

 ONLINESHOES
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 SHOES.COM

Case No. 17-2-02462-7 SEA
Superior Court - Washington



Shoes.com, Inc. Onlineshoes.com Inc.

Inverness Group, as Receiver
Case No. 17-2-02462-7 SEA

Receiver's Report
Order Date February 2, 2017
Through June 30, 2017

July 31, 2017



Contents

- A. Overview
- B. RCW 7.60.100 Receiver's reports:
 - a) Balance sheet;
 - b) Statement of income and expenses;
 - c) Statement of cash receipts and disbursements;
 - d) Statement of accrued accounts receivable (post-filing) of the receiver. The statement shall disclose amounts considered to be uncollectible;
 - e) A statement of accounts payable of the receiver, including professional fees. The statement shall list the name of each creditor and the amounts owing and remaining unpaid over thirty days; and
 - f) A tax disclosure statement, which shall list post-filing taxes due or tax deposits required, the name of the taxing agency, the amount due, the date due, and an explanation for any failure to make payments or deposits.
- C. Significant Events – The sale of substantially all of the tangible assets of the receivership Debtors (Shoes.com, Inc. and Onlineshoes.com Inc.), excluding books and records, A/R, and certain claims per the sale documents, was completed following competitive bidding and an auction among bidders held per the Court's orders on March 28, 2017. The sale was approved by the Court on April 3, 2017, and closed on April 21, 2017. The sale amount was \$7,050,000 (in excess of projected sale proceeds of \$4,527,000), and is subject to a maximum downward only adjustment of \$419,503 (including \$210,000 escrowed), subject to final inventory count and reconciliation. The Receiver is in the process of making demand against open A/R debtors, and is unable to determine the value of this remaining A/R asset at this time. In addition, the Receiver has not determined the potential net value to the estate of its claim in pending litigation in New York; An Order approving a Stipulated Discontinuance, without prejudice and with tolling to allow for re-filing of the claim by March 16, 2018, was entered in the case on June 8, 2017. Of a \$116,000 deposit held by the Defendant, \$95,000 was recovered in July, following retention of litigation counsel by the Receiver in June (Receiver counsel conflict).
- D. Per the Court's June 12, 2017 Order, the Receiver made an initial distribution against the Wells Fargo secured claim in the amount of \$4,222,092.09, subject to adjustment and recovery of unfunded standby L/C obligation. The payment to Wells Fargo represented a preliminary distribution, and the Receiver collected \$249,237.65 from Wells Fargo in July, following the final reconciliation of standby L/C liability and legal fees.

Case No. 17-2-02462-7 SEA
Superior Court - Washington

Overview

1. The Receiver was appointed by the Court per the Stipulated Order Appointing General Receiver - Order entered 2/2/17 (the "Order"), following the shutdown of the Companies by ownership and management on 1/27/17. The Receiver directed the preparations for the sale of the Assets (substantially all assets of Shoes.com, Inc. and Onlineshoes.com Inc. (collectively, the "Debtors"), excluding accounts receivable) and completed the competitive sale process per the Court's Order approving sale procedures, entered on 3/8/17. The sale was completed, and the net result (\$7,050,000, subject to a maximum potential downward adjustment of \$419,503 or approx. 6%) was approved by the Court on 4/3/17, and closed and funded on 4/21/17.
2. The pre-receivership operations of the receivership Debtors were suspended, and all employees were terminated, by Debtors' management on 1/27/17, prior to the Order. Based on the analysis by the Receiver, the determination was made not to restart operations of the Debtors, but to initiate the immediate sale of the Debtor's businesses and/or assets under a competitive process to ensure best value to estate creditors.
3. The Receiver timely filed Schedules in the case, and prepared and developed its initial budget providing for estimated costs of the sale process and other administrative requirements through 5/5/17. Through the course of the budget, net (pre-add'l value of the inventory adjustment) sale proceeds and favorable cost variance in the case exceeded the net cash recovery estimate per the budget by \$1.9mm (Sch B c-1).
4. A claims procedure was established in the case, and the Orders, POC instructions, and other information materials were posted to the Receiver's Creditor Information Page (<http://inverness.us/receivership-shoes-com-onlineshoes-com>) for access by creditors and other parties.
5. The Receiver completed the sale process (Auction among Qualified Bidders on 3/28/17), and completed the final sale and Closing pursuant to orders entered in the case by the Court. The Receiver will continue collection efforts to complete the disposition of the Accounts Receivable, and will reflect the results of these efforts, in subsequent reporting to the Court.
6. Per the Court's June 12, 2017 Order, the Receiver made an initial distribution against the Wells Fargo secured claim in the amount of \$4,222,092.09, subject to adjustment and recovery of unfunded standby L/C obligation. The payment to Wells Fargo represented a preliminary distribution, and the Receiver collected \$249,237.65 from Wells Fargo in July, following the final reconciliation of standby L/C liability and legal fees.

