufficient funds during these Cases to meet their obligations to employees, customers, and contract and lease counterparties and to satisfy their working capital and operational needs, all of which will preserve the value of the Debtors' estates. The Projections represent the Debtors' estimate of their near term financial performance, recognizing that any financial projection is just an estimate of future performance, and actual performance may differ. The Projections are

³ For the avoidance of doubt, such amount is exclusive of purchase card obligations and other obligations (other than revolving credit loans and outstanding letters of credit) that are deemed outstanding under the DIP Facility.

expressly premised on approval of the DIP Facility on an interim and final basis. In my view, the DIP Facility also sends a positive signal to the Debtors' vendors, employees, and other parties critical to maintaining the Debtors' viability as a going concern.

39. The terms of the DIP Facility and the agreements related thereto were negotiated in good faith and at arm's-length between the Debtors and Wells Fargo Bank, National Association, resulting in agreements designed to permit the Debtors to maximize the value of their assets. The proposed terms are fair, reasonable, and appropriate under the circumstances.

40. The Debtors' board of directors determined, in the exercise of its sound business judgment, that the Debtors require financing under the terms of the DIP Facility and the agreements related thereto. I believe that the relief requested in the DIP Motion is both necessary and in the best interests of the Debtors' estates, their creditors, and parties in interest.

B. Joint Administration Motion.

41. The Debtors in these Cases are affiliated entities. Parent is the sole shareholder of Miraloma and PS Stores. As a result, joint administration will prevent duplicative efforts and unnecessary expenses.

42. I understand that the joint administration of the Cases will permit the Clerk of the Court to utilize a single general docket for these Cases and combine notices to creditors of the Debtors' respective estates and other parties in interest, which will result in significant savings to the estates. Accordingly, I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates.

C. Employee Compensation and Benefits Motion.

43. The Debtors' workforce is comprised of full-time salaried employees, full-time hourly employees (collectively, the "Full Time Employees"), and regular part-time hourly employees ("Part Time Employees"). As of the Petition Date, the Debtors employ

approximately 1,115 hourly Full Time Employees and 880 salaried Full Time Employees, for a total of 1,995 Full Time Employees, and 7,054 Part Time Employees. In addition, 38 Employees (29 Full Time Employees and 9 Part Time Employees) are currently on leave. Of the Debtors' current workforce (including those on leave), 526 Employees are employed by Parent and work either at the Debtors' executive offices in Anaheim, California or at the Debtors' distribution facility in Olathe, Kansas, and the other 8,523 Employees are employed by PS Stores and either work in or otherwise support the Debtors' store locations.

44. All Employees are paid bi-weekly for the prior two weeks ending on the Saturday of any payroll week. Payroll to the Employees is funded in gross to Automated Data Processing ("ADP"), the Debtors' third-party payroll administrator, approximately two business days before each pay date, and ADP is responsible for distributing net pay to the Employees from its own accounts. In 2015, the average amount funded to ADP in each two-week period was approximately \$6.0 million. The Debtors' most recent prepetition payroll date was March 25, 2016. It covered the pay period from March 6, 2016 through March 19, 2016. The total amount of the March 25, 2016 payroll was approximately \$4.8 million. The Debtors' next scheduled payroll date is April 8, 2016 and will cover the pay period from March 20, 2016 through April 2, 2016. The Debtors expect that bi-weekly payroll expenses going forward will be consistent with the foregoing historical amounts.

45. The Debtors' ability to preserve their business and successfully reorganize depends on the expertise and continued enthusiasm and service of their Employees. If the Debtors fail to pay the Employee Claims in the ordinary course, their Employees will suffer personal hardship and, in some cases, may be unable to pay their basic living expenses. This result would have a highly negative impact on workforce morale and likely would result in

unmanageable performance issues or turnover, thereby resulting in immediate and irreparable harm to the Debtors and their estates.

46. The Debtors believe that, as of the Petition Date, approximately \$2.4 million was earned but remains unfunded with respect to Employees on account of accrued prepetition wages and salaries. This amount is primarily in respect of the April 3, 2016 to April 16, 2016 payroll period, but also includes approximately \$67,000 of floating prepetition compensation checks, in respect of wages earned in the 180 days preceding the Petition Date by Employees who choose to be paid by live check rather than by direct deposit. The amount owed to any individual Employee on account of prepetition wages and salaries does not exceed \$12,850 and is not in respect of any time period more than 180 days before the Petition Date.

47. In addition, the Debtors contract with approximately 178 additional workers, who are either independent contractors or employees leased from temporary placement agencies, such as Focus Workforce Management, Inc. (“Focus”). These 178 individuals are compensated outside of the Debtors’ payroll system, and receive, in the aggregate, approximately \$120,200 per week. Approximately \$400,000 was earned but remains unfunded with respect to these individuals on account of accrued prepetition wages. These individuals perform functions that are critical to the Debtors’ business, and in particular to smooth operation of the Debtors’ Olathe, Kansas distribution facility. Focus has threatened to cut off services if accrued fees are not timely paid.

48. In order to ensure optimal performance by the Employees, the Debtors have implemented two bonus and incentive programs (collectively, the “Employee Bonus Programs”) as follows:

- a. Fiscal Bonus Plan: The Debtors maintain a Fiscal Bonus Plan, which is designed as a tool to motivate and reward key Employees for outstanding

achievement while aligning their interests with those of the Debtors. The program rewards Employees based upon the Debtors reaching certain financial and operational performance targets for the fiscal year, as measured by EBITDA. Beginning in fiscal year 2014, the Fiscal Bonus Plan also includes a discretionary retention bonus component. Aggregate payments on account of the Fiscal Bonus Program average approximately \$0.5 million to \$5.33 million per year. As of the Petition Date, there are no amounts owing to Employees under the Fiscal Bonus Plan because the performance targets for fiscal year 2015 were not achieved. The Fiscal Bonus Plan for fiscal year 2016 is in effect and is consistent with the foregoing description. The Debtors are not seeking to honor the Fiscal Bonus Plan for fiscal year 2016 pursuant to the Employee Compensation and Benefits Motion.

- b. GSOM Incentive Plan: The Debtors maintain a non-insider, store level GSOM Incentive Plan for eligible Employees that are district managers, store managers, and assistant store managers. The GSOM Incentive Plan has been in effect for approximately two years. In order to be eligible for an incentive payment under the GSOM Incentive Plan, eligible Employees must achieve specified quarterly, monthly, or weekly sales goals. Aggregate payments on account of the GSOM Incentive Plan average approximately \$1 million per year. As of the Petition Date, there are \$70,000 in accrued but unpaid amounts owing to non-insider, non-officer Employees under the GSOM Incentive Plan.

