

**Court No. 31-2464088**  
**Estate No. 31-2464088**

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
**IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF**  
**GYMBOREE, INC.**

**THIRD REPORT OF KPMG INC. in its capacity as**  
**PROPOSAL TRUSTEE OF GYMBOREE, INC.**

**MARCH 11, 2019**

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Appendix “C” – Second Extended Cash Flow Forecast (with Explanatory Notes)

## **I. INTRODUCTION**

1. This third report (the “**Third Report**”) of KPMG Inc., in its capacity as proposal trustee (in such capacity, the “**Proposal Trustee**”) of Gymboree, Inc. (the “**Company**” or “**Gymboree Canada**”), is being delivered in connection with the Company’s motion (the “**Motion**”) seeking an Order from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) extending the time for the Company to file a proposal pursuant to section 50.4(9) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) from March 14, 2019 to April 12, 2019.
2. This Third Report should be read in conjunction with the first report to Court of the Proposal Trustee dated January 22, 2019 (attached hereto without appendices as Appendix “A”) (the “**First Report**”), the second report to Court of the Proposal Trustee dated February 8, 2019 (attached hereto without appendices as Appendix “B”) (the “**Second Report**”) and the affidavit of Jon W. Kimmins, the Chief Financial Officer of Gymboree Canada, sworn March 8, 2019 in support of the Motion (the “**Third Kimmins Affidavit**”).
3. Capitalized terms not defined herein have the meanings ascribed to them in the First Report and Second Report, as applicable.

## **II. PURPOSE OF THIS THIRD REPORT AND LIMITATIONS**

4. The purpose of this Third Report is to provide the Court with information regarding:
  - a. the background on the Company’s NOI proceedings;
  - b. the status of the Sale (as defined below), including lease monetization, disclaimer notice and employee matters;
  - c. the Company’s activities since the making of the First Extension Order (as defined below);
  - d. the Proposal Trustee’s activities since the date of the Second Report;
  - e. the Company’s cash flow and cash management; and
  - f. the extension being sought by the Company to file a proposal pursuant to the BIA.

5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
6. In preparing this Third Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, books and records, and financial and other information of Gymboree Canada and the other members of the Gymboree Group and information from other third-party public sources (“**Information**”). The accuracy and completeness of the Information contained herein has not been audited or otherwise verified by the Proposal Trustee, and the Proposal Trustee does not express any opinion or provide any other form of assurance with respect to the Information presented herein or relied upon by the Proposal Trustee in preparing this Third Report.
7. Some of the Information referred to or reported in this Third Report consists of future oriented information and is based on estimates and assumptions regarding future events. Actual results may vary from forecast and such variations may be material. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

### **III. BACKGROUND**

8. On January 17, 2019, Gymboree Canada filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the BIA.
9. As described in greater detail in the First Report, the principal purpose of the Company’s NOI proceedings is to conduct an orderly wind-down of its operations through a court-supervised process. The wind-down process includes a liquidation sale (the “**Sale**”) of inventory and certain other assets in all of Gymboree Canada’s retail store locations (the “**Stores**”) pursuant to an agency agreement (the “**Agency Agreement**”) entered into on January 17, 2019 with a contractual joint venture comprised of GA Retail, Inc., Tiger Capital Group, LLC, Gordon Brothers Retail Partners, LLC, and Hilco Merchant Resources, LLC (collectively with their respective Canadian affiliate assignees, the “**Agent**”).

10. The Agency Agreement was approved by the Order of the Court made on January 24, 2019 approving the Intercompany Charge, the Administration Charge, the D&O Charge, the Agency Agreement and Sales Guidelines, and granting certain ancillary relief (the “**Sale Order**”).
11. On February 12, 2019, at Gymboree Canada’s request, the Honourable Justice Hainey granted an Order (the “**First Extension Order**”) extending the time for Gymboree Canada to file a proposal under the BIA to March 14, 2019.

#### **IV. UPDATE REGARDING THE SALE**

12. As described in greater detail in the Second Report, the Sale commenced in Gymboree Canada’s retail locations on or about January 25, 2019 and, in accordance with the terms of the Agency Agreement, was to conclude no later than April 30, 2019. For computation purposes under the Agency Agreement, the Sale was deemed to start at the Stores on January 18, 2019.
13. Since the filing of the Second Report with the Court, the Proposal Trustee has been advised by the Company that the Sale is expected to be completed on or before April 8, 2019.
14. In accordance with the terms of the Sale Order and the Sale Guidelines appended thereto, any Additional Agent Merchandise to be added to the Stores to be sold during the Sale was limited to goods previously ordered by the Company from its existing vendors. The approval of the Agent’s right to include Additional Agent Merchandise that are not on-order goods in the Sale remained subject to further Court Order. The Proposal Trustee is not aware of any intention to sell Additional Agent Merchandise that are not on-order goods at the Stores during the remainder of the Sale.
15. On February 22, 2019, further to paragraph 15 of the Sale Guidelines, Canadian counsel to the Agent advised the Proposal Trustee and counsel to certain landlords that no more than U.S.\$25,000 of on-order goods would be brought into any of the Stores (the “**On-Order Goods Amount**”). The Sale Guidelines provide that, in the event of a dispute regarding such amount, the parties could return to Court for directions. The Proposal Trustee is not aware of any dispute with respect to the On-Order Goods Amount.

16. To the Proposal Trustee's knowledge, Gymboree Canada has complied during these proceedings with the Sale Order and the Agency Agreement in all material respects.
17. As described at paragraph 13 of the Third Kimmins Affidavit, on March 4, 2019, the United States Bankruptcy Court for the Eastern District of Virginia (the "**U.S. Bankruptcy Court**") approved (i) a sale transaction (the "**IP Sale Transaction**") in respect of certain assets of the Gymboree Group, including certain of their intellectual property (the "**Gymboree US IP**"), and (ii) a going concern transaction for the Gymboree Group's Janie & Jack® business (the "**J&J Sale**"). The Proposal Trustee understands that the IP Sale Transaction does not impact Gymboree Canada's right to use the Gymboree US IP to complete the Sale and that neither transaction contemplates the transfer of any asset owned by the Company. The J&J Sale is discussed in greater detail below.

#### **Lease Monetization Matters**

18. As described in the Second Report, the Proposal Trustee and the Company received inbound inquiries regarding the potential assignment of certain retail leases to third parties.
19. Following consideration of these inquiries (including follow-up communications with the potentially interested parties) and the fact that the Agent has provided an end date for the Sale, the Company, in consultation with its advisors and the Proposal Trustee, determined that there would be no net benefit to the estate in pursuing these opportunities and/or undertaking a formal process to monetize the Store leases. Accordingly, the Company has since issued disclaimer notices in respect of all Store locations, as discussed below.

#### **Lease Disclaimer Matters**

20. In an effort to minimize occupancy costs, the Company, in consultation with the Proposal Trustee, worked with the Agent to determine the outside Sale Termination Date in respect of each Store and to issue disclaimer notices that would become effective coincidental with or as shortly as possible following the applicable Sale Termination Date.
21. On March 1, 2019, the Company, following discussions with the Agent, notified the Proposal Trustee of its intention to disclaim the leases in respect of 36 of its Stores (the

“**Initial Closing Stores**”). These 36 disclaimer notices were issued that same day (the “**March 1 Disclaimers**”) and will become effective on April 1, 2019.

22. On March 7, 2019, the Company, following discussions with the Agent, notified the Proposal Trustee of its intention to disclaim the leases in respect of the remaining 13 Stores (the “**Additional Closing Stores**”). These 13 disclaimer notices were issued on March 11, 2019 (together with the March 1 Disclaimers, the “**Disclaimers**”) and will become effective on April 10, 2019.

### **Employee Matters**

23. The Proposal Trustee understands that Gymboree Canada has begun issuing termination notices to its employees at its disclaimed Store locations advising them of an outside employment date of (i) no later than March 31, 2019 in the case of employees at the Initial Closing Stores, and (ii) no later than April 9, 2019 in the case of employees at the Additional Closing Stores.

## **V. ACTIVITIES OF THE COMPANY**

24. Since the making of the First Extension Order, the activities of the Company have included:
- a. working with the Agent regarding the Sale;
  - b. responding to calls and inquiries from creditors and stakeholders regarding the NOI proceedings;
  - c. communicating with key suppliers to secure services during the NOI proceedings and to address payment terms;
  - d. making payments to suppliers for goods and services received, including the payment of rent for the month of March on March 1, 2019 in accordance with paragraph 5 of the Sale Order;
  - e. corresponding regularly with representatives of the Proposal Trustee to provide an update on the status of the Company’s operations;
  - f. reporting receipts and disbursements to the Proposal Trustee;

- g. consulting with the Proposal Trustee regarding the potential monetization of certain retail leases;
- h. consulting with the Proposal Trustee regarding the disclaimer of retail leases;
- i. issuing the Disclaimers;
- j. issuing working notices of termination to all employees at Company's disclaimed Store locations;
- k. preparing the Second Extended Cash Flow Forecast (as defined below) and consulting with the Proposal Trustee in connection therewith; and
- l. communicating with its legal counsel, the Proposal Trustee, and the Proposal Trustee's legal counsel on various matters in connection with the NOI proceedings.

#### **VI. ACTIVITIES OF THE PROPOSAL TRUSTEE**

- 25. As described in the Second Report, the Company, in consultation with the Proposal Trustee, prepared an extended cash flow forecast for the period from February 3, 2019 to March 16, 2019 (the "**First Extended Cash Flow Forecast**"). The First Extended Cash Flow Forecast and explanatory notes were attached to the Second Report as Appendix "C" thereto. In support of the Motion, the Company, in consultation with the Proposal Trustee, has prepared a further revised extended cash flow forecast for the period March 3 to April 13, 2019 (the "**Second Extended Cash Flow Forecast**"). The Second Extended Cash Flow Forecast and explanatory notes are attached hereto as Appendix "C".
- 26. Further, the Proposal Trustee has engaged in the following additional activities since the date of the Second Report in connection with these proceedings:
  - a. attending before the Court in connection with the First Extension Order;
  - b. advising the Service List that March rent was paid on March 1, 2019 in accordance with paragraph 5 of the Sale Order and Justice Hainey's Endorsement dated January 24, 2019;
  - c. sending customized emails to counsel for, or representatives of, each landlord on the Service List confirming the particulars of the March rent payments;

- d. engaging with certain of the Company's stakeholders;
- e. engaging with the Company and its financial advisor, Berkley Research Group, regarding cash flow and cash management matters;
- f. monitoring the Company's receipts and disbursements, with a view to performing a comparison and variance analysis against the First Extended Cash Flow Forecast;
- g. assisting with the preparation of the Second Extended Cash Flow Forecast;
- h. reviewing weekly cash flow reporting delivered by the Company;
- i. as necessary, reviewing materials filed in the Chapter 11 proceedings of Gymboree Canada's U.S. affiliates and monitoring the dockets posted to the U.S. claims agent's website;
- j. engaging with the Company to minimize go-forward occupancy costs and the issuance of lease disclaimers;
- k. reviewing employee termination notices;
- l. engaging with the Company and its advisors, as well as the Agent, regarding potential lease monetization;
- m. reviewing and commenting on the Motion and the proposed Order;
- n. drafting this Third Report;
- o. monitoring the Proposal Trustee's email address and telephone hotline in respect of these NOI proceedings and posting court-filed materials to the Proposal Trustee's website at: [home.kpmg/ca/Gymboree](http://home.kpmg/ca/Gymboree);
- p. responding to calls and inquiries from creditors and other stakeholders regarding the NOI proceedings, and, in particular, with respect to gift cards previously issued by Gymboree Canada; and
- q. corresponding with the Company and its Canadian and U.S. counsel and advisors regarding the foregoing.