Overview

7. A pre-receivership litigation matter filed by Onlineshoes.com Inc. against Wells Fargo Merchant Services, Inc., a credit card processing provided, was pending in the NY court, and a stay was in effect through June 8, 2017. The Receiver sought and received extensions of the stay since February, 2017, and on June 8, 2017, the Court approved a stipulated discontinuance of the litigation, without prejudice or costs to neither party. The Court's Order provides for tolling through 3/30/18, preserving the claim by allowing the holder of the Plaintiff's (Onlineshoes.com, Inc.) claims to prosecute a new action based on the original allegations. The Receiver recovered a substantial portion (approx. \$95,000) in July, of the reserves balance held by the Defendant at 6/30 (\$116,000), subject to final reconciliation of returns chargebacks.
8. Reconciliation of claims filed in the case is continuing, and an extension of the Automatic Stay (to 9/22/17) was approved by the Court on 6/29/17.
9. The Bar date for claims to be filed by state agencies is 8/25/17.

RCW 7.60.100 Report Items

Schedules provided per RCW 7.60.100 (Receiver's Reports) are attached and include the following:

Sch B(a)	-	Balance sheet
Sch B(b)	-	Statement of income and expenses
Sch B(c)	-	Statement of cash receipts and disbursements
Sch B(d)	-	Statement of accrued accounts receivable of the Receiver
Sch B(d-1)	-	Supplemental Schedule – Pre-Receivership A/R
Sch B(e)	-	Statement of accounts payable of the receiver, including professional fees. The statement shall list the name of each creditor and the amounts owing and remaining unpaid over thirty days
Sch B(f)	-	A tax disclosure statement, which shall list post filing taxes due or tax deposits required

Balance Sheet at June 30, 2017



Shoes.com, Inc. / Onlineshoes.com Inc.
30-Jun-17

Category (Book Value Used where noted by *)	Book Values at 2/28/17	Book Value at 3/31/17/17	Book Value at 4/30/17	Book Value at 5/31/17	Adjustments - 6/1/17 to 6/30/17	Book Value at 6/30/17	Estimated Value at 6/30/17
Assets							
Cash and Bank accounts:							
Receiver Disb Acct USB 7060	10	218,692	(4,849)	39,340	4,781	44,121	44,121
Receiver MMA Sale Acct USB 8887	-	1,357,069	6,590,903	6,341,175	(4,351,974)	1,989,201	1,989,201
OLS Master Dep Acct - Wells 5678	62,873	870	870	1,586	(2)	1,584	1,584
OLS Master Oper Acct - Wells 5686	6,456	122,552	36,000	-	305	305	305
OLS Manual P/R - Wells 5567	-	-	-	-	-	-	-
Shoes.com, Inc. Oper Acct - Wells 5592	-	-	-	-	-	-	-
Other Cash / Accounts	-	-	-	-	-	-	-
Total Cash Balance	69,339	1,699,181	6,622,923	6,382,101	(4,346,891)	2,035,210	2,035,210
Inventory: Note 1	11,062,346	11,062,346	-	-			
Inventory: Note 1	417,150	347,806	-	-			-
Inventory: Note 1	595,929	595,929	-	-			
Amazon / ASE Account Balance - Rec Interest (net of Est Fees)			28,662	28,662	26,056	54,719	9,758
Amazon: Post 3/28 Rec Adj per Sale Closing			(34,219)	(34,219)	(10,742)	(44,961)	
Accounts Receivable: Note 2	1,426,255	1,309,081	1,308,499	1,468,439		1,513,360	95,000
Sale - Closing Reserve (subject to Inventory Adjustment)			419,503	419,503		419,503	90,000
Equipment: (Net of Accumulated Depreciation) Note 3	1,202,782	1,202,782	-	-	-	-	-
Goodwill / Other Intangibles IP	200,000	200,000	-	-	-	-	-
Prepaid Insurance and Other Expenses: *	83,000	76,083	-	-	-	-	-
Deposits *	51,596	48,171	48,171	53,171	-	53,171	53,171
Total Assets	15,108,397	16,541,379	8,393,539	8,317,657	(4,331,576)	4,031,002	2,283,139

