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*Proposed Co-Counsel to the Debtors and Debtors in Possession*

**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE EASTERN DISTRICT OF VIRGINIA**
**RICHMOND DIVISION**

| | | |
|---|---|---|
| In re: | ) | Chapter 11 |
| PIER 1 IMPORTS, INC., *et al.*,[1] | ) | Case No. 20-30805 (KRH) |
| Debtors. | ) | (Joint Administration Requested) |

# DECLARATION OF ROBERT J. RIESBECK, CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF PIER 1 IMPORTS, INC., IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

I, Robert J. Riesbeck, Chief Executive Officer and Chief Financial Officer of Pier 1 Imports, Inc., hereby declare under penalty of perjury:

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are set forth in the *Debtors' Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief* filed contemporaneously herewith. The location of the Debtors' service address is 100 Pier 1 Place, Fort Worth, TX 76102.

## Introduction

1. The so-called "retail apocalypse" has truly taken on a life of its own—from its own Wikipedia page[2] to dozens of articles attempting to discern its true meaning.[3] No retail company or consumer in the United States has been immune from its reach over the last several years. Yet for all the commentary and constant analysis, the retail apocalypse is simply a fancy way of saying the American consumer has adjusted its consumption habits. Too many pundits have sought to point in too many wrong directions.[4] In the face of the longest bull run in U.S. history (close to 3,000 days and counting), a myriad of factors have collectively changed the ways in which consumers and retailers interact—creating for retailers what is tantamount to a perfect storm—and directly contributing to the struggles retailers face in a shifting marketplace.[5] Pier 1 is unfortunately a prime example.

2. Pier 1 has been at the forefront of major home décor and furniture trends since 1962, operating more than 1,000 stores across the United States and Canada at its peak. Pier 1 offers unique home furnishings and accessories focused on inspiring, fun, colorful, creative, out-of-the-ordinary home décor and furniture. And its loyal customer base recognizes the company

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2 https://en.wikipedia.org/wiki/Retail_apocalypse.

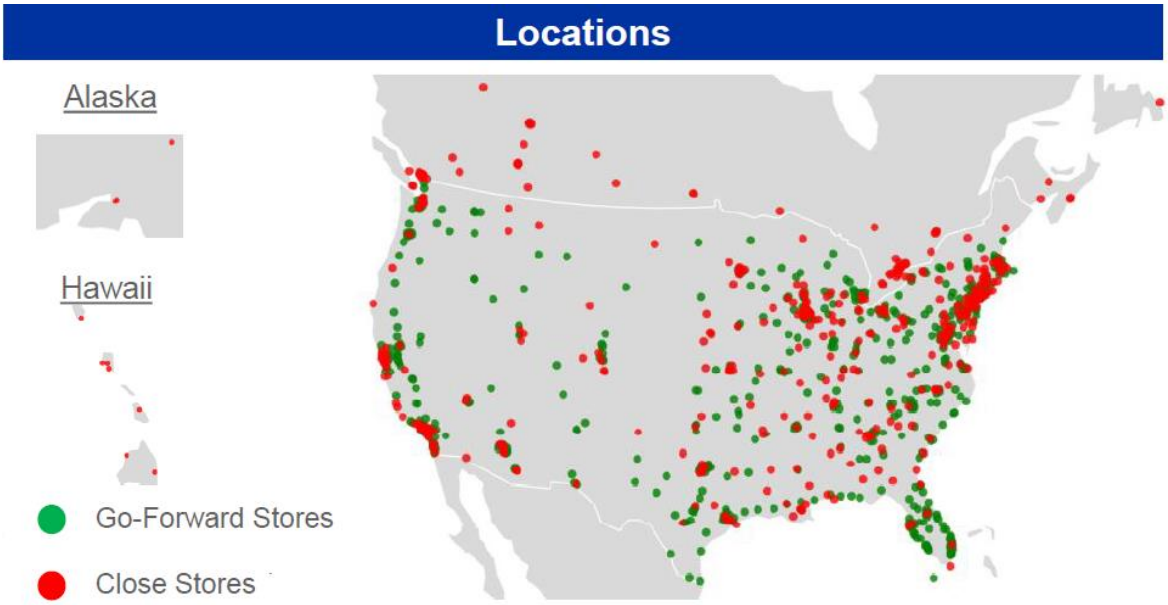
3 *See, e.g.*, See, e.g., Derek Johnson, What in the World is Causing the Retail Meltdown of 2017, The Atlantic, Apr. 10, 2017 ("[S]everal trends—including the rise of e-commerce, the over-supply of malls, and the surprising effects of a restaurant renaissance—have conspired to change the face of American shopping.") (https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/).