49. *Vacation Time*. Full Time Employees accrue vacation time (“Vacation”) on a pro rata basis throughout the year beginning on their first day of employment or eligibility. Vacation time for the majority of Employees is accrued based on years of service. Full Time Employees in a store manager or assistant manager role accrue up to 120 hours of Vacation, or, after five years of service, up to 180 hours of Vacation. Full Time Employees in a director, senior director, or regional director role accrue up to 180 hours of Vacation, or, after five years of service, up to 240 hours of Vacation. Full Time Employees in a district manager, regional loss prevention, corporate, or distribution center role accrue up to 120 hours of Vacation, or, after four years of service, up to 180 hours of Vacation, or, after ten years of service, up to 240 hours of Vacation. Full Time Employees in a vice president or senior vice president role accrue up to 240 hours of Vacation, or, after five years of service, up to 300 hours of Vacation. Finally, all Full Time Employees in Puerto Rico accrue up to 120 hours of Vacation irrespective of length of

service. Once an Employee reaches the maximum unused Vacation accrual, that Employee may not accrue any additional Vacation until the Employee uses Vacation to reduce the amount of accrued unused Vacation below the maximum threshold. Vacation pay is calculated based on an Employee's base hourly pay or base salary. At separation of employment, Employees receive payment for accrued unused Vacation.

50. At any point in time, Vacation is accruing or being used by Employees, making it difficult to quantify the cost of accrued Vacation as of the Petition Date. However, prior to the Petition Date, the Debtors estimate that the Employees had approximately \$3.6 million in the aggregate of accrued unused Vacation.

51. *Sick Leave.* The Debtors provide paid accrued sick time ("Sick Leave") to all Full Time Employees and to Part Time Employees where dictated by state law. Eligible Employees may accrue up to 40 to 72 hours of Sick Leave, except for Employees in Puerto Rico, who accrue 96 hours of Sick Leave per year, none of which carries over to subsequent years. Eligible Employees are not paid for accrued unused Sick Leave upon separation of employment.

52. *Paid, Personal, and Floating Holiday Time.* The Debtors recognize approximately six paid holidays. Eligible Employees who work on paid holidays receive regular pay for working the holiday and eight hours of holiday pay ("Paid Holiday Time"). The Debtors also provide personal holiday time ("Personal Holiday Time") to all Full Time Employees. Eligible Employees earn eight hours of Personal Holiday Time after 90 days of employment, and thereafter earn an additional eight hours of Personal Holiday Time on each anniversary date. In addition, the Debtors provide floating holiday time ("Floating Holiday Time" and collectively with Paid Holiday Time and Personal Holiday Time, "Holiday Time") to Employees who work at the Debtors' corporate headquarters or distribution center, or in the positions of regional

director, district manager, loss prevention, or human resource manager. Each eligible Employee earns eight hours of Floating Holiday Time on January 1st of each year. Unused Holiday Time may be carried over to the next twelve-month period, provided, however, that Employees may only accrue a maximum of 16 hours of Personal Holiday Time and 16 hours of Floating Holiday Time at any point in time. At separation of employment, Employees receive payment for accrued unused Personal Holiday Time and Floating Holiday Time.

53. At any point in time, Holiday Time is accruing or being used by Employees, making it difficult to quantify the cost of accrued Holiday Time as of the Petition Date. However, prior to the Petition Date, the Debtors estimate that the Employees had approximately \$0.41 million in the aggregate of accrued unused Personal Holiday Time and Floating Holiday Time.

54. *Bereavement Leave and Other PTO.* The Debtors provide eligible Full Time Employees up to three days of bereavement leave in the event of the death of an immediate family member. If the funeral is to be held outside the state in which the Employee resides or outside the United States, Puerto Rico, Canada, or Mexico, then the Employee is instead entitled to five or seven days of bereavement leave, respectively. Other customary paid time off policies are also available to eligible Full Time Employees, including up to two hours of paid time off for voting in general and state-wide elections and up to ten days of paid time off for jury duty.

55. The Debtors maintain certain severance policies covering their Full Time Employees. Generally, under the applicable terms of each policy, eligible Employees earn a base severance amount based on the Employee's position at the time of separation of employment and certain Employees also earn an additional tenure severance amount based on years of service. Specifically, the Debtors' severance policies are as follows:

- a. CEO Severance Benefits: The employment agreement, dated as of March 20, 2012, between Parent and Gary H. Schoenfeld provides for certain severance benefits in the event that Mr. Schoenfeld is terminated without cause. The Debtors are not seeking authority to honor or make any payments in respect of the CEO Severance Benefits pursuant to the Employee Compensation and Benefits Motion.
- b. Executive Severance Plan: The Debtors maintain an Executive Severance Plan for senior vice presidents. Under the Executive Severance Plan, senior vice presidents are eligible to receive up to twelve months of base severance pay plus an additional month of tenure severance pay per year of service with the maximum possible tenure severance pay capped at twelve months of severance pay. The Debtors are not seeking authority to honor or make any payments in respect of the Executive Severance Plan pursuant to the Employee Compensation and Benefits Motion.
- c. Severance Policy: The Debtors maintain Severance Policy for certain non-insider Full Time Employees. The Severance Policy has been in effect for approximately five years. Under the Severance Policy, Employees in the position of vice president are eligible to receive up to six months of base severance pay plus an additional two weeks of tenure severance pay per year of service with the maximum possible severance benefit capped at twelve months of severance pay. Employees in the position of senior director or director are eligible to receive up to four months of base severance pay plus an additional one week of tenure severance pay per year of service with the maximum possible severance benefit capped at eight months of severance pay. Employees in the position of district manager, senior manager, or manager are eligible to receive up to three months of base severance pay plus an additional one week of tenure severance pay per year of service with the maximum possible severance benefit capped at six months of severance pay. Employees in the position of professional or supervisor are eligible to receive up to two months of base severance pay plus an additional one week of tenure severance pay per year of service with the maximum possible severance benefit capped at four months of severance pay. Employees in the position of store manager are eligible to receive up to one month of base severance pay plus an additional one week of tenure severance pay per year of service with the maximum possible severance benefit capped at three months of severance pay. Finally, all other non-exempt Full Time Employees are eligible to receive up to two weeks of base severance pay. In addition, upon separation of employment for Employees in the position of vice president, senior director, director, district manager, senior manager, manager, professional, and supervisor, the Debtors cover the cost of COBRA benefits for one to six months and pay for \$1,000 to \$10,000 worth of outplacement services.

56. Prior to the Petition Date, the Debtors offered their Full Time Employees various standard employee benefits (the “Benefit Programs”) including, without limitation, (a) health

care and prescription drug coverage, (b) dental insurance, (c) vision insurance, (d) life and disability plans, (e) an employee assistance program, (f) supplemental insurance, (g) COBRA coverage, (h) flexible spending accounts, and (i) employee relocation and tuition expense reimbursement. Such benefits are administered pursuant to plans, programs, and policies that cover the Debtors' Full Time Employees. The amounts set forth below reflect the approximate prepetition cost of such Benefit Programs. The Debtors expect that Benefit Program expenses going forward will be consistent with historical amounts.