Schedule B(a)

Balance Sheet at 6/30/17

Balance Sheet at June 30, 2017



Shoes.com, Inc. / Onlineshoes.com Inc.
30-Jun-17

Category (Book Value Used where noted by *)	Book Values at 2/28/17	Book Value at 3/31/17/17	Book Value at 4/30/17	Book Value at 5/31/17	Adjustments - 6/1/17 to 6/30/17	Book Value at 6/30/17	Estimated Value at 6/30/17
Liabilities							
Accounts Payable							
A/P - Pre-Receivership (Unsecured)	16,198,921	16,198,921	16,198,921	16,198,921		16,198,921	Subject to Claims Reconciliation
A/P - Post-2/2/17 (Admin)	100	-	-	-		-	
Pre-Receivership Unfunded 401k Withholds	19,360	19,360	19,360	19,360		19,360	Subject to Claims Reconciliation
Pre-Receivership Wages and Employee-Related Payables	172,698	172,698	172,698	172,698		172,698	Subject to Claims Reconciliation
Pre-Receivership Taxes Payable	2,289,701	2,289,701	2,289,701	2,289,701		2,289,701	Subject to Claims Reconciliation
Accrued Receiver Admin Expense + Deposits		-	-	-		-	
Accrued Receiver Fees / Expense per Notice	47,749	55,861	70,834	58,964	(30,052)	28,913	
Accrued Receiver Counsel Fees / Expense - Per Notice	20,818	51,904	77,094	41,356	(25,835)	15,521	
Advance - Opening Deposit USB 7060 (Rec Disb Acct)		10	10	10		10	
Accrued Rec Litigation Counsel - NY Litigation					6,113	6,113	
Accrued IT / Storage - Server Access (Digital Fortress)	5,676	9,176	849	-	-	-	
Accrued Contractor Fees / Expense - Per Canada Rec	11,474	19,474	24,050	24,899	(24,899)	-	
Accrued Admin Exp - Facilities	-	93,000	112,897	40,835	-	40,835	
Accrued Admin Exp - Utilities / Other		8,000	13,118	4	-	4	
Sale: Bid Deposits Payable		1,512,000	-	-		-	
SubTotal - Accrued Receivership Admin	85,717	1,749,425	298,852	166,069	(74,673)	91,395	-
Other Unsecured Claims per Schedules	52,762,844	52,762,844	52,762,844	52,762,844		52,762,844	Subject to Claims Reconciliation

Schedule B(a)