## VII. CASH FLOW AND CASH MANAGEMENT

### Receipts and Disbursements Relative to Forecast

27. Receipts and disbursements for the period from February 3 to March 2, 2019 (the “**Second Reporting Period**”), as compared to the First Extended Cash Flow Forecast are summarized in the table below:

For the four week period ending March 2, 2019	Total Actuals	Total Forecast	Variance
<b>Collections</b>			
Inventory Liquidation Proceeds	1,853	2,993	(1,141)
Gift Card/ Merchandise Credit	-	(430)	430
FF&E Proceeds	-	28	(28)
Agent Expense Funding	606	1,307	(701)
Other Receipts	78	-	78
<b>Total Collections</b>	<b>2,537</b>	<b>3,898</b>	<b>(1,362)</b>
<b>Direct Expenses</b>			
Store Payroll and Benefits	(781)	(689)	(92)
Store Rent	(977)	(970)	(7)
Other Store Occupancy Costs	-	(151)	151
Sales Taxes	(125)	(559)	434
Canadian Professional Fees	-	(716)	716
Other Operating Disbursements	425	-	425
<b>Total Direct Expenses</b>	<b>(1,458)</b>	<b>(3,085)</b>	<b>1,627</b>
<b>Allocated Expenses</b>			
Corporate Payroll	(372)	(399)	26
Corporate Employee FTO	-	(93)	93
Corporate Rent	(55)	(64)	9
Utility Deposits	-	(25)	25
Corporate Expenses	(49)	(453)	404
U.S. Professional Fees	(278)	(325)	47
Cash Collateral for LCs	(2,041)	(2,041)	-
DIP Fees & Interest	(126)	(52)	(74)
KEIP / KERP	-	-	-
<b>Total Allocated Expenses</b>	<b>(2,921)</b>	<b>(3,452)</b>	<b>531</b>
<b>Total Expenses</b>	<b>(4,379)</b>	<b>(6,537)</b>	<b>2,158</b>
<b>Expense Treatment</b>			
Direct Expenses Paid by Gymboree Canada	(1,458)	(3,085)	1,627
Paid to US for Allocated Expenses	-	(1,650)	1,650
Subtotal: Expenses Paid by Gymboree Canada	(1,458)	(4,735)	3,277
US Credit Provided (Paid Down)	2,921	1,802	1,119
<b>Beginning Cash Balance</b>	<b>1,191</b>	<b>1,191</b>	<b>-</b>
Net Cash Flow	1,079	(836)	1,915
<b>Ending Cash Balance</b>	<b>2,270</b>	<b>354</b>	<b>1,915</b>

28. For the four-week period ending March 2, 2019, Gymboree Canada received approximately \$1.8 million less in receipts than projected in the First Extended Cash Flow Forecast (prior to consideration of the forecast gift card and merchandise credits). This variance is primarily due to later than forecast timing of the receipt of the Second Canadian Guaranty Payment and reimbursements from the Agent for direct expenses payable to Gymboree Canada pursuant to the Agency Agreement.

29. The Company has advised the Proposal Trustee that the inventory count and reconciliation with the Agent is nearing completion and it expects to receive the Second Canadian Guaranty Payment during the week ending March 23, 2019. As discussed in the Second Report, the receipt of reimbursements from the Agent for direct expenses payable to Gymboree Canada was delayed. The Company has advised the Proposal Trustee that the payments attributable to Gymboree Canada for reimbursable expenses have been received by the U.S. members of the Gymboree Group, and that they are holding these amounts until such a time as the disbursement account is properly set-up and funded (as discussed below).
30. The remaining receipts were approximately \$0.5 million greater than forecast during the Second Reporting Period due to the timing of settling the gift card and merchandise credit repayments and miscellaneous receipts. This was partially offset by a non-payment of the allocation to Gymboree Canada of the Additional Guaranteed Amount (as defined in the Agency Agreement) in respect of certain FF&E.
31. The Company's direct expenses were \$1.6 million less than forecast during the Second Reporting Period. A portion of the variance is attributable to timing differences and a portion is related to permanent differences.
  - a. Timing differences: There are timing differences in respect of the professional fees of the Company's Canadian counsel, the Proposal Trustee and its counsel, which are expected to reverse in future weeks.
  - b. Permanent differences: Store payroll and benefits and Store rent were greater than forecast during the Second Reporting Period. This negative variance was offset by a partial reimbursement of approximately \$444,000 by U.S. members of the Gymboree Group for certain payments totaling approximately \$458,000 made by the Company during the First Reporting Period, and that were described in the Second Report. These payments were made to customs agents and freight suppliers and included pre-filing amounts, freight charges related to Canadian merchandise in transit on the date of the filing and post-filing amounts for shipping merchandise belonging to U.S. members of the Gymboree Group to Canada for sale. The net amount of approximately \$14,000 paid by Gymboree Canada is related to freight

charges for Canadian merchandise in transit on the date of the filing. In addition, sales taxes were less than forecast during the Second Reporting Period as the Company advised that all sales taxes for sales that occurred during the period up to January 17, 2019, which is the last day prior to the commencement date of the Sale for computation purposes, have been paid.

32. Pursuant to the Post-Filing Intercompany Arrangements detailed in the First Report, it was intended that the cash on hand at the date of the NOI filing and the amounts payable to Gymboree Canada by the Agent pursuant to the Agency Agreement would be segregated from the Agent's collateral and held in an account that is not a Designated Deposit Account (as defined by the Agency Agreement).
33. The Company is still in the process of segregating the funds belonging to Gymboree Canada and depositing them into the Company's Canadian disbursement account. As discussed in the Second Report, there was a delay in segregating the funds due to an automatic sweep mechanism associated with the Company's disbursement account whereby funds in such account are transferred to the Company's main concentration account on a daily basis. The Company's bank deactivated the automatic sweep mechanism associated with the disbursement account. However, while doing so, it inadvertently deactivated the sweep mechanism associated with all of the Company's Canadian bank accounts. As a result, the Company now must manually transfer funds between all its accounts in order to effectively manage Canadian disbursements, including payroll. The Company has advised the Proposal Trustee that the manual transfers are cumbersome and, at times, can take one to two business days to process. Therefore, maintaining a sufficient cash balance in the concentration account is necessary in order to ensure disbursements can continue to be made as required. As a result, the Company has not yet transferred the funds from its concentration account to the Canadian disbursement account. The Company advised the Proposal Trustee that its bank is in the process of rectifying the sweep mechanism issue and should be in a position to transfer the funds to the Canadian disbursement account during the week ending March 16, 2019.

34. Given the issues with the Canadian disbursement account, the Company and its advisors, in consultation with the Proposal Trustee, decided to delay any reimbursement by Gymboree Canada of its proper allocation of shared expenses incurred by U.S. members of the Gymboree Group. At the time of the Second Report, the first such reimbursement was scheduled to occur during the week ended February 16, 2019. In light of the foregoing, in accordance with the Post-Filing Intercompany Arrangements, the Proposal Trustee is now in the process of reviewing proposed allocated expenses and expects any reimbursement by Gymboree Canada to be made in relation to properly allocated expenses during the week ending March 16, 2019. Accordingly, no payments to U.S. affiliates of Gymboree Canada in respect of allocated shared costs, or otherwise, have been made to date.

### **Second Extended Cash Flow Forecast**

35. Gymboree Canada's Extended Cash Flow Forecast for the period from March 3 to April 13, 2019 (the "**Second Extended Cash Flow Period**") reflects that the Company has sufficient cash to fund its projected operating costs for the duration of the requested stay extension.
36. As detailed above, it is intended that the NOI proceedings will be funded through amounts payable to Gymboree Canada by the Agent pursuant to the Agency Agreement and cash on hand at the date of the NOI filing. As discussed below, to the extent required, U.S. members of the Gymboree Group will also grant credit to Gymboree Canada with respect to its proportionate share of certain shared expenses.
37. The Second Extended Cash Flow Forecast shows receipts of approximately \$2.9 million and disbursements of approximately \$4.8 million, resulting in a negative net cash flow of approximately \$2.0 million during the Second Extended Cash Flow Period. In addition, during the Second Extended Cash Flow Period, it is anticipated that the U.S. members of the Gymboree Group will cover certain expenses in the amount of approximately \$0.7 million on behalf of Gymboree Canada that will not be reimbursed during the Second Extended Cash Flow Period. By the end of the Second Extended Cash Flow Period, it is

expected that the U.S. members of the Gymboree Group will have extended credit in the aggregate amount of approximately \$1.3 million.

For the week ending	04/13 Forecast
<b>Collections</b>	
Inventory Liquidation Proceeds	402
Gift Card & Merchandise Credit	(180)
FF&E Proceeds	28
Agent Expense Funding	2,602
<b>Total Collections</b>	<b>2,852</b>
<b>Direct Expenses</b>	
Store Payroll and Benefits	(1,079)
Store & Field Employee FTO	(353)
Store Rent	(88)
Canadian Professional Fees	(1,000)
Other Operating Disbursements	(12)
<b>Total Direct Expenses</b>	<b>(2,531)</b>
<b>Allocated Expenses</b>	
Corporate Payroll	(404)
Corporate Employee FTO	(34)
Corporate Expenses	(55)
U.S. Professional Fees	(60)
DIP Fees & Interest	(74)
KEIP / KERP	(66)
<b>Total Allocated Expenses</b>	<b>(693)</b>
<b>Total Expenses</b>	<b>(3,224)</b>
<b>Expense Treatment</b>	
Direct Expenses Paid by Gymboree Canada	(2,531)
Paid to US for Allocated Expenses	(2,300)
Subtotal: Expenses Paid by Gymboree Canada	(4,831)
U.S. Credit Provided (Paid Down)	(1,607)
<b>Beginning Canada Cash Balance</b>	2,270
Net Cash Flow	(1,979)
<b>Ending Canada Cash Balance</b>	<b>290</b>
<b>U.S. Credit Provided</b>	
Opening balance	2,921
U.S. Credit Provided (Paid Down)	(1,607)
<b>Ending Canada Cash Balance</b>	<b>1,314</b>

38. The Proposal Trustee notes the following with respect to the Second Extended Cash Flow Forecast:

- a. Collections: The forecast collections during the Second Extended Cash Flow Period of approximately \$2.9 million are comprised of: (i) the Second Canadian Guaranty Payment, in the amount of \$402,000, which was calculated using a Merchandise Guarantee Percentage of 89% (see below for discussion regarding the J&J Sale and related adjustments to the Merchandise Guarantee Percentage under the Agency Agreement), and which is less than forecast in the First Extended Cash Flow Forecast due to greater than expected shrinkage of Canadian inventory; and (ii)

reimbursements by the Agent for direct expenses, such as store payroll and occupancy costs, related to the Sale, inclusive of a catch-up payment of amounts relating to the First Reporting Period and Second Reporting Period currently being held by U.S. members of the Gymboree Group on Gymboree Canada's behalf, as discussed above; less (iii) repayments to the Agent for Store sales made using gift cards during the first 30 days of the Sale and returns of merchandise during the first 14 days of the Sale pursuant to the Agency Agreement.

- b. Expenses: The Second Extended Cash Flow Forecast reflects both direct expenses incurred by Gymboree Canada and allocations of certain shared overhead, administrative and financial expenses incurred by the other members of the Gymboree Group on behalf of Gymboree Canada.
- (i) Direct expenses: The direct expenses during the Second Extended Cash Flow Period total approximately \$2.5 million and are comprised of: (1) Store payroll and benefits, (2) accrued vacation and flexible time off payments for Store employees and the regional and district managers of Gymboree Canada, (3) a partial payment of Store rent for the month of April 2019 relating to 13 of the Company's retail locations for which disclaimer notices were issued on March 11, 2019, (4) estimated professional fees of the Company's counsel, the Proposal Trustee and the Proposal Trustee's counsel, which were not paid as forecast during previous forecast periods, and (5) other operating disbursements. Pursuant to the Agency Agreement, occupancy costs incurred beyond the six-week period are reimbursed by the Agent at a per diem rate of \$28,752.50 or \$201,267.50 per week. The full per diem occupancy cost reimbursements are forecast to begin during the week ending March 9, 2019 and finish during the week ending March 30, 2019 as the Initial Closing Stores are vacated. The per diem reimbursements for occupancy costs incurred beyond March 30, 2019 for the Additional Closing Stores will be reduced as Stores are vacated. These reimbursements will offset certain of the direct expenses incurred by Gymboree Canada.

- (ii) Allocated expenses: As discussed in the First Report, Gymboree Canada is financially and operationally dependent on other entities in the Gymboree Group. Accordingly, the Second Extended Cash Flow Forecast includes certain allocated expenses in respect of shared overhead, administrative and financial costs incurred by U.S. members of the Gymboree Group on behalf of Gymboree Canada in the amount of approximately \$0.7 million. A discussion of the categories of properly allocable expenses and the appropriateness of the allocation methodology is set out in the First Report. As referenced above, certain inventory owned by the U.S. members of the Gymboree Group was shipped to Canada and sold by the Company as part of the Sale. As a result of these shipments and the sale of additional inventory, the Sale has been conducted over a longer period of time, and the Company has incurred certain additional costs and expenses. Following the conclusion of the Sale and as part of the Reconciliation (as defined below), the Company, with the assistance of the Proposal Trustee, intends to implement a holistic solution with the Gymboree Group regarding the equitable allocation of such expenses.