57. *Medical Insurance Program.* The Debtors offer a self-insured medical and prescription drug program (the "Health Plan") to their Full Time Employees, which is administered by Aetna, Inc., except for Full Time Employees in Hawaii and Puerto Rico, where the Health Plan is instead administered by Hawaii Medical Assurance Association and Triple-S Salud Puerto Rico, respectively. The Health Plan is approximately 38–97% paid by the Debtors and 3–62% paid by the Debtors' Full Time Employees through paycheck withholding, depending on the type of plan selected by the Employee and the state. Reinsurance for large claims is provided by Munich RE. The Debtors also maintain a stop-loss insurance policy (the "Stop-Loss Policy") to provide protection against catastrophic losses under their self-insured Health Plan, which policy is administered by Munich RE and Stealth Partner Group. The average monthly cost (excluding Employee contributions) of maintaining the Health Plan, including administrative costs and premiums, has been approximately \$770,000 in the aggregate per month for the Aetna administered Health Plan, and approximately \$17,100 and \$4,000 in the aggregate per month in Hawaii and Puerto Rico, respectively. The average monthly cost of maintaining the Stop Loss Policy, including administrative costs and premiums, has been approximately \$23,800.

58. The Debtors typically wire funds to the Health Plan administrators on a weekly basis on account of claims paid by the administrators on the Debtors' behalf. The Debtors are unable to estimate with specificity the prepetition amounts owing in respect of the Health Plan, because the typical lag time on Employees' submissions of medical claims is approximately 60 days. However, based on historical data, the Debtors estimate that as of the Petition Date they owe approximately \$950,000 in respect of "incurred but not reported" claims under the Health Plan, and, with respect to the Aetna administered Health Plan, approximately \$1,527,000 in respect of reported claims that have not yet been paid and related unpaid prepetition premium and administrative costs (excluding amounts expected to be paid through Employee deductions). Additionally, as of the Petition Date, the Debtors estimate they owe approximately \$23,000 and \$5,100 in respect of prepetition costs, including premiums, of administering the Health Plan in Hawaii and Puerto Rico, respectively.

59. *Prescription Drug Coverage.* The Debtors also offer their Full Time Employees prescription drug coverage (the "Rx Plan") administered by Express Scripts at an average monthly cost of approximately \$83,250. As of the Petition Date, the Debtors estimate they owe approximately \$111,000 in respect of the Rx Plan.

60. *Dental Insurance Program.* The Debtors offer a self-insured dental program (the "Dental Plan") to their Full Time Employees, which is administered by Aetna, Inc. The Dental Plan is 100% paid by the Debtors' Full Time Employees through paycheck withholding. The average monthly cost (excluding Employee contributions) of maintaining the Dental Plan, including administrative costs, has been approximately \$10,000 in the aggregate per month. The Debtors are unable to estimate with specificity the prepetition amounts owing in respect of the Dental Plan because the typical lag time on Employees' submissions of dental claims is

approximately 22 days. However, based on historical data, the Debtors estimate that as of the Petition Date they owe approximately \$26,500 in respect of “incurred but not reported” claims under the Dental Plan, and approximately \$40,000 in respect of reported claims that have not yet been paid and related premium and administrative costs (excluding amounts expected to be paid through Employee deductions).

61. *Vision Insurance Program.* The Debtors offer vision insurance to their Full Time Employees through VSP (the “Vision Plan”). The Vision Plan is 100% paid by the Debtors. The average monthly cost of maintaining the Vision Plan has been approximately \$11,500 per month. The Debtors estimate that as of the Petition Date they owe approximately \$15,300 on account of unpaid prepetition costs in respect of the Vision Plan.

62. *Life, Disability and Related Insurance Coverage and Employee Assistance Program.* The Debtors provide their Full Time Employees with company-funded short-term and long-term disability insurance, accidental death and dismemberment insurance, and basic life insurance, all of which are insured by either Cigna or Standard Insurance Co. (collectively, the “Life and Disability Plans”). The Debtors also offer their Full Time Employees and their family members counseling services through Cigna to help resolve personal issues (the “EAP”). The Debtors pay 100% of the costs of the Life and Disability Plans and the EAP. In the aggregate, the average monthly cost of maintaining the Life and Disability Plans and the EAP has been approximately \$46,810 per month. The Debtors estimate that as of the Petition Date they owe approximately \$62,500 in the aggregate on account of unpaid prepetition costs in respect of the Life and Disability Plans and the EAP.

63. *Supplemental Insurance.* The Debtors offer Full Time Employees voluntary supplemental disability, accident, universal life insurance administered by Cigna and Colonial

Insurance (the “Supplemental Insurance”). Participating Employees pay 100% of the premiums for Supplemental Insurance via paycheck withholdings. The average monthly cost of maintaining Supplemental Insurance has been approximately \$3,000 per month. The Debtors estimate that as of the Petition Date they owe approximately \$4,000 on account of unpaid prepetition costs in respect of Supplemental Insurance.

64. *COBRA*. The Debtors seek to continue to perform in the ordinary course any obligations under Section 4980B of the Internal Revenue Code to administer Continuation Health Coverage (26 U.S.C. § 4980B) (“COBRA”) in respect of former Employees and their covered dependents. COBRA benefits are administered by ADP. The Debtors pay 100% of the premiums for COBRA benefits for one to six months after separation of employment for certain eligible Full Time Employees in connection with the Debtors’ Severance Policy, as described above. All other former Employees pay 100% of the premiums for COBRA benefits. As of the Petition Date, the Debtors believe that no amounts are owed in respect of COBRA benefit costs incurred prepetition.

65. *Flexible Spending Accounts*. The Debtors offer their eligible Employees the use of flexible spending accounts for various healthcare, dependent care, and commuter expenses (including deductibles, co-insurance, co-payments, dependent care costs, and commuter parking and transit expenses). The flexible spending benefits (the “Flex Benefits”) are administered by ADP at a monthly cost of approximately \$12,130 in the aggregate per month. As of the Petition Date, the Debtors believe that approximately \$16,200 is owed in respect of prepetition costs of administering Flex Benefits.

66. *Associate Discount Policy.* The Debtors offer all Employees, their dependents, and their immediate family members a 30% discount on regular-priced merchandise sold at PacSun store locations.

67. *Employee Relocation Policy.* The Debtors offer certain key Full Time Employees lump sum payments for relocation services and reimbursement of relocation expenses (the “Relocation Policy”), which payments are administered through a third party vendor, PRC Relocation & Consulting Services. Payments under the Relocation Policy may include, among other things, the cost for shipment of household goods and automobiles, storage of household goods, temporary housing, miscellaneous moving expenses, and portion of closing costs for the sale and purchase of homes. Employees are required to repay the Debtors for relocation payments made under the Relocation Policy if the Employee does not commence employment with the Debtors or if the Employee voluntarily terminates employment with the Debtors within two years of the Employee’s start date. Based on historical data, the Debtors estimate that as of the Petition Date, approximately \$166,000 is owed under the Relocation Policy, including administrative costs.

68. *Tuition Reimbursement Program.* The Debtors offer Full Time Employees tuition reimbursement for qualifying courses directly related to the Employee’s current position or career path (“Tuition Reimbursement”). The course must be pre-approved and the Employee must receive at least a “B” grade in order to be reimbursed for 50% of the Employee’s tuition costs, up to \$2,000. The Debtors estimate that as of the Petition Date, approximately \$500 is owed in respect of prepetition Tuition Reimbursement.