4 See, e.g., Ben Unglesbee and Nicole Ault, Is the Road to Bankruptcy Paved by Private Equity, Retail Dive, Nov. 9, 2018 (https://www.retaildive.com/news/the-road-to-bankruptcy/540617/); Lillian Rizzo, Private Equity Takes Fire as Some Retailers Struggle, Wall St. J., July 30, 2017, (https://www.wsj.com/articles/vendors-landlords-target-private-equity-firms-in-retail-rubble-1501412401).

5 This includes: (a) the so called "Amazon effect," the general movement of consumers towards online and direct to consumer retail, particularly in light of younger generations growing into a convenience culture enabled by changing technologies; (b) single-category stores struggling to compete as mega retailers, such as Target and Walmart, expand into new product lines; (c) consumer trend towards "minimalism" over consumerism and the rise of consumer resale; (d) sharing platforms and the rise of rental and resale; (e) direct to-consumer digitally native vertical brands; and (f) the proliferation of goods globally.

for the value it provides; Pier 1 merchandise is of similar quality to that of its higher-end competitors but at price points closer to that of online stores and furniture sections at mass-market retailers.

3. Unlike many other retailers that have recently commenced chapter 11 cases, Pier 1 is a public company with only $400 million of indebtedness. Pier 1 has a strong online platform and omni-channel platform, accounting for approximately 27% of *overall* sales. The company has, however, struggled to evolve in the modern retail environment. From fiscal years 2014 to 2018, the company's net income dropped from $108 million to about $11.6 million and in fiscal year 2019 Pier 1 experienced a $198.8 million loss. But Pier 1 has not stood idle. Over the course of the past year, Pier 1 has sought to implement a reshaping of its business and building of the top line through renewed focus on its brand and core group of purchasers, realignment of its merchandising strategy, and reshaping its far too expansive store footprint. Pier 1—under new management—is attempting to turning the corner in an ever-changing retail landscape. Contemporaneously, the company is in the process of closing up to 450 stores, and in conjunction with this filing, announced its intent to completely close its Canadian operations. And the management team and its advisors, under the direction of a highly functioning world-class board of directors, will stop at nothing to keep the lights on for this retail mainstay.




4. With the support of 63.8 percent of its prepetition term loan lenders, Pier 1 commences these cases with an agreed plan and operational process designed to maximize the value of the enterprise for the benefit of *all* stakeholders and continue the operational redo that is already underway. More specifically, as contemplated in the plan support agreement and related bidding procedures, the company will continue this broad marketing effort to seek all manner of bids for its assets. The "all weather" chapter 11 plan contemplated by the plan support agreement, which the company intends to file no later than February 24, 2020, provides for either the effectuation of a sale or the equitization of term loan indebtedness on a stand-alone basis. To be clear, the term loan lenders have made no decision at this point, but instead support the process as outlined in the plan support agreement. The Debtors have secured $256 million in debtor in possession financing to facilitate this process. The company expects to seek confirmation of its plan in approximately 66 days.

## Background

5. I am the Chief Executive Officer of Pier 1 Imports, Inc.[6] and have served in that role since November 4, 2019. I also currently serve as the Chief Financial Officer of Pier 1, having served in that role since July 2019.