### **Sale of Janie and Jack® Business**

39. As described in the First Report, the Agency Agreement provided the Gymboree Group with an option (the “**J&J Option**”), exercisable within 28 days after the date of the Agency Agreement, to exclude Janie and Jack® stores from the Sale. The Agency Agreement provides that, upon exercise of the J&J Option, the Agent would become entitled to, among other things, (i) a reduction in the Merchandise Guarantee Percentage from 89% to 80%, and (ii) a cancellation fee of US\$1,000,000 (collectively, the “**Adjustments**”). The Proposal Trustee has been advised that the Agency Agreement was amended to extend the timeline for the Gymboree Group to exercise the J&J Option.
40. On March 4, 2019, at the request of the U.S. members of the Gymboree Group, the U.S. Bankruptcy Court approved, among other things, the J&J Sale.

41. As there are no Janie and Jack® stores in Canada, the benefits of the J&J Sale accrue to the U.S. members of the Gymboree Group. As such, the Gymboree Group advised the Proposal Trustee that, notwithstanding that the Agency Agreement provides for the Adjustments upon the exercise of the J&J Option, which the Gymboree Group did to effect the J&J Sale, Gymboree Canada has and will receive a Merchandise Guarantee Percentage equivalent to 89% of its inventory value and will not otherwise be affected by the Adjustments.

#### **VIII. EXTENSION OF THE TIME LIMIT TO FILE A PROPOSAL**

42. As the Company requires additional time to complete the Sale and to work with the Agent, the Gymboree Group, and the Proposal Trustee to reconcile post-filing amounts (the “**Reconciliation**”) owed to and by Gymboree Canada, including from and to the Agent and the Gymboree Group, amongst others, the Company has filed the Motion seeking an Order extending the time limit to file a proposal to its creditors pursuant to Subsection 50.4(9) of the BIA to April 12, 2019 (the “**Extension**”).
43. The Proposal Trustee supports the Company’s request for the following reasons:
- a. the Proposal Trustee believes that the Company has acted, and is continuing to act, in good faith and with due diligence;
  - b. the Extension should not materially prejudice any creditors as the Company is projected to have sufficient funds to pay for post-filing goods and services in the amounts contemplated by the Second Extended Cash Flow Forecast;
  - c. the Extension is necessary to provide the Company with sufficient time to complete the Sale and the Reconciliation, and to consider appropriate next steps in the context of these proceedings; and
  - d. as of the date of this Third Report, the Proposal Trustee is not aware of any party opposing the Extension.
44. In the Proposal Trustee’s view, the Company’s request for an extension is reasonable in the circumstances. In particular, the Proposal Trustee believes that the completion of the

Sale as part of the NOI proceedings will allow for the maximization of value and minimization of disruption to operations, which is in the best interests of the Canadian estate.

**IX. CONCLUSION**

45. The Proposal Trustee submits this Third Report to the Court in support of the Company's Motion for the relief as set out in its Motion Record and recommends that the Court grant the relief contained in the proposed Order.

All of which is respectfully submitted at Toronto, Ontario this 11<sup>th</sup> day of March, 2019.

**KPMG Inc., in its capacity as Proposal Trustee of  
Gymboree, Inc.**

Per:



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Anamika Gadia  
Senior Vice President

## **Appendix “A”**

First Report (without Appendices)

**Court No. 31-2464088**  
**Estate No. 31-2464088**

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
**IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE DIVISION I PROPOSAL OF**  
**GYMBOREE, INC.**

**APPLICATION UNDER THE *BANKRUPTCY***  
***AND INSOLVENCY ACT, RSC 1985, C B-3***

**FIRST REPORT OF KPMG INC. in its capacity as**  
**PROPOSAL TRUSTEE OF GYMBOREE, INC.**

**JANUARY 22, 2019**

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## **I. INTRODUCTION**

1. On January 17, 2019, Gymboree, Inc. (“**Gymboree Canada**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”).
2. KPMG Inc. acts as proposal trustee (in such capacity, the “**Proposal Trustee**”) of Gymboree Canada. Attached as Appendix “A” hereto is the Certificate of Filing of a Notice of Intention to Make a Proposal dated January 17, 2019 issued by the Office of the Superintendent of Bankruptcy Canada.
3. The principal purpose of these NOI proceedings is to conduct an orderly wind-down of Gymboree Canada’s operations through a court-supervised process. The proposed wind-down process in Canada includes a liquidation of inventory and certain other assets in all store locations (the “**Sale**”) pursuant to an agency agreement (the “**Agency Agreement**”) entered into on January 17, 2019 with a contractual joint venture comprised of GA Retail, Inc., Tiger Capital Group, LLC, Gordon Brothers Retail Partners, LLC, and Hilco Merchant Resources, LLC (collectively with their respective Canadian affiliate assignees, the “**Agent**”).
4. This first report of the Proposal Trustee (the “**First Report**”) is being delivered in connection with the Company’s motion seeking an Order from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”), among other things:
  - a. approving the Agency Agreement;
  - b. authorizing Gymboree Canada, with the assistance of the Agent, to conduct the Sale;
  - c. authorizing and approving the Post-Filing Intercompany Arrangements (as defined below);
  - d. granting an Administration Charge, a D&O Charge, an Intercompany Charge, and the Agent’s Charge and Security Interest (as such terms are defined below); and
  - e. granting certain ancillary relief with a goal of facilitating the present proceedings.
5. This First Report should be read in conjunction with (a) the affidavit of Jon W. Kimmins, the Chief Financial Officer of Gymboree Canada, sworn January 21, 2019 (the “**Kimmins**”).

**Affidavit**”) and filed in support of the Company’s motion, and (b) the declaration of Stephen Coulombe, Chief Restructuring Officer of Gymboree Group, Inc., dated January 17, 2019 and delivered in connection with the Chapter 11 Proceedings (as defined below) (the “**First Day Declaration**”), which is attached as Exhibit “A” to the Kimmins Affidavit.

## **II. PURPOSE OF THIS FIRST REPORT AND LIMITATIONS**

6. The purpose of this First Report is to provide the Court with information regarding:
  - a. the Company and the circumstances surrounding the commencement of these NOI proceedings;
  - b. the marketing efforts undertaken by the Gymboree Group (as defined below);
  - c. the Agency Agreement;
  - d. the Company’s cash flow forecast, the Post-Filing Intercompany Arrangements (as defined below), and cash management;
  - e. the Court-ordered charges being sought by the Company; and
  - f. the activities of the Proposal Trustee.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
8. In preparing this First Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, books and records, and financial and other information of Gymboree Canada and the other members of the Gymboree Group (as defined below) and information from other third-party public sources (“**Information**”). The accuracy and completeness of the Information contained herein has not been audited or otherwise verified by the Proposal Trustee, and the Proposal Trustee does not express any opinion or provide any other form of assurance with respect to the Information presented herein or relied upon by the Proposal Trustee in preparing this First Report.
9. Some of the Information referred to or reported in this First Report consists of future oriented information and is based on estimates and assumptions regarding future events. Actual results may vary from forecast and such variations may be material. An

examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

### III. BACKGROUND

10. The Company is a corporation formed in 2005 under the *Business Corporations Act* (New Brunswick), SNB 1981, c. B-9.
11. Gymboree Canada is the Canadian operating entity of the Gymboree group of companies (the “**Gymboree Group**”), of which Gymboree Holding Corporation is the ultimate parent entity. The Gymboree Group operates a chain of specialty retail stores for children’s apparel headquartered in San Francisco, California and has operations across the United States and Canada. A corporate chart for the Gymboree Group is attached hereto as Appendix “B”.
12. The Gymboree Group owns a portfolio of three children’s clothing and accessories brands, Gymboree®, Janie and Jack® and Crazy 8®, each offering a different product line with a distinct brand identity and targeted product offering. Gymboree Canada’s operations are limited to Gymboree® branded stores.
13. Gymboree Canada operates the Canadian retail business of the Gymboree Group from a total of 49 retail stores in Alberta, British Columbia, Manitoba, Ontario and Nova Scotia (the “**Stores**”) as well as online through the following website: [www.gymboree.com](http://www.gymboree.com). The Stores represent approximately 5.2% of the total number of the Gymboree Group’s retail locations in Canada and the U.S. and account for approximately 4.5% of the Gymboree Group’s overall sales.
14. A table setting out Gymboree Canada’s retail locations by province is below:

Province	Number of Stores
Alberta	7
British Columbia	9
Manitoba	2
Nova Scotia	2
Ontario	29
<b>Total</b>	<b>49</b>

15. All of Gymboree Canada’s retail operations are conducted in leased facilities.

16. On January 16, 2019, eleven non-Canadian members of the Gymboree Group filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (“**Chapter 11**”) in the United States Bankruptcy Court for the Eastern District of Virginia (Richmond Division) (the “**Chapter 11 Proceedings**”).
17. The First Day Declaration filed in support of the relief sought in the Chapter 11 Proceedings provides additional context regarding the financial situation of the Gymboree Group as a whole, including the need to commence the Chapter 11 Proceedings, its corporate history and ownership structure, operations, financial affairs and restructuring initiatives of the Gymboree Group, and details regarding its 2017 Chapter 11 insolvency filing.
18. Gymboree Canada commenced these NOI proceedings concurrent with the Chapter 11 Proceedings for the purpose of completing an orderly wind-down of Gymboree Canada’s business.
19. Like other Canadian retail businesses, Gymboree Canada has faced financial challenges and declining product sales in the past few years resulting in operating losses. As Gymboree Canada is financially entirely dependent on the other entities in the Gymboree Group, all of these losses have been absorbed by Gymboree Canada’s affiliates. As such, Gymboree Canada’s affiliates account for approximately 95% of its aggregate liabilities.

#### **IV. MARKETING EFFORTS**

20. The Proposal Trustee understands that the Gymboree Group, including on behalf and in respect of Gymboree Canada, engaged in significant efforts in recent months to pursue a restructuring, refinancing or sale outside of a formal insolvency proceeding and conducted a comprehensive strategic review of its retail operations and store profile. To assist with this review, in October 2018, the Gymboree Group retained (a) Berkeley Research Group (“**BRG**”) as financial advisor and Chief Restructuring Officer, and (b) Stifel, Nicolaus & Co., Inc. (together with its affiliate Miller Buckfire & Co., LLC) as investment banker. These efforts included attempting to raise new financing and offering all of the Gymboree Group’s assets for sale, either individually or en bloc as a going concern. As a result of this review, in early December 2018, the Gymboree Group announced its intention to close all

Crazy 8® store locations and to reduce the overall Gymboree® footprint. The marketing process is described in greater detail in the First Day Declaration and the declaration of James Doak dated January 17, 2019 filed in the Chapter 11 Proceedings (the “**Doak Declaration**”). The Doak Declaration is attached hereto as Appendix “C”.

21. The financial circumstances facing the Gymboree Group, including its debt load and operating losses, continued to place significant pressure on the Gymboree Group to address its liquidity issues. Despite its out-of-court restructuring efforts, the Gymboree Group, including on behalf and in respect of Gymboree Canada, in consultation with BRG, reached the conclusion that no viable going concern transaction was available in respect of the Gymboree® branded stores, including Gymboree Canada’s stores, and that the best alternative was to engage in an orderly liquidation of all Gymboree® retail stores.