69. As of the Petition Date, certain of the Benefit Programs described above remained unpaid or not yet provided because certain obligations of the Debtors under the applicable plan,

program, or policy accrued either in whole or in part prior to the commencement of these Cases, but will not be required to be paid or provided in the ordinary course of the Debtors' business until a later date. These programs are an important component of the total compensation offered to the Employees, and are essential to the Debtors' efforts to maintain Employee morale and minimize attrition. I believe that the expenses associated with such programs are reasonable and necessary in light of that potential attrition, loss of morale, and loss of productivity that would occur if such programs were discontinued.

70. The Debtors maintain a workers' compensation benefits program through Safety National Casualty Corp. (the "WC Program"). The WC Program provides benefits to all of the Debtors' Employees for claims arising from or related to the Employee's employment with the Debtors. The Debtors' deductible under the WC Program is \$1 million per incident, and the Debtors are liable for all claim amounts below the deductible. The annual premium for the WC Program is approximately \$135,000 in the aggregate per year. In addition, in connection with the Debtors' current and legacy WC Programs, the Debtors have caused standby letters of credit to be issued for the benefit of Safety National Casualty Corp. and Sentry Insurance, in the aggregate amount of \$3,350,000.⁴ The WC Program is administered by CorVel Enterprise Comp, Inc. ("CorVel"). The Debtors estimate that they paid approximately \$0.9 million for claims under the WC Program in fiscal year 2015. As of the Petition Date, the Debtors estimate that there are approximately \$1.9 million in outstanding claims under the WC Program for which the Debtors may be liable.

71. The Debtors maintain a 401(k) plan and Roth retirement savings plan (the "Retirement Plan"), administered by Fidelity Investments, through which qualified and

⁴ The letter of credit in favor of Sentry Insurance relates to workers' compensation claims incurred prior to 2010.

participating Employees may defer a portion of their salary to help meet their financial goals and accumulate savings for their future. The Retirement Plan is funded by Employee and employer contributions. The Debtors provide an immediately vesting match of 100% on each Employee's first 3% of deferred compensation and 50% on such Employee's next 2% of deferred compensation. In 2015, the Debtors incurred expense for matching contributions of approximately \$1,320,000. As of the Petition Date, the Debtors believe there are approximately \$160,000 accrued but unfunded matching contributions with respect to the Retirement Plan. The Debtors pay approximately \$10,000 in the aggregate per year for an audit of the Retirement Plan.

72. Prior to the Petition Date, the Debtors directly or indirectly reimbursed their Employees for certain expenses incurred on behalf of the Debtors in the scope of their employment (the "Employee Expenses"). The Employee Expenses are incurred in the ordinary course of the Debtors' business operations and include, without limitation, expenses for meals, travel, car allowances, mobile devices, and other business-related expenses. In addition, the Debtors provide company credit cards to approximately 318 Employees to pay for Employee Expenses. The applicable Employees are not personally liable for company credit cards. Historically, approximately \$480,000 has been paid on account of Employee Expenses in the aggregate each month, including amounts paid for car and mobile device allowances to applicable Employees. Because a delay often occurs between the time such expenses are incurred and the time a charge is posted, or an expense reimbursement request is submitted, it is difficult to determine with precision the aggregate amount of outstanding Employee Expenses. However, the Debtors estimate that, as of the Petition Date, approximately \$96,000 in Employee Expenses remain unpaid.

73. The Debtors routinely deduct certain amounts from Employees' compensation that represent earnings that judicial or government authorities or the Employees have designated for deduction, including, for example, various federal, state, and local income, Federal Insurance Contribution Act ("FICA"), and other taxes; support payments; tax levies; savings programs contributions; benefit plans; insurance programs; and other similar programs (collectively, the "Employee Withholdings"). The amount deducted and remitted by the Debtors in respect of Employee Withholdings is approximately \$3.6 million in the aggregate per month. Approximately \$0.9 million of Employee Withholdings have accrued prepetition but have not yet been funded to the appropriate third parties. In addition, the Debtors are responsible for remitting to ADP, for their own account, various taxes and fees associated with payroll pursuant to the FICA and federal and state laws regarding unemployment and disability taxes ("Payroll Taxes"). The Debtors have paid approximately \$3.0 million in the aggregate for employer-obligated Payroll Taxes each month. The Debtors estimate that as of the Petition Date, approximately \$0.8 million is owing in respect of prepetition Payroll Taxes.

74. The Debtors pay ADP approximately \$66,100 per month for its administrative payroll services. ADP typically bills the Debtors in arrears for associated payroll costs. ADP also administers all the Debtors' Flex Benefits and COBRA benefits. The Debtors have paid ADP approximately \$3,000 in the aggregate per month for administration of Flex Benefits and COBRA benefits. As of the Petition Date, approximately \$132,200 is owing to ADP in the aggregate for payroll and administration fees.

75. The Debtors utilize various third party administrators in connection with the Health Plan, Rx Plan, and Dental Plan, including Aetna, Express Scripts, Triple-S Salud Puerto Rico, and Hawaii Medical Assurance Association. The Debtors pay these administrators

approximately \$60,400 in the aggregate per month. As of the Petition Date, the Debtors believe that approximately \$80,535 is owing to these administrators in respect of prepetition costs and fees.

76. The Debtors utilize CorVel to assist in the administration of the WC Program. The Debtors pay CorVel approximately \$1,509 per indemnity claim and \$172 per medical claim to administer the WC Program, at an average monthly cost of approximately \$9,000 in the aggregate. As of the Petition Date, approximately \$12,000 is owing to CorVel in respect of prepetition administrative fees for the WC Program.

77. The Debtors utilize various third party administrators and consultants in connection with the Retirement Plan, including Fidelity Investments, Banco Popular, and Sutherland Retirement Group. The Debtors pay these administrators approximately \$3,430 in the aggregate per month for services in connection with the Retirement Plan. As of the Petition Date, approximately \$11,165 is owing to Retirement Plan administrators in respect of administrative and consulting fees for the Retirement Plan.

78. Finally, the Debtors rely on the services of various vendors who assist the Debtors with their recruiting, hiring, and job training efforts, including, among others, Monster, Inc., TALX Corp., Challenger Gray & Christmas, Linked In Corp., Malakye.com, Career Beam, Winning Minds, Style Careers, Hire Right, and Psychological Associates. The Debtors pay these vendors approximately \$43,000 in the aggregate per month for services in connection with recruiting, hiring, and training Employees. As of the Petition Date, approximately \$63,100 is owing to these vendors.

79. I believe that the relief sought in the Employee Compensation and Benefits Motion represents a sound exercise of the Debtors' business judgment and is necessary to avoid

immediate and irreparable harm to the Debtors' estates. I believe that without the relief requested in the Employee Compensation and Benefits Motion being granted, there is significant risk that the Employees required for the Debtors' success will seek alternative opportunities. Such a development would deplete the Debtors' workforce, thereby hindering the Debtors' ability to successfully conduct these Cases.

D. Cash Management Motion.

80. In the ordinary course of their business, the Debtors maintain a complex cash management system (the "Cash Management System"), which includes all activities necessary and pertinent to collecting and disbursing the Debtors' cash assets. The Cash Management System allows the Debtors to efficiently identify the Debtors' cash requirements and transfer cash as needed to respond to these requirements. The Cash Management System is important to the efficient execution and achievement of the Debtors' business objectives, and, ultimately, to maximizing the value of the Debtors' estates. The Cash Management System generally operates similarly to the centralized cash management systems used by other similar companies of comparable size to manage the cash of numerous operating units in a cost-effective, efficient manner. The Cash Management System consists of bank accounts (the "Bank Accounts"), which are maintained at Wells Fargo, Bank of America, PNC Bank, and certain other banks.