6. Before to joining the company, I was Chief Financial Officer of FullBeauty Brands from June 2018 to February 2019. Before Full Beauty, I served as the Chief Financial officer of H.H. Gregg, inc. from September 2014 to June 2016, and then as Chief Executive Officer from February 2016 to June 2017. I also served as an operating executive of Sun Capital Partners, Inc. from 2010 to 2014, and Chief Financial Officer of a Sun Capital Partners, Inc. portfolio company, Marsh Supermarkets, from 2006 through 2010. Before that, I served as the Chief Operating Officer and Chief Financial Officer of subsidiaries of Nike, Inc. from 2000 through 2005.

7. Each Debtor filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101–1532 (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Eastern District of Virginia (the "Court") on Monday, February 17, 2020 (the "Petition Date"). To minimize the adverse effects on their business, the Debtors also filed motions and pleadings seeking various types of "first day" relief (the "First Day Motions").

8. I am generally familiar with the Debtors' day-to-day operations, business and financial affairs, and books and records. I submit this declaration to explain to the Court and interested parties why the Debtors filed these cases, and in support of the First Day Motions.

9. Unless stated otherwise, all facts in this declaration are based upon my personal knowledge; my discussions with the management team and outside advisors, including investment banker Guggenheim Securities, LLC, restructuring advisor AP Services, LLC, restructuring

[6] In this declaration "Pier 1" or "Debtors" refers to Pier 1 Imports, Inc. together with its Debtor affiliates.

counsel Kirkland & Ellis LLP, and Canadian counsel Osler, Hoskin & Harcourt LLP; my review of documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives; or my opinions based on my experience and knowledge.

10. I am over the age of 18 and authorized to submit this declaration on behalf of the Debtors. I would testify to the matters stated in this declaration.

11. To familiarize the Court with the Debtors, their business, the circumstances leading to these chapter 11 cases, and the relief the Debtors are seeking in the First Day Motions, I have organized this declaration as follows:

- **Part I** describes the Debtors' corporate history and current operations;
- **Part II** describes the Debtors' prepetition capital structure; [7]
- **Part III** describes the circumstances leading to the filing of these chapter 11 cases and the Debtors' current restructuring efforts;
- **Part IV** describes the proposed debtor-in-possession financing; and
- **Part V** sets forth the evidentiary basis for the relief requested in each of the first day pleadings.

## Discussion

## I. Company History and Current Operations.

### A. History.

12. Pier 1 is widely regarded as the original "treasure hunt" destination for home furnishings and is known for its unique culture, rich heritage and quality, and edited and styled collection of on-trend and one-of-a-kind home furnishings and decorative accessories.

[7] Many of the financial figures presented in this declaration are unaudited and potentially subject to change, but reflect the Debtors' most recent review of their business. The Debtors reserve all rights to revise and supplement the figures presented herein.