#### **V. AGENCY AGREEMENT**

22. On January 17, 2019, Gymboree Group, Inc. and Gymboree Canada entered into the Agency Agreement for the liquidation of the inventory and furniture, fixtures and equipment (“**FF&E**”) located in all the Gymboree Group’s retail stores and distribution centres.
23. Liquidation sales pursuant to the Agency Agreement commenced in the U.S. on January 18, 2019 (the “**Sale Commencement Date**”) following court approval in the Chapter 11 Proceedings. In Canada, solely for computation purposes under the Agency Agreement, the Sale will also be considered to have started on January 18, 2019. However, the Proposal Trustee understands that until an Order of the Court approving the Agency Agreement and authorizing the Sale is granted (the “**Approval Order**”), store operations in Canada remain consistent with pre-filing operations.
24. As set out in the First Day Declaration, the Agency Agreement is the result of a competitive process in which Gymboree Group and its advisors conducted an extensive solicitation process for selecting an agent to serve as the Gymboree Group’s exclusive independent liquidation service provider.
25. The Proposal Trustee understands that the Gymboree Group delivered formal requests for proposals to potential liquidators. The results of that process demonstrated that there were

very few liquidators with the experience, expertise, and availability necessary to execute liquidation sales within the short timeframe required by the Gymboree Group. Only two proposals were received by the Gymboree Group, including the Agent's bid. Following an evaluation of the Agent's bid, and considering available alternatives, the Gymboree Group, in consultation with its advisors, determined that such bid was the best and most competitive proposal. As such, the Gymboree Group and its advisors proceeded to negotiate the Agency Agreement with the Agent.

26. The Agency Agreement has been negotiated and structured to provide the Gymboree Group a guaranteed realization on the inventory and FF&E at its stores. The net minimum guarantee provides for a minimum recovery of 89% (the "**Merchandise Guarantee Percentage**") of the cost value of the inventory included in the liquidation sale ("**Merchandise**"), subject to certain customary downward adjustments and the J&J Option (as defined and described in the table below). The terms of the Agency Agreement provide that the net guaranteed minimum recovery (the "**Guaranteed Amount**") shall be paid by the Agent as follows:
- a. 90% of the estimated Guaranteed Amount attributable to U.S. Merchandise to be paid on the first business day following U.S. court approval of the Agency Agreement;
  - b. 80% of the estimated Guaranteed Amount attributable to Canadian Merchandise (the "**Initial Canadian Guaranty Payment**") to be paid to Gymboree Canada on the first business day following the granting of an Approval Order. For purposes of calculating the Initial Canadian Guaranty Payment, the aggregate cost value of the inventory in the Stores has been assumed to be US\$4,000,000; and
  - c. the balance of the Guaranteed Amount to be paid on the earlier of (i) thirty days after the Sale Commencement Date, and (ii) the second business day following a final inventory report (the portion of such payment payable to Gymboree Canada, the "**Second Canadian Guaranty Payment**").

27. A summary of certain additional key terms of the Agency Agreement is set out below:<sup>1</sup>

Locations	All stores operated by the Gymboree Group, including all 49 of Gymboree Canada's Stores
Sale Termination Date	No later than April 30, 2019, unless otherwise agreed by the parties (" <b>Sale Termination Date</b> ")
Merchandise and Other Assets Included in the Sale	<ul style="list-style-type: none"><li>• Merchandise located in Stores (as defined in the Agency Agreement), as well as certain in-transit inventory delivered to the Stores on or before March 22, 2019</li><li>• Supplemental merchandise procured by the Agent that is of like kind, and no lesser quality to the Merchandise located in the Stores ("<b>Additional Agent Merchandise</b>")</li><li>• Goods not otherwise included as "Merchandise", if elected by the Merchant ("<b>Merchant's Designated Goods</b>")</li></ul>
FF&E	<ul style="list-style-type: none"><li>• As set out in the Kimmins Affidavit, the Proposal Trustee understands that the sale of the FF&amp;E of Gymboree Canada (if included in the Sale) will be effected on a fee basis to be agreed upon between the parties to the Agency Agreement</li></ul>
Excluded Items	<ul style="list-style-type: none"><li>• Goods that belong to third parties, such as licensees and concessionaires, and goods held by Gymboree Group as bailee</li><li>• Certain defective merchandise</li><li>• Merchandise not received at the Stores (as defined in the Agency Agreement) by March 22, 2019 (unless otherwise agreed)</li></ul>

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<sup>1</sup> Capitalized terms used in this section and not otherwise defined have the meanings given to them in the Agency Agreement. A copy of the Agency Agreement is attached as Exhibit "D" to the Kimmins Affidavit.

Sale Terms	Merchandise and FF&E (if any) will be sold free and clear of encumbrances
Returns and Credits	<ul style="list-style-type: none"><li>• Agent will accept returns of goods sold prior to the Sale Commencement Date for the first fourteen days of the Sale</li><li>• Agent shall accept gift certificates, gift cards, and return credits (“<b>Gift Certificates</b>”) during the first thirty days of the Sale. Agent shall not sell any Gift Certificates and shall not accept Gymboree Rewards, Gym Bucks, and similar merchandise credits unless Agent agrees to cover such items as an Expense</li></ul>
Expenses	<ul style="list-style-type: none"><li>• Store level operating expenses and other amounts listed in the Agency Agreement as “Expenses” will be paid (or reimbursed, as applicable) out of Sale proceeds, subject to the limitations on quantum set out in the Agency Agreement. To the extent that such proceeds are insufficient to pay these Expenses, they are to be paid by the Agent</li><li>• The Agent shall fund six weeks of Canadian store-level occupancy expenses at the commencement of the Sale (calculated to be US\$912,000)</li></ul>
Compensation to Agent; Sharing Threshold	<p>After payment of the Guaranteed Amount and all Expenses, all remaining Proceeds are to be paid as follows:</p> <ul style="list-style-type: none"><li>(1) first, to the Agent, a fee of 9% of the aggregate Cost Value of the Merchandise; and</li><li>(2) second, (a) to the Merchant, 50% of all remaining Proceeds (the “<b>Merchant Sharing Amounts</b>”), and (b) to the Agent, 50% of all remaining Proceeds</li></ul>

Additional Agent Merchandise Fee	Fee of 5% of the aggregate gross proceeds of the sale of Additional Agent Merchandise payable by the Agent to the Merchant, subject to a guaranteed minimum payment of US\$2,000,000 payable to the Merchant
Merchant's Designated Goods	The Agent shall retain 20% of the receipts (net of Sales Taxes) for all sales of Merchant's Designated Goods, and Merchant shall receive 80% of the receipts (net of Sales Taxes) in respect of such sales
Assignment to Affiliates	Each entity comprising the Agent may assign the Agency Agreement to its respective Canadian affiliate for purposes of conducting the Sale in Canada
Intellectual Property	The Agent shall have the right to use all logos, trademarks, brand names and other intellectual property utilized by the Gymboree Group in connection with the business
J&J Option	Merchant has an option (the " <b>J&amp;J Option</b> "), exercisable within 28 days after the date of the Agency Agreement to exclude the Janie and Jack® stores from the Sale. In the event that the J&J Option is exercised, the Agent is entitled to, among other things, (i) a reduction in the Guarantee Percentage from 89% to 80%, and (ii) a cancellation fee of US\$1,000,000. The Gymboree Group may extend the 28-day J&J Option to 35 days, in which case the applicable guarantee is decreased by an additional 1% to 79%

28. The Proposal Trustee notes the following with respect to the Agency Agreement:
- a. the Agency Agreement governs the terms of a liquidation to be conducted in both Canada and the U.S. The Proposal Trustee believes that the structure of the Agency Agreement is reasonable in the circumstances as the Gymboree Group is winding-down

or restructuring the whole of its global operations and its Canadian operations represent only a small proportion of all retail locations. Further, in light of the operational dependence of Gymboree Canada on the U.S. members of the Gymboree Group, negotiating and implementing a second, Canadian specific liquidation agreement would have resulted in additional costs, expenses, and delays;

- b. the Agency Agreement incorporates sale guidelines that describe the process for conducting the Sale at the Stores (the “**Sale Guidelines**”). The Sale Guidelines were developed by the Company in consultation with the Proposal Trustee and are materially consistent with the sale guidelines used in other recent retail store liquidation processes approved by the Court. The inclusion of Additional Agent Merchandise is discussed below;
- c. the Agency Agreement permits the Agent to procure merchandise that is of like kind, and no lesser quality, to the Merchandise located in the Stores and to sell such goods in the Sale. While the inclusion of Additional Agent Merchandise in Canadian retail liquidation sales has been less common than its exclusion, the Proposal Trustee notes that such sales were permitted in the *Companies Creditors’ Arrangement Act* proceedings of Ben Moss Jewellers Western Canada Ltd. (2016) and the NOI proceedings of Danier Leather Inc. (2016). The language included in the Sale Guidelines with respect to Additional Agent Merchandise is substantially similar to those approved by the Court in these cases, and the Proposal Trustee understands that the level of permitted augmentation is negotiated on a case by case basis;
- d. the exercise of the J&J Option would decrease the Merchandise Guarantee Percentage by up to 10% and result in certain additional payments by the Gymboree Group. While there are no Janie and Jack® stores in Canada, as a result of the exercise of the J&J Option, Gymboree Canada would be required to reimburse its proportionate share of the Guaranteed Amount and be responsible for its proportionate share of any additional payments. The Proposal Trustee notes that while the benefits of a going concern sale of the Janie and Jack® business would primarily accrue to the U.S. members of the Gymboree Group, the economics of the Agency Agreement, in the view of the Proposal

Trustee based on the information available to it, represent the best alternative for Gymboree Canada;

- e. individual Stores may be subject to earlier Sale completion dates than the outside Sale Termination Date, provided that the Agent gives the Gymboree Group not less than seven days' notice of such earlier completion. Notably, the BIA requires a debtor to provide a landlord with 30 days' notice to disclaim a lease. The Proposal Trustee notes that the Canadian liquidation will likely end earlier than the U.S. liquidation given the relative number of stores and inventory levels between Canada and the U.S. The Proposal Trustee intends to commence an immediate dialogue with the Company and the Agent to develop a procedure to attempt to minimize or eliminate rent charges between the applicable Sale Termination Date for individual Stores and the effective date of a disclaimer notice, where possible;
- f. the Agent is entitled to a base fee of 9% of the cost value of Merchandise (the "**Agent's Base Fee**") after payment of the Guaranteed Amount and expenses payable under the Agency Agreement. The Agent's Base Fee is slightly higher than that seen in other recent retail liquidations. The Proposal Trustee understands that this percentage of the Agent's Base Fee was part of the negotiations resulting in the overall economic package embodied in the Agency Agreement, which includes a high percentage of guaranteed recovery and a fifty-fifty profit sharing above the specified threshold;
- g. the Agency Agreement requires that the Agent be granted a first ranking charge (the "**Agent's Charge and Security Interest**") on the inventory, FF&E, and other assets subject to the Sale and all proceeds thereof (the "**Agent Collateral**"). The granting of such a charge has become common in the context of other recent Court-approved retail store liquidation sales; and
- h. the members of the contractual joint venture comprising the Agent have extensive experience conducting retail liquidations. The members of the contractual joint venture, individually or together, have conducted nearly all major retail liquidations in Canada, including Sears Canada Inc., Target Canada Co., BCBG Max Azria, Ben Moss Western Jewellers Ltd., Linens N Things, and Mexx.

29. The Proposal Trustee understands that unanticipated issues may arise in circumstances where a single Agency Agreement is governing cross-border liquidations. To the extent that any Canadian specific issues relating to the Agency Agreement and the conduct of the Sale arise, the Proposal Trustee will work with the Company and the Agent to resolve such issues.

**Approval of Agency Agreement**

30. The Proposal Trustee was provided with a copy of the Agency Agreement for review and comment prior to its execution and has considered the process leading to the Sale and the consideration to be received under the Agency Agreement in light of the requirements of subsection 65.13(4) of the BIA. Though the Proposal Trustee was not involved in the liquidation agent solicitation process and had limited indirect involvement in the negotiations leading to the execution of the Agency Agreement, the Proposal Trustee has reviewed the process and is of the view that it was reasonable in the circumstances, particularly given the Proposal Trustee understands that (a) there were no going concern transaction offers in respect of Gymboree Canada, (b) there was limited interest received by the Gymboree Group from alternative liquidation bidders, (c) there was a limited timeframe to enter into a transaction given the ongoing cash burn of the Gymboree Group, which is further outlined in the First Day Declaration, and (d) Gymboree Canada is financially and operationally reliant on the other members of the Gymboree Group and could not conduct a stand-alone liquidation.
31. The Proposal Trustee is also of the view that the Agency Agreement provides the best guaranteed realization on the inventory and FF&E (if included in the Sale) at the Stores operated by Gymboree Canada and the transactions contemplated by the Agency Agreement are more beneficial to the creditors than a sale or disposition under a bankruptcy. The Agency Agreement contemplates a Sale that would be conducted in an efficient and effective manner by a group of liquidators with extensive experience. A bankruptcy would result in the vesting of all of Gymboree Canada's inventory, FF&E, and other property in the Proposal Trustee (as trustee-in-bankruptcy), which would likely result in additional delays and expenses.