Balance Sheet at 6/30/17

Balance Sheet at June 30, 2017



Shoes.com, Inc. / Onlineshoes.com Inc.
30-Jun-17

Category (Book Value Used where noted by *)	Book Values at 2/28/17	Book Value at 3/31/17/17	Book Value at 4/30/17	Book Value at 5/31/17	Adjustments - 6/1/17 to 6/30/17	Book Value at 6/30/17	Estimated Value at 6/30/17
Secured Liabilities						-	
Wells Fargo Bank	4,150,000	4,157,118	4,195,771	4,222,092	(4,222,092)	-	
Wells Fargo Bank (Adjustment of standby liability and legal fees - received in July)				-	249,238	249,238	Adjustment / Reserves - received in July
Dan Gerler, an Individual	3,000,000	3,000,000	3,000,000	3,000,000		3,000,000	Subject to Claims Reconciliation
Deans Knight Capital Management Ltd.	7,500,000	7,500,000	7,500,000	7,500,000		7,500,000	Subject to Claims Reconciliation
Caleres Investment Company, Inc.	7,500,000	7,500,000	7,500,000	7,500,000		7,500,000	Subject to Claims Reconciliation
Geodis (formerly Ozburn-Hessey Logistics, LLC)	700,000	700,000	700,000	827,537		827,537	Subject to Claims Priority - Per 6/12/17 Order
Other		-	-	-		-	
SubTotal - Secured Liabilities	22,850,000	22,857,118	22,895,771	23,049,629	(3,972,854)	19,076,775	
Total Liabilities	94,379,341	96,050,068	94,638,147	94,659,222	(4,047,528)	90,611,694	
Equity	(79,270,944)	(79,508,688)	(86,244,608)	(86,341,564)	(284,048)	(86,580,692)	
Total Liabilities & Equity	15,108,397	16,541,379	8,393,539	8,317,657	(4,331,576)	4,031,002	

Note 1: Inventory Adjustment per PSA, subject to final count (Escrow acct \$210,000 held separately by Bush Strout Seattle)

Note 2: ASE account balance, offset by Amazon payments for post-sale inventory liquidations (post-3/28 payments due to Buyer) - Adjustments to eliminate credit balances at 6/30/17

Note 1: The Wells Fargo Merchant Services Credit Card Reserve balance is estimated at 2/2/17 and 5/31/17; Litigation is pending at 6/30/17/17, and an Order was entered in the case on 6/8/17 providing for the discontinuance of the litigation without prejudice and without costs to any party. Tolling through 3/30/18 is also provided by the Order, preserving the claim by allowing the holder of the Plaintiff's (Onlineshoes.com, Inc.) claims to prosecute a new action based on the original allegations. In July, the Receiver recovered \$95,000 of the reserves balance held at 6/30/17.

**Income Statement
through June 30, 2017**

Shoes.com, Inc. / Onlineshoes.com Inc.
No. 17-2-02462-7 SEA
Preliminary - Subject to Reconciliation



Shoes.com, Inc. / Onlineshoes.com Inc.
to June 30, 2017

	February 2, 2017 (Order Date) to February 28, 2017	March 1 - 31, 2017	April 1 - 30, 2017	May 1 - 31, 2017	June 1 - 30, 2017	Total - to June 30, 2017
Revenues / Invoicing (Incl. Interest Inc)	-	69	114	272	153	608
Subject to Reconciliation of Amazon Location Inv Sales						
Expenses						
Expense (Cash / Accrued)						
50000 - Expenses						
Contractor Services (Canadian Receiver / Shared - US Rec Portion (est - subject to Invoice)	11,474	24,050	6,390	-	-	41,914
Computer Services - Digital Fortress Co-Lo / Shared / Storage - US Rec Portion	5,676	849	5,614	-	-	12,139
51000 - Receivership Admin Exp						
51100 - Rec - Fees per Fee Ap	46,350	33,113	68,438	54,450	28,913	231,263
51200 - Rec - Expenses per Fee Ap	1,399		2,396	4,514		8,310
51300 - Receivers Bond	100					100
51400 - Rec - Legal Fees/Exp per Fee Ap	20,818	51,904	77,094	41,356	15,521	206,693
51600 - Rec - Litigation Counsel - NY Litigation Fees/Exp					6,113	6,113
Total 51000 - Receivership Admin Exp	68,667	85,017	147,928	100,321	50,546	452,478
Bank Service Charges	3,095	1,082	1,133	1,168	37	6,516
Facilities Leases		93,000	19,897	-	-	112,897
Utilities		8,000	5,118	-	-	13,118
Other - GEODIS Sale / Inventory Related Exp		2,400	5,441	-		7,841
Total 50000 - Expenses	88,912	214,398	191,521	101,488	50,583	646,903
Total Pre-Tax Income (Expense)	(88,912)	(214,329)	(191,408)	(101,216)	(50,430)	(646,296)