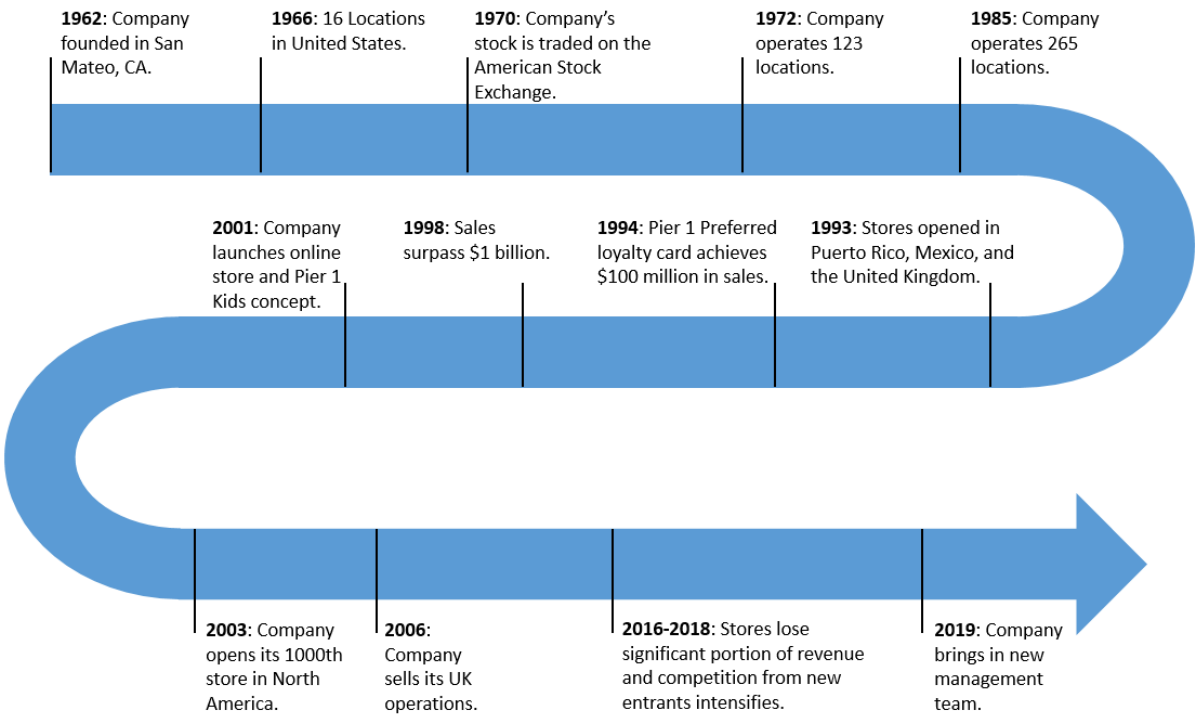



13. Founded with a single store in San Mateo, California in 1962, Pier 1's first customers were post-World War II baby boomers looking for beanbag chairs, love beads, and incense. By 1966, the company had expanded to 16 locations selling incense and novelty items, and established its corporate headquarters in Fort Worth, Texas. By 1970, the company's stock was publically traded on the American Stock Exchange. Two years later, Pier 1 joined the New York Stock Exchange under the symbol PIR. By this time, Pier 1 had 123 stores and had expanded its international presence by adding stores in Australia and Europe.

14. The company rapidly expanded beginning in the 1970s and continuing through the 1990s. In 1979, a store in Royal Oak, Michigan was the first to reach $1 million in annual sales.

By 1985 the company operated 265 stores. In 1988, the company launched the Pier 1 Preferred loyalty card; within its first year 120,000 customers were cardholders and by 1994, the card generated over $100 million in sales. The company continued to grow its footprint and increase its brand exposure through the 1990s, expanding into Puerto Rico and developing partnerships for operations in the United Kingdom and Mexico. In 1996, the company introduced its first program designed to provide interior designers exclusive product previews and generous discounts on Pier 1 merchandise, which is still offered as the Trade Perks program at all company stores throughout the U.S. and Canada.

15. Since the turn of the millennium, the company has continued to expand and evolve, developing an e-commerce platform, opening new stores, and modernizing its existing stores. A detailed company timeline is included below:



16. Today, Pier 1's merchandise is cohesive, aspirational, and inspiring. Pier 1's store associates are a defining asset and hallmark of any visit to a Pier 1 store location; their dedication to delighting customers at every turn sets Pier 1 apart from its competitors and has long been considered one of Pier 1's greatest strengths.

17. Pier 1's products, including a wide variety of decorative accessories, candles, housewares, gifts, and seasonal products are available in retail stores throughout the United States and Canada, as well as 61 store-in-store formats in Mexico and 1 in El Salvador through a partnership with Grupo Sanborns (as defined below). The company directly imports the majority of its merchandise from China, India, and Vietnam. Pier 1's stores attract a loyal customer base that appreciates the company's curated, unique mix of home goods from the world's most gifted artisans reflecting fashion-forward trends and handcraft exclusive products.