## **VI. CASH FLOW FORECAST, POST-FILING INTERCOMPANY ARRANGEMENTS, AND CASH MANAGEMENT**

### **Cash Flow Forecast**

32. Gymboree Canada's cash flow forecast (the "**Cash Flow Forecast**") for the period from January 13, 2019 to February 16, 2019 (the "**Cash Flow Period**") that is being filed with the official receiver as required by subsection 50.4(2) of the BIA reflects that the Company has sufficient cash to fund its projected operating costs for at least the first 30 days of these NOI proceedings. The Cash Flow Forecast and explanatory notes are attached hereto as Appendix "D".
33. It is intended that the NOI proceedings will be funded through amounts payable to Gymboree Canada by the Agent pursuant to the Agency Agreement and cash on hand at the date of the NOI filing. As discussed below, to the extent required, U.S. members of the Gymboree Group will also grant credit to Gymboree Canada with respect to its proportionate share of certain shared expenses.
34. The Cash Flow Forecast shows receipts of approximately \$5.6 million and disbursements of approximately \$5.2 million, resulting in net cash flow of approximately \$0.4 million during the Cash Flow Period. In addition, during the Cash Flow Period, it is anticipated that the U.S. members of the Gymboree Group will cover certain expenses in the amount of approximately \$0.6 million on behalf of Gymboree Canada that will not be reimbursed during the Cash Flow Period.

**Gymboree Canada**  
**Cash Flow Forecast Summary**  
**(CAD \$ in 000's)**

For the week ending	02/16 Forecast
<b>Collections</b>	
Stores and E-Commerce	152
Inventory Liquidation Proceeds	3,753
FF&E Proceeds	28
Agent Expense Funding	1,713
<b>Total Collections</b>	<b>5,647</b>
<b>Direct Expenses</b>	
Store Payroll and Benefits	(847)
Store Rent	(878)
Other Store Occupancy Costs	(62)
Sales Taxes	(286)
Canadian Professional Fees	(511)
<b>Total Direct Expenses</b>	<b>(2,584)</b>
<b>Allocated Expenses</b>	
Corporate Payroll	(342)
Corporate Employee FTO	(93)
Corporate Rent	(37)
Utility Deposits	(25)
Corporate Expenses	(381)
U.S. Professional Fees	(281)
Cash Collateral for LCs	(2,029)
DIP Fees & Interest	(42)
<b>Total Allocated Expenses</b>	<b>(3,230)</b>
<b>Total Expenses</b>	<b>(5,815)</b>
<b>Expense Treatment</b>	
Direct Expenses Paid by Gymboree Canada	(2,584)
Paid to US for Allocated Expenses	(2,680)
Subtotal: Expenses Paid by Gymboree Canada	(5,264)
US Credit Provided (Paid Down)	550
<b>Beginning Cash Balance</b>	<b>475</b>
Net Cash Flow	383
<b>Ending Cash Balance</b>	<b>857</b>

35. The Proposal Trustee notes the following with respect to the Cash Flow Forecast:
- a. Collections: The forecast collections during the Cash Flow Period of approximately \$5.6 million are comprised of: (i) collections from in-store and e-commerce sales relating to the period prior to the Sale Commencement Date; (ii) the Initial Canadian Guaranty Payment; (iii) an allocation of the Additional Guaranteed Amount payable to the Merchant (as such terms are defined in the Agency Agreement) in respect of certain

FF&E; and (iv) reimbursements by the Agent for direct expenses, such as store payroll and occupancy costs, related to the Sale.<sup>2</sup>

- b. Expenses: The Cash Flow Forecast reflects both direct expenses incurred by Gymboree Canada and allocations of certain shared overhead, administrative and financial expenses incurred by the other members of the Gymboree Group on behalf of Gymboree Canada.
- i. Direct expenses: The direct expenses during the Cash Flow Period total approximately \$2.6 million and are comprised of: (1) Store payroll and benefits, including accrued amounts relating to the period prior to the Sale Commencement Date, (2) rent for the Company's retail locations, (3) other store occupancy costs, including utilities, (4) sales taxes that were collected by Gymboree Canada prior to the Sale Commencement Date and become due during the Cash Flow Period, and (5) estimated professional fees of the Company's counsel, the Proposal Trustee and the Proposal Trustee's counsel. Pursuant to the Agency Agreement, the Agent will reimburse Gymboree Canada for Store payroll and benefits incurred in respect of the Sale and has prefunded six weeks of occupancy costs up to the cap set out in the Agency Agreement. These reimbursements will offset certain of the direct expenses incurred by Gymboree Canada.
- ii. Allocated expenses: Gymboree Canada is financially and operationally dependent on other entities in the Gymboree Group. Accordingly, the Cash Flow Forecast includes certain allocated expenses in respect of shared overhead, administrative and financial costs incurred by U.S. members of the Gymboree Group on behalf of Gymboree Canada in the amount of approximately \$3.2 million, including for (1) corporate payroll (2) corporate rent and utilities, (3) corporate expenses, (4) U.S. professional fees, (5) cash collateralization of certain letters of credit, and (6) fees and interest relating to the debtor-in-possession financing approved in the Chapter 11 Proceedings.

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<sup>2</sup> The Proposal Trustee notes that additional payments to Gymboree Canada under the Agency Agreement are expected to be received in the period subsequent to the Cash Flow Period.

36. The Gymboree Group and the Proposal Trustee believe that Gymboree Canada should bear its reasonable and proportional share of overhead costs incurred in the post-filing period and should be obligated to reimburse the other members of the Gymboree Group for providing management, finance, human resources and other services in support of Gymboree Canada. Following numerous discussions and consultations with the Proposal Trustee, the Gymboree Group, with the assistance of BRG, considered allocating shared overhead costs of the Gymboree Group to Gymboree Canada based upon a number of factors including: Gymboree Canada's share of the global sales of the Gymboree Group, Gymboree Canada's share of the aggregate number of stores of the Gymboree Group, and Gymboree Canada's share of the aggregate cost value of inventory of the Gymboree Group during the expected duration of the liquidation process in Canada. Gymboree Group, with the assistance of BRG and in consultation with the Proposal Trustee, prepared various scenarios reflecting different allocation percentages applicable to various shared expenses based on these factors. Of these scenarios, Gymboree Canada's share of the Gymboree Group's global sales resulted in the lowest percentage, being 4.5%, and this scenario was determined to be the most appropriate in the circumstances. In addition, the Proposal Trustee worked with the Gymboree Group and BRG to reduce or eliminate the applicability of the allocation percentage to specific expense line items.
37. While the Company and the Proposal Trustee agree that Gymboree Canada should bear its reasonable and proportional share of costs incurred by the U.S. members of the Gymboree Group on its behalf, the Proposal Trustee also believes that it is imperative for Gymboree Canada to maintain a minimum cash balance during these NOI proceedings. As such, the reimbursement of any amounts to the U.S. members of the Gymboree Group must take this factor into account.
38. Accordingly, Gymboree Canada will reimburse the U.S. members of the Gymboree Group periodically for these allocated shared costs in accordance with the Cash Flow Forecast. The Cash Flow Forecast contemplates that during the Cash Flow Period, the Gymboree Group will provide Gymboree Canada with credit in the amount of \$550,000, secured by the Intercompany Charge (as described below), in order to ensure that Gymboree Canada has sufficient liquidity during the Cash Flow Period. The credit provided of \$550,000

effectively reduces the cash burden of the allocated expenses from approximately \$3.2 million to \$2.7 million over the Cash Flow Period.

### **Post-Filing Intercompany Arrangements**

39. The Proposal Trustee was involved in the Company's determination of intercompany arrangements during the conduct of these NOI proceedings (the "**Post-Filing Intercompany Arrangements**"). As set out above, the Company, in consultation with the Proposal Trustee, has agreed to maintain an appropriate minimum threshold cash balance during these NOI proceedings.
40. In addition, Gymboree Group, with the assistance of BRG, has agreed to provide the Proposal Trustee with weekly reporting regarding expenses incurred directly or on behalf of Gymboree Canada. The Gymboree Group, with the assistance of BRG and in consultation with the Proposal Trustee, have also agreed that, with respect to Gymboree Canada, (a) the payment of non-ordinary course payments, (b) the payment of any amounts to its U.S. affiliates (including the allocation of shared costs), and (c) the exercise of any set-off rights against the Company by its affiliates, in each case, will only be permitted following the prior review and confirmation of the Proposal Trustee with respect to such matters.

### **Cash Management**

41. As is further described in the Kimmins Affidavit, each of the Stores has an account where, on a daily basis, all Store-level cash sale proceeds are deposited. Such accounts are, on a daily basis, swept or transferred into a store depository account. Cash from that account, as well as credit card collections at the Stores, are transferred to a main concentration account in Canada, which are then transferred to an account domiciled in the U.S.
42. The Agency Agreement provides for the continued use of the existing cash management system for the conduct of the Sale. In light of the safeguards implemented with respect to the Post-Filing Intercompany Arrangements discussed above, the Proposal Trustee supports the continuation of the existing cash management system to facilitate a seamless liquidation.

## VII. COURT-ORDERED CHARGES

43. The proposed Order sought by the Company provides for the creation of three charges over the Company's property in addition to the Agent's Charge and Security Interest referenced above.

### Administration Charge

44. The proposed Order provides for a Court-ordered charge up to a maximum amount of \$750,000 in favour of the Proposal Trustee, its counsel, and counsel to Gymboree Canada on all of the present and future assets, property and undertaking of Gymboree Canada, including the Guaranteed Amount and any Merchant Sharing Amounts payable by the Agent under the Agency Agreement and any cash on hand at the day of the NOI filing, as security for their respective fees and disbursements relating to services rendered in respect of Gymboree Canada (the "**Administration Charge**"). The creation of an administration charge is typical in proceedings of this nature. The amount of the Administration Charge was estimated by the Company and its advisors in consultation with the Proposal Trustee, and the Proposal Trustee believes that it is fair and reasonable in the circumstances.

### D&O Charge

45. The proposed Order provides for a Court-ordered charge up to a maximum amount of \$1,130,000 over the assets of the Company in favour of the directors and officers of the Company to secure an indemnity provided to them in respect of certain liabilities that they may incur after the NOI filing date (the "**D&O Charge**"), which may include payroll obligations, vacation pay obligations, employee source deduction obligations and sales tax obligations that may arise during these proceedings.
46. The Proposal Trustee understands from the Kimmins Affidavit that the director and officer insurance policy applicable to Gymboree Canada also provides coverage to the directors and officers of the U.S. members of the Gymboree Group. Further, all of Gymboree Canada's directors and officers are directors or officers of other members of the Gymboree Group.
47. The amount of the D&O Charge was estimated by the Company and its advisors in consultation with the Proposal Trustee. In addition, the proposed Order provides that

recourse to the D&O Charge shall only be available for liabilities not covered by any applicable insurance policy. Accordingly, the Proposal Trustee believes that the D&O Charge is fair and reasonable in the circumstances.

### **Intercompany Charge**

48. The proposed Order provides for a Court-ordered charge in favour of the Gymboree Affiliates (as defined in the Kimmins Affidavit) to secure the obligation of Gymboree Canada to satisfy its share of the overhead, administrative and financial costs incurred by other members of the Gymboree Group on its behalf during the post-filing period and its reimbursement obligations for the post-filing period (the “**Intercompany Charge**” and together with the D&O Charge and the Administration Charge, the “**Charges**”).
49. The Proposal Trustee agrees with the Company that Gymboree Canada should bear its reasonable and proportionate share of overhead costs incurred during the post-filing period and should reimburse the other members of the Gymboree Group for such amounts. Given its financial and operational dependence on the other members of the Gymboree Group, Gymboree Canada would not be able to operate independently during the wind-down process or conduct a stand-alone liquidation sale in a cost-effective manner. In these circumstances, the Proposal Trustee believes that the granting of the Intercompany Charge limited to the post-filing period is fair and reasonable.