Schedule B(b)
Income Statement
through 6/30/17

Cash Receipts & Disbursements
June 1 - 30, 2017

Shoes.com, Inc. / Onlineshoes.com Inc.
 No. 17-2-02462-7 SEA
 Preliminary - Subject to Reconciliation



Shoes.com, Inc. / Onlineshoes.com Inc.
 June 1 - 30, 2017

Date	Number	Name	Memo	Amount	Balance
Wells Fargo - OLS Master Deposit Acct 5678					
Opening Balance					1,586.30
Deposits					
Debits					
13-Jun		Merchant Bankcard	52100 · Bank Service Charges	(2.25)	
Balance					1,584.05

Wells Fargo - OLS Master Oper Acct 5686					
Opening Balance					-
Deposits					
2-Jun		Affiliated Group ACH	Affiliated Group ACH 17062 Rols	304.65	
Debits					
Balance					304.65

Receiver Disbursement-USB 7060					
Opening Balance					39,340.20
Deposits					
9-May		Transfer from USB 8887 MMA	Funds Transfer-8887 to 7060 - Rec Admin Costs	130,000.00	
				130,000.00	
Debits					
13-Jun 11047		Alvarez & Marsal Canada ULC	Final Charges per Statement / Storage - Contract Services	(24,898.99)	
13-Jun 11048		Oswego Group LLC	4th Fee Notice - 6/1/17	(58,964.46)	
13-Jun 11049		Schwabe, Williamson & Wyatt, PC	4th Fee Notice - 6/1/17 Legal Fees / Exp	(41,356.04)	
				(125,219.49)	
Balance					44,120.71

Receiver Sale MMA-USB 8887					
Opening Balance					6,341,174.65
Deposits					
30-Jun			Interest	153.28	
				153.28	
Debits					
12-Jun Transfer		WELLS FARGO	Initial Distribution - Wells Fargo secured claim payoff per 6/12/17 Order - Subject to adjustment - Kors L/C Hold	(4,222,092.09)	
12-Jun Transfer		US Bank	W/T Fee	(35.00)	
13-Jun Transfer		Transfer to USB 7060 Disb Acct	Funds Transfer-8887 to 7060 - Rec Admin Costs	(130,000.00)	
				(4,352,127.09)	

Cash Receipts & Disbursements
June 1 - 30, 2017

Shoes.com, Inc. / Onlineshoes.com Inc.
No. 17-2-02462-7 SEA
Preliminary - Subject to Reconciliation



Shoes.com, Inc. / Onlineshoes.com Inc.
June 1 - 30, 2017

Date	Number	Name	Memo	Amount	Balance
Balance					1,989,200.84
Total Cash Balance at 6/30/17					2,035,210.25

**Accounts Receivable
Estimated at 6/30/17**

Shoes.com, Inc. / Onlineshoes.com Inc.
No. 17-2-02462-7 SEA
Preliminary - Subject to Reconciliation