81. *Collections Process.* Cash collections from brick-and-mortar sales are deposited directly into store depository accounts maintained by PS Stores at various banks (the "Store Depository Accounts"). The Debtors' stores make daily cash deposits into the Store Depository Accounts. The proceeds from brick-and-mortar credit card sales and other miscellaneous checks and wires are deposited by the third-party processors of those credit card, check, or wire transactions, net of certain customer returns, chargebacks, and fees, directly into various credit card depository accounts maintained by PS Stores at Wells Fargo (the "Credit Card Accounts").

The proceeds from credit card and PayPal purchases made on the Debtors' e-commerce site, net of certain customer returns, chargebacks, and fees, are deposited by the third-party processor of those transactions directly into separate depository accounts maintained by PS Stores at Wells Fargo (the "E-Commerce Accounts"). The proceeds from e-commerce and in-store purchases made using the Debtors' private label credit card program are deposited by the third-party processor of those credit card transactions, net of certain customer returns, chargebacks, and fees, directly into a depository account maintained by PS Stores at Wells Fargo (the "Private Label Account") and, collectively with the Store Depository Accounts, the Credit Card Accounts, and the E-Commerce Accounts, the "Proceeds Accounts").

82. Funds on deposit in the Proceeds Accounts are automatically swept either daily or weekly to a main concentration account maintained by Parent at Wells Fargo (the "Master Operating Account"). Parent then makes as needed transfers from the Master Operating Account to ten disbursement accounts maintained by Parent and PS Stores at various banks. Several of the Debtors' depository accounts are subject to certain Deposit Account Control Agreements between Parent or PS Stores on the one hand and certain banks, including Wells Fargo, Bank of America, JP Morgan Securities, and Merrill Lynch, on the other hand (as amended, the "Deposit Account Control Agreements").

83. *Disbursements Process.* Using the funds held in the Master Operating Account, the Debtors fund ten standalone disbursement accounts (collectively, the "Disbursement Accounts"), seven of which are maintained by Parent or PS Stores at Wells Fargo and the other three of which are maintained by PS Stores at PNC Bank and Bank of America. Funds are transferred from the Master Operating Account to the appropriate Disbursement Account as needed in order to pay checks that have been presented that day for payment as well as to fund

payroll and payroll taxes (paid bi-weekly), non-payroll items relating to employee health benefits and insurance (generally paid monthly), vendor and factor payments (paid each day based on terms with vendors and factors), lease payments (paid monthly), sales taxes (generally paid monthly), and other expenditures as they come due.

84. All of the Disbursement Accounts maintained at Wells Fargo are funded automatically from the Master Operating Account. The Debtors are required to fund the two Disbursement Accounts maintained at PNC Bank and the Disbursement Account maintained at Bank of America manually, via wire transfer or book transfer, and ensure, on each business day, that there are sufficient collected and available funds in each Disbursement Account in the amount of all items drawn on such account, whether outstanding or presented for payment, and any other debit transactions initiated with respect to such Disbursement Account. The Debtors make disbursements from the Disbursement Accounts directly to third parties.

85. In addition, in the ordinary course of business, the Debtors charge expenditures pursuant to a commercial card program under the WellsOne Commercial Card Agreement, dated as of January 10, 2012 (as amended, restated, supplemented, or otherwise modified from time to time, the "Card Agreement"), between the Debtors and Wells Fargo. In accordance with the Card Agreement, Wells Fargo is authorized to make advances from time to time to the Debtors with a maximum exposure at any time up to \$1,900,000.

86. *Intercompany Transactions.* Prior to the Petition Date, the Debtors engaged in certain intercompany transactions with each other in the ordinary course of business (collectively, the "Intercompany Transactions"). First, pursuant to that certain Cash Management Agreement, dated as of August 3, 1998 (the "CM Agreement"), by and between Parent and PS Stores, Parent provides cash management and administration services to PS

Stores. In accordance with the CM Agreement, and as described above, Parent (i) receives funds deposited into the various Proceeds Accounts held by PS Stores and (ii) transfers funds into the controlled disbursement account maintained by PS Stores at Wells Fargo. Second, pursuant to that certain Sales and Distribution Agreement, dated as of August 3, 1998 (as amended, the “Distribution Agreement”), by and between Parent and PS Stores, Parent (i) supplies inventory and provides management services to PS Stores, (ii) grants PS Stores a non-exclusive right to use Parent’s trademarks and certain software, and (iii) agrees to indemnify and defend PS Stores from and against any loss, cost, expense, damage, or penalty on account of any claim for infringement or misappropriation in connection with such trademark and software use. For its part, PS Stores agrees, among other things, to promote, sell, and distribute the inventory supplied by Parent. Finally, Miraloma leases the land and building comprising the Debtors’ executive offices in Anaheim, California to Parent pursuant to that certain Lease Agreement, dated as of August 20, 2010. These costs are reconciled through Intercompany Transactions, which are recorded by the Debtors as intercompany payables, receivables, or loans, as applicable.

87. In light of the substantial size and complexity of the Debtors’ operations, I believe that it is critical that the Debtors continue to utilize their existing Cash Management System without disruption and believe that the relief requested in the Cash Management Motion is both necessary and in the best interests of the Debtors’ estates and their creditors.

E. Taxes Motion.

88. In the ordinary course of business, the Debtors incur or collect and remit certain taxes including sales, use, franchise, commercial activity, business and occupation, and various other taxes, fees, charges, and assessments (the “Taxes and Fees”). The Debtors remit such Taxes and Fees to various federal, state, and local taxing and other governmental authorities and/or certain municipal or governmental subdivisions or agencies of those states (the “Taxing

Authorities”) in connection with the sale of their products or services at store locations, or through shipments of products purchased through the Debtors’ website to customers. The Taxes and Fees are paid monthly, quarterly, semi-annually, or annually to the respective Taxing Authorities, depending on the given Tax or Fee and the relevant Taxing Authority to which it is paid. In addition, the Debtors have caused a standby letter of credit to be issued in respect of a Puerto Rico tax bond for the benefit of International Fidelity Insurance in the aggregate amount of \$200,000. As of the Petition Date, the Debtors estimate that they owe approximately \$6,460,000 in unremitted Taxes and Fees, approximately \$300,000 of which is estimated to be in respect of “catch-up” payments.

89. Any regulatory dispute or delinquency that impacts the Debtors’ ability to conduct business in a particular jurisdiction could have a wide-ranging and adverse effect on the Debtors’ operations as a whole, as described further in the Taxes Motion. I believe that payment of the Taxes and Fees is in the best interest of the Debtors and their estates, will not harm unsecured creditors, and may reduce harm and administrative expense to the Debtors’ estates.