### **Priority of Charges**

50. The Company proposes that the Charges, as among them, rank in the following priority:
  - a. first, the Administration Charge;
  - b. second, the D&O Charge; and
  - c. third, the Intercompany Charge.
51. The Company proposes that the priorities of the Charges and the Agent’s Charge and Security Interest, on the Agent Collateral, as among them, rank in the following priority:
  - a. first, the Agent’s Charge and Security Interest;

- b. second, the Administration Charge;
  - c. third, the D&O Charge; and
  - d. fourth, the Intercompany Charge.
52. The Proposal Trustee notes that the priority of the Charges in respect of the Agent Collateral sought by the Company are typical in agency agreement approval orders.

### **VIII. ACTIVITIES OF THE PROPOSAL TRUSTEE**

53. The Proposal Trustee's activities in connection with these proceedings have included:
- a. preparing the necessary forms for the filing of the NOI in consultation with Company management and filing same;
  - b. mailing of notices to the Company's creditors;
  - c. reviewing the Company's unaudited financial statements and related financial information;
  - d. engaging with BRG and the Company regarding budget and cash flow issues, including allocation matters;
  - e. engaging with BRG and the Company regarding intercompany transaction considerations;
  - f. reviewing drafts of the communications materials prepared by the Gymboree Group, including, among other materials, press releases, frequently asked questions, letters to employees, and communications with vendors and customers;
  - g. reviewing materials filed in the Chapter 11 Proceedings and monitoring the dockets posted to the U.S. claims agent's website;
  - h. engaging with certain of the Company's stakeholders since the filing of the NOI;
  - i. reviewing and commenting on the Agency Agreement, proposed Order, and Sale Guidelines;
  - j. drafting this First Report and reviewing all Court materials filed in connection with this motion;

- k. establishing the Proposal Trustee's website, email address and telephone hotline in respect of these NOI proceedings;
- l. assisting the Company with the preparation and filing of the Cash Flow Forecast; and
- m. corresponding with the Company and its Canadian and U.S. counsel and advisors regarding the foregoing.

**IX. CONCLUSION**

54. The Proposal Trustee submits this First Report to the Court in support of the Company's motion for the relief as set out in its Motion Record and recommends that the Court grant the relief contained in the proposed Order.

All of which is respectfully submitted at Toronto, Ontario this 22nd day of January, 2019.

**KPMG Inc., in its capacity as Proposal Trustee of  
Gymboree, Inc.**

Per:   
\_\_\_\_\_  
Anamika Gadia  
Senior Vice President

## **Appendix “B”**

Second Report (without Appendices)

**Court No. 31-2464088**  
**Estate No. 31-2464088**

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
**IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF**  
**GYMBOREE, INC.**

**SECOND REPORT OF KPMG INC. in its capacity as**  
**PROPOSAL TRUSTEE OF GYMBOREE, INC.**

**FEBRUARY 8, 2019**

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Appendix “A” – First Report (without Appendices)

Appendix “B” – Notice to Creditors

Appendix “C” – Extended Cash Flow Forecast (with Explanatory Notes)

## **I. INTRODUCTION**

1. This second report (the “**Second Report**”) of KPMG Inc., in its capacity as proposal trustee (in such capacity, the “**Proposal Trustee**”) of Gymboree, Inc. (the “**Company**” or “**Gymboree Canada**”) is being delivered in connection with the Company’s motion (the “**Motion**”) seeking an Order from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) extending the time for the Company to file a proposal pursuant to section 50.4(9) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) from February 16, 2019 to March 14, 2019.
2. This Second Report should be read in conjunction with the first report to Court of the Proposal Trustee dated January 22, 2019 (attached hereto without appendices as Appendix “A”) (the “**First Report**”) and the affidavit of Jon W. Kimmins, the Chief Financial Officer of Gymboree Canada, which was served unsworn on the Service List and which will be sworn and filed in support of the Motion.
3. Capitalized terms not defined herein have the meanings ascribed to them in the First Report.

## **II. PURPOSE OF THIS SECOND REPORT AND LIMITATIONS**

4. The purpose of this Second Report is to provide the Court with information regarding:
  - a. the background on the Company’s NOI proceedings;
  - b. the status of the Sale (as defined below);
  - c. the Company’s activities since the making of the Sale Order (as defined below);
  - d. the Proposal Trustee’s activities since the date of the First Report;
  - e. the Company’s cash flow and cash management; and
  - f. the extension being sought by the Company to file a proposal pursuant to the BIA.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
6. In preparing this Second Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, books and

records, and financial and other information of Gymboree Canada and the other members of the Gymboree Group and information from other third-party public sources (“**Information**”). The accuracy and completeness of the Information contained herein has not been audited or otherwise verified by the Proposal Trustee, and the Proposal Trustee does not express any opinion or provide any other form of assurance with respect to the Information presented herein or relied upon by the Proposal Trustee in preparing this Second Report.

7. Some of the Information referred to or reported in this Second Report consists of future oriented information and is based on estimates and assumptions regarding future events. Actual results may vary from forecast and such variations may be material. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

### **III. BACKGROUND**

8. On January 17, 2019, Gymboree Canada filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the BIA.
9. As described in greater detail in the First Report, the principal purpose of the Company’s NOI proceedings is to conduct an orderly wind-down of its operations through a court-supervised process. The wind-down process includes a liquidation sale (the “**Sale**”) of inventory and certain other assets in all of Gymboree Canada’s retail store locations (the “**Stores**”) pursuant to an agency agreement (the “**Agency Agreement**”) entered into on January 17, 2019 with a contractual joint venture comprised of GA Retail, Inc., Tiger Capital Group, LLC, Gordon Brothers Retail Partners, LLC, and Hilco Merchant Resources, LLC (collectively with their respective Canadian affiliate assignees, the “**Agent**”).
10. The Agency Agreement was approved by the Order of the Court made on January 24, 2019 approving the Intercompany Charge, the Administration Charge, the D&O Charge, the Agency Agreement and Sales Guidelines, and granting certain ancillary relief (the “**Sale Order**”).

#### **IV. UPDATE REGARDING THE SALE**

11. The Sale commenced in Gymboree Canada's retail locations on or about January 25, 2019 and, in accordance with the terms of the Agency Agreement, will conclude no later than April 30, 2019. For computation purposes under the Agency Agreement, the Sale was deemed to start at the Stores on January 18, 2019.
12. In accordance with the terms of the Sale Order and the Sale Guidelines appended thereto, any Additional Agent Merchandise to be added to the Stores to be sold during the Sale was limited to goods previously ordered by the Company from its existing vendors. The approval of the Agent's right to include Additional Agent Merchandise that are not on-order goods in the Sale is subject to further Court Order.
13. To the Proposal Trustee's knowledge, Gymboree Canada has complied during these proceedings with the Sale Order and the Agency Agreement in all material respects.

#### **Lease Matters**

14. The Proposal Trustee notes that it and the Company have received inbound inquiries regarding the potential assignment of certain retail leases to third parties and the Company, in consultation with the Proposal Trustee, is considering its options with respect to such leases. The Company has also had preliminary discussions with the Proposal Trustee regarding lease disclaimer effective dates, which will require further consideration pending a determination regarding potential lease transactions. The Proposal Trustee and the Company continue to engage with the Agent regarding the Sale Termination Date for individual locations and, therefore, when individual leases can be disclaimed in an effort to minimize occupancy costs.

#### **V. ACTIVITIES OF THE COMPANY**

15. Since the making of the Sale Order, the activities of the Company have included:
  - a. commencing the Sale at all 49 of its Store locations (the Sale was deemed to start at the Stores on January 18, 2019 for computation purposes under the Agency Agreement);

- b. working with the Agent regarding the Sale;
- c. responding to calls and inquiries from creditors and stakeholders regarding the NOI proceedings;
- d. communicating with key suppliers to secure services during the NOI proceedings and to address payment terms;
- e. making payments to suppliers for goods and services received, including the payment of rent for the month of February on February 1, 2019 in accordance with paragraph 5 of the Sale Order;
- f. corresponding regularly with representatives of the Proposal Trustee to provide an update on the status of the Company's operations;
- g. reporting receipts and disbursements to the Proposal Trustee;
- h. consulting with the Proposal Trustee regarding the potential disclaimer of certain retail leases;
- i. consulting with the Proposal Trustee regarding the potential monetization of certain retail leases;
- j. preparing the Extended Cash Flow Forecast (as defined below) and consulting with the Proposal Trustee in connection therewith; and
- k. communicating with its legal counsel, the Proposal Trustee, and the Proposal Trustee's legal counsel on various matters in connection with the NOI proceedings.

## **VI. ACTIVITIES OF THE PROPOSAL TRUSTEE**

- 16. On January 23, 2019, in accordance with the BIA, the Proposal Trustee mailed, to all of the Company's known creditors, a notice informing them of the NOI filing. A copy of this notice has been posted to the Proposal Trustee's website at: [home.kpmg/ca/Gymboree](http://home.kpmg/ca/Gymboree) (the "**Website**") and is appended hereto as Appendix "B".
- 17. As described in the First Report, the Company, in consultation with the Proposal Trustee, prepared a cash flow forecast for the period from January 13, 2019 to February 16, 2019 (the "**Original Cash Flow Forecast**"). The Original Cash Flow Forecast and explanatory

notes were attached to the First Report as Appendix “D” thereto. The Original Cash Flow Forecast was submitted by the Proposal Trustee to the Official Receiver on January 27, 2019, together with the report of the Company and of the Proposal Trustee pursuant to Subsection 50.4(2) of the BIA. In support of the Motion, the Company, in consultation with the Proposal Trustee, has prepared an extended cash flow forecast for the period February 3 to March 16, 2019 (the “**Extended Cash Flow Forecast**”). The Extended Cash Flow Forecast and explanatory notes are attached hereto as Appendix “C”.

18. Further, the Proposal Trustee has engaged in the following additional activities since the date of the First Report in connection with these proceedings:
  - a. attending before the Court on two occasions in connection with the Company’s motion seeking the Sale Order;
  - b. assisting the Company and its stakeholders in negotiating the terms of the Sale Order and the Sale Guidelines;
  - c. advising the Service List that February rent was paid on February 1, 2019 in accordance with paragraph 5 of the Sale Order and Justice Hainey’s Endorsement dated January 24, 2019;
  - d. sending customized emails to counsel for, or representatives of, each landlord on the Service List confirming the particulars of the February rent payments;
  - e. engaging with certain of the Company’s stakeholders;
  - f. reviewing the Company’s unaudited financial statements and related financial information;
  - g. engaging with the Company and its financial advisor, Berkley Research Group, regarding cash flow and cash management matters;
  - h. monitoring the Company’s receipts and disbursements, with a view to performing a comparison and variance analysis against the Original Cash Flow Forecast appended to the First Report;
  - i. assisting with the preparation of the Extended Cash Flow Forecast;
  - j. reviewing weekly cash flow reporting delivered by the Company;

- k. as necessary, reviewing materials filed in the Chapter 11 proceedings of Gymboree Canada's U.S. affiliates and monitoring the dockets posted to the U.S. claims agent's website;
- l. reviewing and commenting on the Motion and the proposed Order;
- m. drafting this Second Report;
- n. monitoring the Proposal Trustee's email address and telephone hotline in respect of these NOI proceedings and posting court-filed materials to the Website;
- o. responding to calls and inquiries from creditors and other stakeholders regarding the NOI proceedings; and
- p. corresponding with the Company and its Canadian and U.S. counsel and advisors regarding the foregoing.