Shoes.com, Inc. / Onlineshoes.com Inc.
30-Jun-17

	Customer Name	A/R at 2/2/17	Collections 2/2 - 2/28/17	Collections 3/1 - 3/31/17	Collections 4/1 - 4/30/17	Collections 5/1 - 5/31/17	Collections 6/1 - 6/30/17/17	Est A/R at 6/30/17	Est Uncollectible - subj to Reconciliation
1	Borderfree - Amex - 07-1057	1,604	(25,161)					(Note 2)	
2	Borderfree - MC - 21-1057	(3,184)	(19,064)					(Note 2)	
3	Paypal - 08-1057 / 20-1057	141,413						141,413	141,413
4	Ebay - 09-1057	16,409						16,409	16,409
5	Klarna - OLS - 08-1057	420,383						420,383	420,383
6	Klarna - Shoes.com - 20-1057	279,540						279,540	279,540
7	Amazon - OLS - 05-1057	527,177							
8	Amazon - Shoes.com - 22-1057		(9,292)					517,885	517,885
9	Bluefly - 20-1057	27,689	(16,687)					11,002	11,002
10	Rakuten (buy.com) - 08-1057	1,670	(222)					1,448	1,448
11	Jet.com - 10-1057	10,708	(1,650)					9,057	9,057
12	Sears - 08-1057	2,187	(1,080)			(885)		222	222
	Balance / Reserve - Wells Fargo Merchant Services Credit Card Processing	116,000						116,000	21,000
								-	TBD - Pending (Note 1)
	Affiliate - Amazon location inventories (est)	89,389		(116,000)	(36,000)			(Note 2)	
	Other A/R Collections (to be Reconciled)						(305)	(Note 2)	
	Total (subj to Reconciliation and Demand) at 5/31/17	1,630,985	(73,157)	(116,000)	(36,000)	(885)	(305)	1,513,360	1,418,360

Preliminary - Subject to Reconciliation

Note 1: The Wells Fargo Merchant Services Credit Card Reserve balance is estimated at 2/2/17 and 5/31/17; Litigation is pending at 5/31/17, and an Order was entered in the case on 6/8/17 providing for the discontinuance of the litigation without prejudice and without costs to any party. Tolling through 3/30/18 is also provided by the Order, preserving the claim by allowing the holder of the Plaintiffs (Onlineshoes.com, Inc.) claims to prosecute a new action based on the original allegations. In July, the Receiver recovered \$95,000 of the reserves balance held at 6/30/17.

Note 2: Credit balances (collections exceed book A/R) were eliminated at 6/30/17

Schedule B(d-1)
Supplemental Schedule
A/R at 6/30/17

**Schedules B(d-f)
A/R, A/P, Tax Liabilities
Post-Filing**

Shoes.com, Inc. / Onlineshoes.com Inc.
No. 17-2-02462-7 SEA
Preliminary - Subject to Reconciliation



Shoes.com, Inc. / Onlineshoes.com Inc.
30-Jun-17

Schedule B(d)

Statement of Accrued Accounts Receivable of the Receiver (2/2/17 Forward)

Name	Amount	Estimated Uncollectible Amount
None	N/A	N/A
* Pre-filing A/R per Supplemental Schedule B(d-1) Subject to Adjustments / Final Reconciliation		
** Inventory Adjustment Reserve - Sale Closing	419,503	TBD; \$210,000 in escrow

Schedule B(e)

Statement of Accounts Payable of the Receiver (from 2/2/17 Forward), including professional fees

Name	Amount	Aged > 30 Days
A/P - Trade	None	None
A/P - Other	None	None
Accrued (Billed) Receiver Admin (subject to Fee Ap)		
Receiver Fees and Expenses per Fee Notice through 5/31/17	28,913	
Receiver Legal Fees and Expenses per Fee Notice through 4/30/17	15,521	
A/P - Advance - Opening debtsit (USB 7060)	10	
Court Bonds (Rec Bond Premium per Order)		
Accrued Rec Litigation Counsel - NY Litigation	6,113	
Accrued IT / Storage - Server Access (Digital Fortress)	-	
Accrued Contractor Fees / Expense - Per Canada Rec (Note 2)	-	
Accrued Lease Exp - Groveport (Note 1)	40,835	
Accrued Utilities - Other	4	
Total Admin Expense Due 6/30/17	91,395	-

Note 1: Balance of \$40,835 subject to disposition of pre-receivership lease deposit

Note 2: Final Payment of Shared contract services - Canadian Receiver Reimbursement - Paid 6/13/17

Note 3: Rec Litigation Counsel - Paid 7/7/17; \$95k recovery from Deposit held by Defendant in July

Schedule B(f)

Tax disclosure statement - list of postfiling taxes due or tax deposits

Name of Taxing Agency	Amount Due	Date Due
None	None	N/A
Pre-Receivership Property taxes / Sales taxes - est. per Schedules & POC / reconciliations		