F. Utilities Motion.

90. In connection with the operation of their business and management of their properties, the Debtors obtain electricity, natural gas, telephone, water, waste disposal, and other similar services (collectively, the “Utility Services”) from several utility companies or brokers (collectively, the “Utility Companies”). Uninterrupted Utility Services are essential to the Debtors’ ongoing business operations and the overall success of these Cases.

91. On average, the Debtors pay approximately \$956,304 in the aggregate each month for third party Utility Services in connection with their stores, executive offices, and distribution facility. In the aggregate, the Utility Companies currently hold approximately \$77,269.18 in deposits from the Debtors. In addition, the Debtors have caused standby letters of credit to be

issued for the benefit of certain Utility Companies, including Florida Power Corporation, Southern California Edison, Pacific Gas & Electric Company, and Florida Power & Light Company, in the aggregate amount of \$216,047.

92. For the reasons already set forth herein and in the Utilities Motion, the relief requested in the Utilities Motion is in the best interest of the Debtors and their estates, will not harm unsecured creditors, and may reduce harm and administrative expense to the Debtors' estates.

G. Customer Programs Motion.

93. In the ordinary course of business, the Debtors provide customers with certain customer-related programs as described in the Customer Programs Motion (the "Customer Programs") that engender goodwill, maintain loyalty, increase the Debtors' sales opportunities, and allow the Debtors a comparative advantage over their competition. Specifically, the Customer Programs relate to the Debtors' programs by which they offer gift cards, refunds and exchanges, coupons and other promotional offers to their customers, as well as processing customer purchases through the use of credit cards. The Debtors believe that their ability to continue the Customer Programs and to honor their obligations thereunder in the ordinary course of business is necessary to (i) retain their reputation for reliability, (ii) meet competitive market pressures, (iii) maintain positive customer relationships, and (iv) ensure customer satisfaction, thereby retaining current customers, attracting new ones, and, ultimately, enhancing revenue and profitability for the benefit of all the Debtors' stakeholders.

94. In the ordinary course of business, the Debtors sell gift cards (collectively, the "Gift Cards") to customers in amounts ranging from \$20 to \$500. Customers can purchase Gift Cards in the Debtors' retail stores and/or through its e-commerce website, which can be accessed at www.pacsun.com. Gift Cards can be used for in-store or e-commerce purchases. The Debtors

also offer gift cards for sale in selected grocery and other retailers such as such as Ralphps, Kroger, and www.giftcardmall.com. With respect to the gift cards offered for sale through such retailers, the Debtors utilize the services of third party processors who either (i) remit the customer payments on account of the Gift Cards to the Debtors, less a percentage commission or (ii) keep a processing fee. Gift card programs of this nature are commonplace and popular in the retail industry, and the Debtors' competitors offer similar programs to their customers. Based on historical practice, the Debtors' books and records reflect an aggregate net liability in respect of Gift Cards and store credit of approximately \$6,423,000.

95. The Debtors allow their customers to return or exchange regular or promotional merchandise that is unworn, unwashed, undamaged, and with tags attached for any reason within 60 days of original purchase (the "Refund and Exchange Program"). Merchandise that is unworn, unwashed, undamaged with the tags attached presented within 60 days of original purchase with the original receipt may be returned for the same tender; merchandise presented after 60 days of original purchase with the original receipt may be returned for an exchange or store credit in the amount paid; merchandise presented without an original receipt or without tags attached may only be returned for an exchange or store credit in the amount of the item's selling price as of the return date. Pierced body jewelry and "final sale" items are not accepted for return, exchange, or store credit. Programs similar to the Refund and Exchange Program are common in the retail industry, and similar programs are used by the Debtors' competitors.

96. As a result of the inherently uncertain nature of the Refund and Exchange Program, the Debtors are unable to estimate the value of their obligations with precise accuracy with respect thereto as of the Petition Date. The Debtors, however, do not expect the commencement of these Cases to result in a significant deviation in the volume of monthly

returns and exchanges from that which they experienced prepetition, which average between approximately \$2.8 million to \$10.7 million per month, with a holiday spike in December.

97. The Debtors offer various promotional offers to customers throughout the year (collectively, the “Promotions”). The Promotions are aimed at driving sales, maintaining market competitiveness, and building brand loyalty. The Debtors offer various in-store and online promotions that provide discounts to customers, such as “percentage off,” “buy-one-get-one-free,” and “gift with purchase” promotions. Promotions are also offered from time to time in seasonal catalogs distributed by the Debtors. The Debtors also maintain an integrated private label credit card program (the “PacSun Credit Cards”) administered by Alliance Data Systems Corp. (“Alliance Data”). Holders of PacSun Credit Cards accumulate points from use of the cards, which points are redeemable for \$10 and \$15 reward credits (the “Credit Card Rewards”) that can be applied to future purchases. Additionally, in 2012, the Debtors launched a “Golden State of Mind” brand position and, in 2015, the Debtors launched a corresponding “my GSOM Rewards” program, which allows members to accumulate points from e-commerce and in-store purchases and to redeem those points for \$5 reward credits (the “GSOM Rewards” and, together with the Credit Card Rewards, the “Rewards”) that can be applied to future purchases. Members can access and manage their GSOM Rewards via the free PacSun mobile application. All Rewards are subject to expiration. The Debtors estimate an aggregate net liability in respect of unredeemed Rewards of approximately \$670,120.

98. In addition to cash, the Debtors accept several other methods of payment from customers at their point of sale, including (i) credit cards; (ii) PayPal; and (iii) checks. For all methods of non-cash payment, the Debtors receive the net customer sales less any chargebacks, returns, and processing fees charged. The processing fees charged by each company vary, but

are in the range of 1% to 4%. The fees that are owing to these companies are set off from the funds that are remitted to the Debtors on a daily basis. In addition, the Debtors have caused a standby letter of credit to be issued for the benefit of PayPal in the aggregate amount of \$225,000. Maintaining use of the credit cards and other payment mechanisms such as PayPal and PacSun Credit Cards is essential to the continuing operation of the Debtors' business because the vast majority of the Debtors' sales are made using non-cash payment methods.

99. The Customer Programs are standard in the retail industry. If the Debtors are unable to honor or continue their Customer Programs, their ability to conduct business and generate sales will be severely hampered. Continuing to administer their Customer Programs without interruption during the pendency of these Cases will help preserve the Debtors' valuable customer relationships and goodwill, which will inure to the benefit of all of the Debtors' stakeholders.

100. For the reasons already set forth herein and in the Customer Programs Motion, the relief requested in the Customer Programs Motion is necessary to avoid immediate and irreparable harm to the Debtors, for the Debtors to operate their business without interruption, and to preserve value for the Debtors' estates.

H. Shippers Motion.

101. The Debtors' business depends on the daily process of importing and shipping its clothing products to stock the Debtors' stores. In order to ensure the steady movement of products, the Debtors rely on a network of shippers and freight forwarders who process and ship the Debtors' merchandise (the "Merchandise") to and from the Debtors' distribution center and stores. If the Debtors fail to pay any of the foregoing entities for charges incurred in connection with the transportation of the Merchandise, various statutes, tariffs, and agreements permit the

shipper and freight forwarders to assert possessory liens against the Merchandise in their possession.