## **VII. CASH FLOW AND CASH MANAGEMENT**

### **Receipts and Disbursements Relative to Forecast**

- 19. Receipts and disbursements for the period from January 17, 2019, the date of the NOI, to February 2, 2019 (the "**First Reporting Period**"), as compared to the Original Cash Flow Forecast are summarized in the table below:

**Gymboree Canada**  
**Cash Flow Forecast Summary**  
**(CAD \$ in 000's)**

For the week ending	01/19	01/26	02/02	Total Actuals	Total Forecast	Variance
	Actual	Actual	Actual			
<b>Collections</b>						
Stores and E-Commerce	112	-	-	112	152	(41)
Inventory Liquidation Proceeds	-	-	1,885	1,885	3,753	(1,868)
FF&E Proceeds	-	-	-	-	28	(28)
Agent Expense Funding	-	-	606	606	1,363	(757)
Other Receipts	-	1	14	15	-	15
<b>Total Collections</b>	<b>112</b>	<b>1</b>	<b>2,505</b>	<b>2,618</b>	<b>5,296</b>	<b>(2,679)</b>
<b>Direct Expenses</b>						
Store Payroll and Benefits	(3)	(352)	(3)	(359)	(502)	144
Store Rent	-	-	(970)	(970)	(439)	(531)
Other Store Occupancy Costs	-	-	-	-	(46)	46
Sales Taxes	(6)	(7)	-	(13)	(286)	273
Canadian Professional Fees	-	-	-	-	(307)	307
Other Operating Disbursements	(0)	(304)	(153)	(458)	-	(458)
<b>Total Direct Expenses</b>	<b>(9)</b>	<b>(664)</b>	<b>(1,127)</b>	<b>(1,799)</b>	<b>(1,580)</b>	<b>(220)</b>
<b>Allocated Expenses</b>						
Corporate Payroll	-	-	-	-	(198)	198
Corporate Employee FTO	-	-	-	-	(74)	74
Corporate Rent	-	-	-	-	(37)	37
Utility Deposits	-	-	-	-	(25)	25
Corporate Expenses	-	-	-	-	(268)	268
U.S. Professional Fees	-	-	-	-	(213)	213
Cash Collateral for LCs	-	-	-	-	(2,029)	2,029
DIP Fees & Interest	-	-	-	-	(42)	42
<b>Total Allocated Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,885)</b>	<b>2,885</b>
<b>Total Expenses</b>	<b>(9)</b>	<b>(664)</b>	<b>(1,127)</b>	<b>(1,799)</b>	<b>(4,464)</b>	<b>2,665</b>
<b>Expense Treatment</b>						
Direct Expenses Paid by Gymboree Canada	(9)	(664)	(1,127)	(1,799)	(1,580)	(220)
Paid to US for Allocated Expenses	-	-	-	-	(2,680)	2,680
Subtotal: Expenses Paid by Gymboree Canada	(9)	(664)	(1,127)	(1,799)	(4,259)	2,460
US Credit Provided (Paid Down)	-	-	-	-	205	(205)
<b>Beginning Cash Balance</b>	<b>372</b>	<b>475</b>	<b>(188)</b>	<b>372</b>	<b>475</b>	<b>(102)</b>
<b>Net Cash Flow</b>	<b>103</b>	<b>(663)</b>	<b>1,378</b>	<b>818</b>	<b>1,037</b>	<b>(219)</b>
<b>Ending Cash Balance</b>	<b>475</b>	<b>(188)</b>	<b>1,191</b>	<b>1,191</b>	<b>1,512</b>	<b>(321)</b>

20. As of February 2, 2019, Gymboree Canada had received approximately \$2.7 million less in receipts than projected in the Original Cash Flow Forecast. This variance is primarily due to later than forecast timing of the receipt of the Initial Canadian Guaranty Payment and reimbursements from the Agent for direct expenses payable to Gymboree Canada pursuant to the Agency Agreement. As a result of certain administrative issues, the Initial Canadian Guaranty Payment and the reimbursement for six-weeks of occupancy costs were not received by the Company immediately following the granting of the Sale Order as provided for in the Agency Agreement. On February 1, 2019, the Company received a portion (50% of the amount due to Gymboree Canada) of the Initial Canadian Guaranty Payment and the reimbursement for occupancy costs. The remaining amounts owing were

received by Gymboree Canada on February 4, 2019 and accordingly will be reflected in the cash flow reporting in the Proposal Trustee's next report to Court. The Company is also owed a reimbursement from the Agent for store payroll incurred during the First Reporting Period.

21. The remaining receipts were approximately \$54,000 less than forecast during the First Reporting Period due to less than expected pre-Sale collections and no allocation to Gymboree Canada of the Additional Guaranteed Amount (as defined in the Agency Agreement) in respect of certain FF&E. This was partially offset by rebates received by the Company from certain vendors.
22. The Company's direct expenses were \$220,000 greater than forecast during the First Reporting Period. A portion of the variance is attributable to timing differences and a portion is related to permanent differences.
  - a. Timing differences: The Original Cash Flow Forecast reflected that rent for the Stores was to be paid in two equal payments, on the first and fifteenth of the month. However, pursuant to paragraph 5 of the Sale Order, the rent for the month of February was paid in full on February 1, 2019. In addition, there are timing differences in respect of other occupancy costs, sales taxes and the professional fees of the Company's Canadian counsel, the Proposal Trustee and its counsel, which are expected to reverse in future weeks.
  - b. Permanent differences: Store payroll and benefits were less than forecast during the First Reporting Period. This positive variance was offset by certain payments totaling approximately \$458,000 made by the Company to customs agents and freight suppliers which the Proposal Trustee understands may include pre-filing amounts. The Proposal Trustee has requested supporting documents in respect of these payments and will consider the appropriateness of these payments by Gymboree Canada following its review of the supporting documents and discussions with the Company and its advisors.

23. Pursuant to the Post-Filing Intercompany Arrangements detailed in the First Report, it was intended that the cash on hand at the date of the NOI filing and the amounts payable to Gymboree Canada by the Agent pursuant to the Agency Agreement would be segregated from the Agent's collateral and held in an account that is not a Designated Deposit Account (as defined by the Agency Agreement).
24. The Company is in the process of segregating the funds belonging to Gymboree Canada and depositing them into the Company's Canadian disbursement account. There has been a delay in segregating the funds as a result of: (a) the timing of the receipt of the Initial Canadian Guaranty Payment and the reimbursement for occupancy expenses; and (b) an automatic sweep mechanism associated with the Company's disbursement account whereby funds in such account are transferred to the Company's main concentration account on a daily basis. The Company is working with its bank to deactivate the automatic sweep mechanism. The Company has advised the Proposal Trustee that once the automatic sweep mechanism has been deactivated, the funds belonging to Gymboree Canada will be immediately transferred to the Company's disbursement account.
25. Given the issues with the Canadian disbursement account and the delay in the receipt of the Initial Canadian Guaranty Payment and the expense reimbursements, the Company and its advisors, in consultation with the Proposal Trustee, decided to delay any reimbursement by Gymboree Canada of its proper allocation of shared expenses incurred by U.S. members of the Gymboree Group. In accordance with the Post-Filing Intercompany Arrangements, the Proposal Trustee is in the process of reviewing proposed allocated expenses and expects any reimbursement by Gymboree Canada to be made in relation to properly allocated expenses during the week ending February 16, 2019. Accordingly, no payments to U.S. affiliates of Gymboree Canada in respect of allocated shared costs, or otherwise, have been made to date.

### **Extended Cash Flow Forecast**

26. Gymboree Canada's Extended Cash Flow Forecast for the period from February 3 to March 16, 2019 (the "**Extended Cash Flow Period**") reflects that the Company has sufficient cash to fund its projected operating costs for the duration of the requested stay extension.

27. As detailed in the First Report, it is intended that the NOI proceedings will be funded through amounts payable to Gymboree Canada by the Agent pursuant to the Agency Agreement and cash on hand at the date of the NOI filing. As discussed below, to the extent required, U.S. members of the Gymboree Group will also grant credit to Gymboree Canada with respect to its proportionate share of certain shared expenses.
28. The Extended Cash Flow Forecast shows receipts of approximately \$4.6 million and disbursements of approximately \$5.6 million, resulting in a negative net cash flow of approximately \$1.0 million during the Extended Cash Flow Period. In addition, during the Extended Cash Flow Period, it is anticipated that the U.S. members of the Gymboree Group will cover certain expenses in the amount of approximately \$2.0 million on behalf of Gymboree Canada that will not be reimbursed during the Extended Cash Flow Period.

**Gymboree Canada**  
**Cash Flow Forecast Summary**  
**(CAD \$ in 000's)**

For the six weeks ending	03/16 Forecast
<b>Collections</b>	
Inventory Liquidation Proceeds	2,993
Gift Cards & Merchandise Credit	(430)
FF&E Proceeds	28
Agent Expense Funding	2,057
<b>Total Collections</b>	<b>4,649</b>
<b>Direct Expenses</b>	
Store Payroll and Benefits	(1,033)
Store & Field Employee FTO	(353)
Store Rent	(970)
Other Store Occupancy Costs	(168)
Sales Taxes	(559)
Canadian Professional Fees	(920)
<b>Total Direct Expenses</b>	<b>(4,003)</b>
<b>Allocated Expenses</b>	
Corporate Payroll	(434)
Corporate Employee FTO	(127)
Corporate Rent	(64)
Utility Deposits	(25)
Corporate Expenses	(512)
U.S. Professional Fees	(350)
Cash Collateral for LCs	(2,041)
DIP Fees & Interest	(52)
KEIP / KERP	(66)
<b>Total Allocated Expenses</b>	<b>(3,671)</b>
<b>Total Expenses</b>	<b>(7,674)</b>
<b>Expense Treatment</b>	
Direct Expenses Paid by Gymboree Canada	(4,003)
Paid to US for Allocated Expenses	(1,650)
Subtotal: Expenses Paid by Gymboree Canada	(5,653)
US Credit Provided (Paid Down)	2,021
<b>Beginning Cash Balance</b>	<b>1,191</b>
Net Cash Flow	(1,004)
<b>Ending Cash Balance</b>	<b>186</b>

29. The Proposal Trustee notes the following with respect to the Extended Cash Flow Forecast:

- a. Collections: The forecast collections during the Extended Cash Flow Period of approximately \$4.6 million are comprised of: (i) a portion of the Initial Canadian Guaranty Payment and the Second Canadian Guaranty Payment; (ii) an allocation of the Additional Guaranteed Amount payable to the Merchant (as such terms are defined in the Agency Agreement) in respect of certain FF&E; and (iii) reimbursements by the Agent for direct expenses, such as store payroll and occupancy costs, related to the Sale; less (iv) repayments to the Agent for Store

sales made using gift cards during the first 30 days of the Sale and returns of merchandise during the first 14 days of the Sale pursuant to the Agency Agreement.

- b. Expenses: The Extended Cash Flow Forecast reflects both direct expenses incurred by Gymboree Canada and allocations of certain shared overhead, administrative and financial expenses incurred by the other members of the Gymboree Group on behalf of Gymboree Canada.
- (i) Direct expenses: The direct expenses during the Extended Cash Flow Period total approximately \$4.0 million and are comprised of: (1) Store payroll and benefits, (2) accrued vacation and flexible time off payments for Store employees and the regional and district managers of Gymboree Canada, (3) rent for the month of March, 2019 for the Company's retail locations, (4) other store occupancy costs, including utilities, (5) sales taxes that were collected by Gymboree Canada prior to the Sale Commencement Date and which become due during the Extended Cash Flow Period, and (6) estimated professional fees of the Company's counsel, the Proposal Trustee and the Proposal Trustee's counsel. Pursuant to the Agency Agreement, the Agent will reimburse Gymboree Canada for Store payroll and benefits incurred in respect of the Sale and has prefunded six weeks of occupancy costs up to the cap set out in the Agency Agreement. Pursuant to the Agency Agreement, occupancy costs incurred beyond the six-week period are reimbursed at a per diem rate of \$28,752.50 or \$201,267.50 per week. The per diem occupancy cost reimbursements are forecast to begin during the week ending March 9, 2019. These reimbursements will offset certain of the direct expenses incurred by Gymboree Canada.
- (ii) Allocated expenses: As discussed in the First Report, Gymboree Canada is financially and operationally dependent on other entities in the Gymboree Group. Accordingly, the Extended Cash Flow Forecast includes certain allocated expenses in respect of shared overhead, administrative and financial costs incurred by U.S. members of the Gymboree Group on behalf

of Gymboree Canada in the amount of approximately \$3.7 million. A discussion of the categories of properly allocable expenses and the appropriateness of the allocation methodology is set out in the First Report.

#### **VIII. EXTENSION OF THE TIME LIMIT TO FILE A PROPOSAL**

30. As the Company requires additional time to complete the Sale and consider additional potential asset recoveries, the Company has filed a motion seeking an Order extending the time limit to file a proposal to its creditors (a “**Proposal**”) pursuant to Subsection 50.4(9) of the BIA to March 14, 2019 (the “**Extension**”).
31. The Proposal Trustee supports the Company’s request for the following reasons:
  - a. the Proposal Trustee believes that the Company has acted, and is continuing to act, in good faith and with due diligence;
  - b. the Extension should not materially prejudice any creditors as the Company is projected to have sufficient funds to pay for post-filing goods and services in the amounts contemplated by the Extended Cash Flow Forecast;
  - c. the Extension is necessary to provide the Company with sufficient time to advance the Sale and to consider the development of a Proposal; and
  - d. as of the date of this Second Report, the Proposal Trustee is not aware of any party opposing the Extension.
32. While it is too early to determine whether a viable Proposal will be presented by the Company to its creditors, in the Proposal Trustee’s view, the Company’s request for an extension is reasonable in the circumstances. In particular, the Proposal Trustee believes that the completion of the Sale as part of the NOI proceedings will allow for the maximization of value and minimization of disruption to operations, which is in the best interests of the Canadian estate.