102. Merchandise that is received from overseas is shipped to various ports in the United States, cleared for customs, loaded onto railroad containers, and finally moved onto trucks, which transport the Merchandise to the Debtors' distribution center and their stores. The Debtors are required to pay customs duty charges, which charges the Debtors pay directly without the use of an outside broker. The Merchandise can be stopped in transit if customs duties are not paid in the ordinary course. In addition, the Debtors have caused a standby letter of credit to be issued in respect of a customs bond for the benefit of Avalon Risk Management Insurance, in the aggregate amount of \$2.1 million.

103. As of the Petition Date, the Debtors estimate that approximately \$3 million is owed on account of certain prepetition claims for shipping, freight forwarding, and customs duties (the "Transporter Claims"). These amounts are in respect of shippers, freight forwarders, and customs duties, and include both invoices that the Debtors have received, as well as amounts that the Debtors have not yet received, but are believed to have been incurred as of the Petition Date based on historical practice. Payment of the foregoing Transporter Claims will avoid disruption in the Debtors' business, prevent the possibility of possessory liens being asserted against the Debtors' Merchandise, and enable the Debtors to realize the value of the Merchandise and continue their operations uninterrupted.

104. Given the nature of the Debtors' industry, the failure to satisfy the shipping and warehouse charges could have a material adverse effect on the day-to-day operations of the Debtors' business. Payment of the prepetition Transporter Claims is imperative to the Debtors'

continued operation and ability to maximize the value of their estates for the benefit of their creditors.

105. For the reasons already set forth herein and in the Shippers Motion, the relief requested in the Shippers Motion is important for the Debtors to operate their business without interruption and to preserve value for the Debtors' estates.

I. Postpetition Goods Motion.

106. As a result of the commencement of these Cases, the Debtors believe that several suppliers (collectively the "Suppliers") with whom, as of the Petition Date, the Debtors had outstanding prepetition purchase orders (collectively, the "Outstanding Orders") may perceive a risk that they will be treated as prepetition general unsecured creditors with respect to any shipments made after the Petition Date pursuant to the Outstanding Orders. As a result, the Suppliers may refuse to deliver such goods to the Debtors unless the Debtors assure payment. The Debtors' business depends on the ability to quickly obtain necessary merchandise from their Suppliers in order to stock their stores and fulfill online orders. The inability to maintain sufficient inventory due to the Suppliers' refusal to deliver goods could have a significant detrimental impact on the Debtors' business.

107. For the reasons already set forth herein and in the Postpetition Goods Motion, the relief requested in the Postpetition Goods Motion is necessary for the Debtors to operate their business without interruption and to preserve value for the Debtors' estates.

J. NOL Motion.

108. The Debtors estimate that, as of January 31, 2016, the Debtors had gross federal NOLs of approximately \$342.7 million, and tax-effected state NOLs of approximately \$20.9 million. However, it is my understanding that the Debtors' ability to use their NOLs could be substantially limited if there were an "ownership change" as defined under section 382 of the

Internal Revenue Code. In general, an ownership change would occur if certain ownership changes related to Parent's stock held by 5% or greater stockholder exceeded 50%, measured over various measuring points over a three-year period beginning with the last ownership change. These provisions can be triggered not only by merger and acquisition activity, but also by normal market trading. Accordingly, the relief requested in the NOL Motion is necessary to preserve the Debtors' valuable tax attributes.

K. Rejection Procedures Motion

109. I believe that the procedures proposed in the Rejection Procedures Motion are tailored to minimize potential administrative expenses, maximize the recovery for creditors in these Cases, and, with respect to leases, return control of the affected premises to the applicable landlords as quickly as possible.

L. Section 156(c) Application

110. Prior to the selection of Prime Clerk LLC ("Prime Clerk") as claims and noticing agent, the Debtors obtained and reviewed engagement proposals from at least three claims and noticing agents to ensure selection through a competitive process. I believe, based on all engagement proposals obtained and reviewed, that Prime Clerk's rates are competitive and reasonable given Prime Clerk's quality of services and expertise.

111. In view of the number of anticipated claimants and the complexity of the Debtors' business, I believe that the appointment of Prime Clerk as claims and noticing agent is both necessary and in the best interests of the Debtors' estates and their creditors.

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

Executed this 7th day of April, 2016 at Anaheim, California.

Pacific Sunwear of California, Inc., *et al.*, Debtors
and Debtors in Possession

By: 

Chris Tedford
Interim Chief Financial Officer

EXHIBIT A

Project Surf
Cash Flow Forecast
 (\$ in 000's)

4-5-4 Month Week Ending Fiscal Week Forecast / Actual	Apr 16-Apr Week 1 Forecast	Apr 23-Apr Week 2 Forecast	Apr 30-Apr Week 3 Forecast	May 7-May Week 4 Forecast	May 14-May Week 5 Forecast	May 21-May Week 6 Forecast	May 28-May Week 7 Forecast	Jun 4-Jun Week 8 Forecast	Jun 11-Jun Week 9 Forecast	Jun 18-Jun Week 10 Forecast	Jun 25-Jun Week 11 Forecast	Jun 2-Jul Week 12 Forecast	Jul 9-Jul Week 13 Forecast	13 Week Total
I. CASH FLOW														
Cash Receipts														
1) Sales Receipts	13,626	13,399	11,022	11,189	11,935	13,899	15,640	15,527	15,730	15,458	15,588	16,704	15,396	185,111
2) Other Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3) Total Cash Receipts	13,626	13,399	11,022	11,189	11,935	13,899	15,640	15,527	15,730	15,458	15,588	16,704	15,396	185,111
Cash Disbursements														
Operating														
4) Merchandise Vendor Payments	(3,216)	(6,623)	(6,159)	(6,160)	(5,988)	(4,072)	(6,362)	(5,258)	(9,366)	(5,638)	(8,183)	(7,815)	(11,566)	(86,407)
5) Payroll, Payroll Taxes, and Benefits	(450)	(5,315)	(250)	(5,422)	(250)	(5,422)	(250)	(5,513)	(200)	(5,513)	(200)	(5,513)	(250)	(34,549)
6) Rent and Occupancy	-	-	-	(11,275)	-	-	-	(11,595)	-	-	-	-	(10,012)	(32,882)
7) Freight & Customs	(325)	(807)	(334)	(265)	(217)	(2,715)	(266)	(243)	(209)	(387)	(2,076)	(342)	(395)	(8,579)
8) Capital Expenditures	-	(546)	(546)	(820)	(820)	(275)	(275)	(487)	(487)	(487)	(487)	(487)	(330)	(6,046)
9) Sales Tax Remittance	(254)	(2,153)	(1,318)	(351)	(174)	(1,474)	(902)	(79)	(109)	(506)	(2,035)	(409)	(549)	(10,312)
10) Store Advertising	(439)	(74)	(140)	(722)	(276)	(177)	(143)	(267)	(371)	(149)	(180)	(143)	(414)	(3,495)
11) Other Disbursements	(2,500)	(2,078)	(1,225)	(1,426)	(1,162)	(1,012)	(1,152)	(1,011)	(1,903)	(1,008)	(1,048)	(937)	(1,037)	(17,500)
12) Total Operating Disbursements	(7,183)	(17,596)	(9,971)	(26,441)	(8,887)	(15,147)	(9,350)	(24,454)	(12,645)	(13,689)	(14,208)	(15,646)	(24,554)	(199,771)
Financing														
13) Revolver Interest	-	-	-	(100)	-	-	-	(137)	-	-	-	-	(179)	(415)
14) Other Interest and Fees	(1,000)	-	(1,759)	-	-	-	(216)	-	-	-	(216)	-	-	(3,191)
15) Total Financing Disbursements	(1,000)	-	(1,759)	(100)	-	-	(216)	(137)	-	-	(216)	-	(179)	(3,606)
Chapter 11 Disbursements														
16) Indemnification Escrow Funding	(500)	-	-	-	-	-	-	-	-	-	-	-	-	(500)
17) Credit Card Holdback	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18) Utility Deposits	-	-	(500)	-	-	-	-	-	-	-	-	-	-	(500)
19) Professional Fees / Retainers	-	-	-	-	-	-	-	-	-	-	(1,318)	-	-	(1,318)
20) Total Chapter 11 Disbursements	(500)	-	(500)	-	-	-	-	-	-	-	(1,318)	-	-	(2,318)
21) Total Disbursements	(8,683)	(17,596)	(12,230)	(26,541)	(8,887)	(15,147)	(9,566)	(24,591)	(12,645)	(13,689)	(15,743)	(15,646)	(24,733)	(205,696)
22) Net Cash Flow Before Borrowing/(Pay down)	4,943	(4,197)	(1,208)	(15,352)	3,048	(1,248)	6,074	(9,064)	3,085	1,769	(154)	1,058	(9,337)	(20,585)
23) Starting Est. Book Available Cash	(4,070)	872	1,675	1,467	(3,885)	1,663	1,415	989	(4,075)	1,510	1,279	1,124	1,182	(4,070)
24) Add: Net Cash Flow Before Borrowings	4,943	(4,197)	(1,208)	(15,352)	3,048	(1,248)	6,074	(9,064)	3,085	1,769	(154)	1,058	(9,337)	(20,585)
25) Revolver Principal Borrowings / (Pay downs)	(2,500)	5,000	1,000	10,000	2,500	1,000	(6,500)	4,000	2,500	(2,000)	-	(1,000)	4,500	18,500
26) Adjustment for Voided Checks	2,500	-	-	-	-	-	-	-	-	-	-	-	-	2,500
27) Ending Est. Book Available Cash	872	1,675	1,467	(3,885)	1,663	1,415	989	(4,075)	1,510	1,279	1,124	1,182	(3,655)	(3,655)
28) Add: Est. Outstanding Checks	150	150	150	5,788	150	150	150	5,948	150	150	150	150	5,156	5,156
29) Ending Est. Bank Available Cash	1,022	1,825	1,617	1,903	1,813	1,565	1,139	1,872	1,660	1,429	1,274	1,332	1,501	1,501
II. FINANCING														
30) Starting Revolver Balance	31,500	29,000	34,000	35,000	45,000	47,500	48,500	42,000	46,000	48,500	46,500	46,500	45,500	31,500
31) Borrowings / (Pay downs)	(2,500)	5,000	1,000	10,000	2,500	1,000	(6,500)	4,000	2,500	(2,000)	-	(1,000)	4,500	18,500
32) Ending Revolver Balance (excl. LCs), net	29,000	34,000	35,000	45,000	47,500	48,500	42,000	46,000	48,500	46,500	46,500	45,500	50,000	50,000
III. AVAILABILITY														
33) Gross Remaining Availability	29,300	21,477	25,051	13,237	11,590	10,207	14,339	15,352	10,554	12,565	14,413	19,229	11,001	11,001
34) Less: Minimum Availability Covenant	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,541)	(7,500)	(7,500)
35) Total Availability (excl. Block)	21,800	13,977	17,551	5,737	4,090	2,707	6,839	7,852	3,054	5,065	6,913	11,688	3,501	3,501
36) Ending Est. Bank Available Cash	1,022	1,825	1,617	1,903	1,813	1,565	1,139	1,872	1,660	1,429	1,274	1,332	1,501	1,501
37) Total Liquidity / (Additional Financing Need)	22,822	15,802	19,168	7,639	5,903	4,273	7,978	9,724	4,714	6,494	8,188	13,020	5,002	5,002
38) Consolidated Pro Fee Roll Forward														
39) Beginning Balance	-	985	1,539	2,093	2,657	3,195	3,733	4,271	4,731	5,192	5,652	4,794	5,254	-
40) Accruals - Case Professionals	864	433	433	470	443	443	443	382	382	382	382	382	428	5,868
41) Accruals - Other Professionals	121	121	121	95	95	95	95	78	78	78	78	78	95	1,227
42) Payments - Case Professionals	-	-	-	-	-	-	-	-	-	-	(1,024)	-	-	(1,024)
43) Payments - Other Professionals	-	-	-	-	-	-	-	-	-	-	(295)	-	-	(295)
44) Ending Balance	985	1,539	2,093	2,657	3,195	3,733	4,271	4,731	5,192	5,652	4,794	5,254	5,777	5,777

Project Surf
Professional Fees
 (\$ in 000's)

4-5-4 Month	Apr	Apr	Apr	May	May	May	May	Jun	Jun	Jun	Jun	Jun	Jul	
Week Ending	16-Apr	23-Apr	30-Apr	7-May	14-May	21-May	28-May	4-Jun	11-Jun	18-Jun	25-Jun	2-Jul	9-Jul	
Fiscal Week	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	13 Week
Forecast / Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
I. PROFESSIONAL FEES/EXPENSES ACCRUED														
<u>Debtor's Professionals</u>														
1) KTBS	54	54	54	80	80	80	80	60	60	60	60	60	60	841
2) Young Conaway	10	10	10	29	29	29	29	22	22	22	22	22	22	281
3) Sullivan	2	2	2	2	2	2	2	2	2	2	2	2	2	21
4) Guggenheim	40	40	40	40	40	40	40	32	32	32	32	32	40	482
5) FTI - Phase 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6) FTI - Phase 2	161	161	161	161	134	134	134	134	134	134	134	134	134	1,846
7) Sard Verbinen	18	18	18	13	13	13	13	11	11	11	11	11	13	174
8) Prime Clerk	77	77	77	73	73	73	73	50	50	50	50	50	31	801
9) RCS Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	54	54
<u>ABL Advisors</u>														
10) Choate, Hall & Stewart	67	67	67	28	28	28	28	25	25	25	25	25	28	464
11) ABL Financial Advisor	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>TERM Advisors</u>														
12) Kirkland & Ellis	54	54	54	67	67	67	67	54	54	54	54	54	67	762
13) Perella Weinberg	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>UCC Advisors</u>														
14) UCC Counsel	-	43	43	43	43	43	43	43	43	43	43	43	43	514
15) UCC Financial Advisor	-	27	27	27	27	27	27	27	27	27	27	27	27	321
<u>Trustee</u>														
16) U.S. Trustee	4	4	4	3	3	3	3	2	2	2	2	2	3	35
17) Total Professional Fees Accrued	485	554	554	565	538	538	538	460	460	460	460	460	523	6,595