**IX. CONCLUSION**

33. The Proposal Trustee submits this Second Report to the Court in support of the Company's motion for the relief as set out in its Motion Record and recommends that the Court grant the relief contained in the proposed Order.

All of which is respectfully submitted at Toronto, Ontario this 8<sup>th</sup> day of February, 2019.

**KPMG Inc., in its capacity as Proposal Trustee of  
Gymboree, Inc.**

Per:   
\_\_\_\_\_  
Anamika Gadia  
Senior Vice President

## **Appendix “C”**

Second Extended Cash Flow Forecast (with Explanatory Notes)

**Gymboree, Inc.**  
**CAD - Cash Flow Summary**  
**(CAD \$ in 000's)**

For the week ending		03/09	03/16	03/23	03/30	04/06	04/13	04/13
	Notes	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Forecast
<b>Collections</b>								
Inventory Liquidation Proceeds	1	-	-	402	-	-	-	402
Gift Card & Merchandise Credit	2	(180)	-	-	-	-	-	(180)
FF&E Proceeds	3	28	-	-	-	-	-	28
Agent Expense Funding	4	1,224	204	516	204	382	73	2,602
<b>Total Collections</b>		<b>1,071</b>	<b>204</b>	<b>918</b>	<b>204</b>	<b>382</b>	<b>73</b>	<b>2,852</b>
<b>Direct Expenses</b>								
Store Payroll and Benefits	5	(344)	-	(344)	(299)	(91)	-	(1,079)
Store & Field Employee FTO	6	-	-	-	-	(353)	-	(353)
Store Rent	7	-	-	-	(88)	-	-	(88)
Canadian Professional Fees	8	(591)	(82)	(82)	(82)	(82)	(82)	(1,000)
Other Operating Disbursements	9	(1)	(1)	(1)	(1)	(8)	-	(12)
<b>Total Direct Expenses</b>		<b>(936)</b>	<b>(83)</b>	<b>(427)</b>	<b>(469)</b>	<b>(534)</b>	<b>(82)</b>	<b>(2,531)</b>
<b>Allocated Expenses</b>								
Corporate Payroll	10	(128)	(10)	(128)	(10)	(128)	-	(404)
Corporate Employee FTO	11	-	-	-	(34)	-	-	(34)
Corporate Expenses	12	(11)	(11)	(11)	(11)	(11)	-	(55)
U.S. Professional Fees	13	(12)	(12)	(12)	(12)	(12)	-	(60)
DIP Fees & Interest	14	-	-	(74)	-	-	-	(74)
KEIP / KERP	15	-	-	-	(66)	-	-	(66)
<b>Total Allocated Expenses</b>		<b>(151)</b>	<b>(33)</b>	<b>(225)</b>	<b>(133)</b>	<b>(151)</b>	<b>-</b>	<b>(693)</b>
<b>Total Expenses</b>		<b>(1,087)</b>	<b>(116)</b>	<b>(652)</b>	<b>(602)</b>	<b>(685)</b>	<b>(82)</b>	<b>(3,224)</b>
<b>Expense Treatment</b>								
Direct Expenses Paid by Gymboree Canada		(936)	(83)	(427)	(469)	(534)	(82)	(2,531)
Paid to US for Allocated Expenses	16	-	(2,300)	-	-	-	-	(2,300)
Subtotal: Expenses Paid by Gymboree Canada		(936)	(2,383)	(427)	(469)	(534)	(82)	(4,831)
U.S. Credit Provided (Paid Down)	16	151	(2,267)	225	133	151	-	(1,607)
<b>Beginning Canada Cash Balance</b>		<b>2,270</b>	<b>2,405</b>	<b>226</b>	<b>717</b>	<b>451</b>	<b>299</b>	<b>2,270</b>
Net Cash Flow		135	(2,179)	491	(266)	(152)	(9)	(1,979)
<b>Ending Canada Cash Balance</b>		<b>2,405</b>	<b>226</b>	<b>717</b>	<b>451</b>	<b>299</b>	<b>290</b>	<b>290</b>
<b>U.S. Credit Provided</b>								
Opening balance		2,921	3,072	805	1,030	1,163	1,314	2,921
U.S. Credit Provided (Paid Down)	16	151	(2,267)	225	133	151	-	(1,607)
<b>Ending Canada Cash Balance</b>		<b>3,072</b>	<b>805</b>	<b>1,030</b>	<b>1,163</b>	<b>1,314</b>	<b>1,314</b>	<b>1,314</b>

To be read in conjunction with the Third Report of the Proposal Trustee and the notes to the Second Extended Cash Flow Forecast

## **Gymboree Canada**

### **Notes to the Second Extended Cash Flow Forecast**

The Second Extended Cash Flow Forecast covers the period from March 3, 2019 to April 13, 2019 (the “**Second Extended Cash Flow Period**”). The notes to the Second Extended Cash Flow Forecast should be read in conjunction with paragraphs 35 to 38 of the report of KPMG Inc., in its capacity as proposal trustee of Gymboree, Inc., dated March 11, 2019 (the “**Third Report**”). Defined terms not otherwise defined herein have the meaning ascribed to them in the Third Report.

The Second Extended Cash Flow Forecast is presented in thousands of Canadian dollars. U.S. dollar amounts have been converted using an exchange rate of \$1.325, which is similar to official exchange rates posted by the Bank of Canada at the time the Second Extended Cash Flow Forecast was prepared.

1. ‘Inventory Liquidation Proceeds’ represents the Second Canadian Guaranty Payment payable to Gymboree Canada pursuant to the Agency Agreement. As discussed in the Third Report, the Agency Agreement provided the Gymboree Group with an option (the “**J&J Option**”), exercisable within 28 days after the date of the Agency Agreement, to exclude Janie and Jack® stores from the Sale. The Agency Agreement provides that, upon exercise of the J&J Option, the Agent would become entitled to, among other things, a reduction in the Merchandise Guarantee Percentage from 89% to 80%. The Gymboree Group has advised the Proposal Trustee that, notwithstanding that the Agency Agreement provides for this adjustment upon the exercise of the J&J Option, Gymboree Canada has and will receive a Merchandise Guarantee Percentage equivalent to 89% of its inventory value. The Company has advised that it has almost completed the inventory count and reconciliation with the Agent. As a result of the inventory count and reconciliation, the Second Canadian Guaranty Payment is expected to be less than initially forecast as shrinkage of Canadian merchandise was greater than anticipated. The Company has advised the Proposal Trustee that it expects the funds to be received during the week ending March 16, 2019.
2. ‘Gift Cards & Merchandise Credit’ represents reimbursements to the Agent pursuant to the Agency Agreement for Store sales made using gift cards during the first 30 days of the Sale and returns of merchandise during the first 14 days of the Sale. An adjustment for gift card purchases and merchandise exchanges was initially included in the Original Cash Flow Forecast at a lesser amount against the ‘Stores and E-Commerce’ line item and was calculated as an allocation of 4.5% of the Gymboree Group’s total outstanding gift card balance. As of the date of the Second Extended Cash Flow Forecast, the Company and its advisors now have a better view of expected gift card purchases and merchandise exchanges that occurred in Canada and have reflected this as a separate line item as it is now a material balance. These amounts are still subject to a reconciliation prior to being settled by the Company with the Agent.
3. ‘FF&E Proceeds’ represents an allocation to Gymboree Canada of 4.5% of the USD\$1,000,000 guaranteed amount payable by the Agent pursuant to the Agency Agreement in respect of the Gymboree Group’s owned furniture, fixtures, and equipment (“**FF&E**”) located in its retail stores.
4. Pursuant to the Agency Agreement, the Agent is responsible for certain expenses incurred during the Sale period including, (i) payroll and benefits for Store employees; (ii) rent and occupancy expenses for the Stores; and (iii) central administrative services expenses. ‘Agent Expense Funding’ during the Second Extended Cash Flow Period includes the following:
  - a. Reimbursement for all payroll and benefits for Store employees incurred during Second Extended Cash Flow Period;

- b. Reimbursement for Store occupancy expenses on a per diem basis. Pursuant to the Agency Agreement, occupancy costs incurred beyond the six-week period are reimbursed at a per diem rate of \$28,752.50 or \$201,267.50 per week. The per diem occupancy cost reimbursements are forecast to begin during the week ending March 9, 2019. The per diem reimbursements for occupancy costs incurred beyond March 30, 2019 for the Additional Closing Stores will be reduced as Stores are vacated;
  - c. Reimbursement equivalent to 4.5% of the central services reimbursement; and
  - d. A catch-up payment of reimbursable expenses relating to the First Reporting Period and the Second Reporting Period currently being held by US members of the Gymboree Group on Gymboree Canada's behalf.
5. This represents the payroll and benefits for Store employees.
  6. 'Store & Field Employee FTO' represents accrued vacation and flexible time off pay owed to Store employees and the regional and district managers of Gymboree Canada. These amounts are not reimbursable by the Agent.
  7. This represents a partial payment of rent, to be made on April 1<sup>st</sup>, payable in respect of 13 of the Company's Stores for which disclaimer notices were issued on March 11, 2019. As discussed in the Third Report, the Company, in consultation with the Proposal Trustee, worked with the Agent to determine the Sale Termination Date in respect of each Store and to issue disclaimer notices that would become effective coincidental with or as shortly as possible following the applicable Sale Termination Date in order to minimize non-reimbursable occupancy costs. Pursuant to the Agency Agreement, the majority of the occupancy expenses incurred during the Second Extended Cash Flow Period are being reimbursed by the Agent at a per diem rate of \$28,752.50 or \$201,267.50 per week beginning during the week ending March 9, 2019.
  8. This represents the estimated professional fees of the Proposal Trustee, the Proposal Trustee's counsel and counsel to Gymboree Canada. No professional fee payments were made to the Proposal Trustee, the Proposal Trustee's counsel or counsel to Gymboree Canada during the Extended Cash Flow Period; accordingly, the amounts reflected in the Second Extended Cash Flow Forecast include fees incurred but not paid during the First Reporting Period and Second Reporting Period.
  9. This represents other operating disbursements, which is primarily comprised of bank fees.
  10. 'Corporate Payroll' represents an allocation of payroll and benefits related to Gymboree Group's corporate and administrative functions.
  11. This represents an allocation of the accrued vacation and flexible time off pay owed to corporate employees of the Gymboree Group that are expected to be terminated during the Second Extended Cash Flow Period.
  12. This represents an allocation of various expenses incurred by the U.S. members of the Gymboree Group in relation to providing corporate and administrative functions.
  13. This represents an allocation of a portion of the professional fees of Gymboree Group's financial and legal advisors, BRG and Milbank, Tweed, Hadley & McCloy LLP, which is meant to cover the work performed by those professionals in respect of Gymboree Canada.

14. This represents an allocation of the fees and interest related to the debtor-in-possession (“**DIP**”) financing that was obtained by the Gymboree Group in the Chapter 11 Proceedings to fund the wind-down of its business. The Proposal Trustee was initially advised that only fees and interest related to the initial draw would be allocated to Canada. However, that was under the assumption that the J&J Sale was completed nearer to the initial draw date allowing the DIP financing to be repaid before significant interest costs were incurred by the Gymboree Group. Given that the J&J Sale was prolonged, the Company has now allocated a portion of the interest expense incurred to Gymboree Canada.
15. This represents an allocation of 4.5% of the key employee incentive plan for certain employees of the U.S. members of the Gymboree Group.
16. Subject to available liquidity and maintaining an appropriate cash reserve in Canada, it is contemplated that Gymboree Canada will reimburse the U.S. members of the Gymboree Group for direct and shared costs incurred by the U.S. members of the Gymboree Group on behalf of Gymboree Canada. If there is not sufficient cash available in Canada, the U.S. members of the Gymboree Group will extend credit to Gymboree Canada for these costs, which will be covered by the Intercompany Charge, as is described further in the First Report.