**B. Geographical and Digital Footprint.**

18. As of the Petition Date, the company operates 858 stores in the United States and 65 stores in Canada in addition to its e-commerce website, www.pier1.com, with e-commerce representing 27% of total sales.[8] As announced on January 6, 2020, the company is in the process of closing up to 450 stores, and in conjunction with this filing, announced its intent to close its Canadian operations. The go-forward footprint is expected to be approximately 540 stores.

19. The company's anticipated go-forward stores average approximately 10,000 gross square feet, which includes an average of approximately 8,000 square feet of retail selling space. The stores are most commonly located in freestanding units near shopping centers or malls and in-line positions in major shopping centers. Historically, the company operated in substantially all major U.S. and most Canadian metropolitan areas and many of the primary smaller markets.

[8] As a percentage of sales in the last twelve months as of the company's third fiscal quarter of fiscal year 2020.

Going forward, the store will have a substantially similar footprint in the United States, but with fewer stores in the same markets. The company operates regional distribution center facilities and/or fulfillment centers in or near Baltimore, Maryland; Columbus, Ohio; Fort Worth, Texas; Ontario, California; Savannah, Georgia; and Tacoma, Washington.[9] The company's corporate headquarters is located in Fort Worth, Texas. As of the Petition Date, the company employs approximately 17,000 employees in the United States and Canada.[10]

20. The company, through Debtor PIR Trading, Inc., has an arrangement to supply Grupo Sanborns, S.A.B. de C.V. ("Grupo Sanborns") with the company's merchandise to be sold by Grupo Sanborns' subsidiaries, Sears Operadora de Mexico, Corporacion de Tiendas Internationales, S.A. de C.V., and claroshop.com, S.A.P.I. de C.V. Through this relationship, Grupo Sanborns operates a "store within a store" format for Pier 1 merchandise in locations in 61 of Mexico, 1 location in El Salvador, and online at claroshop.com.

**C. Product Mix and Sales.**

21. The company generally has its highest sales volumes during November and December as a result of the holiday selling season. In the nine months ending November 2019, the company had net sales of approximately $977 million. This sales figure is a result of consistent decline in average unit prices and loss of foot traffic to stores, as shown by a decrease in net sales by more than 14% from fiscal year 2019, and more than 24% from fiscal year 2018. While the broad categories of the company's merchandise remain fairly constant, individual items within

[9] Pier 1 is currently in the process of closing the Distribution Centers in Ontario, California and Columbus, Ohio, and is consolidating its two buildings in Baltimore, Maryland into one facility.

[10] On January 6, 2020, the Debtors announced the closing of up to 450 stores and reduction of workforce in the home office. The Debtors estimate that approximately 6,000 employees will be terminated during these chapter 11 cases.

merchandise categories change frequently in order to meet the changing demands and preferences of customers and trends.

22. The principal categories of merchandise include:

- ***Decorative accessories***, which constitutes the broadest category of merchandise in the company's sales mix and accounted for approximately 67% of sales in fiscal year 2019, compared to approximately 65% of sales in fiscal years 2018 and 2017. These goods include decorative accents and textiles such as rugs, wall decorations and mirrors, pillows, bedding, lamps, vases, dried and artificial flowers, baskets, ceramics, dinnerware, candles, fragrance, gifts, and seasonal items, and

- ***Furniture***, which consists of furniture and furniture cushions to be used in living, dining, office, kitchen and bedroom areas, as well as sunrooms and patios. This group accounted for approximately 33% of sales in fiscal year 2019, compared to approximately 35% of sales in fiscal years 2018 and 2017. The company's furniture is generally made of metal or handcrafted natural materials, including rattan, pine, acacia, oak, and other woods with either natural, stained, painted, or upholstered finishes.

**D. Customer-Focused Inventory and Marketing.**

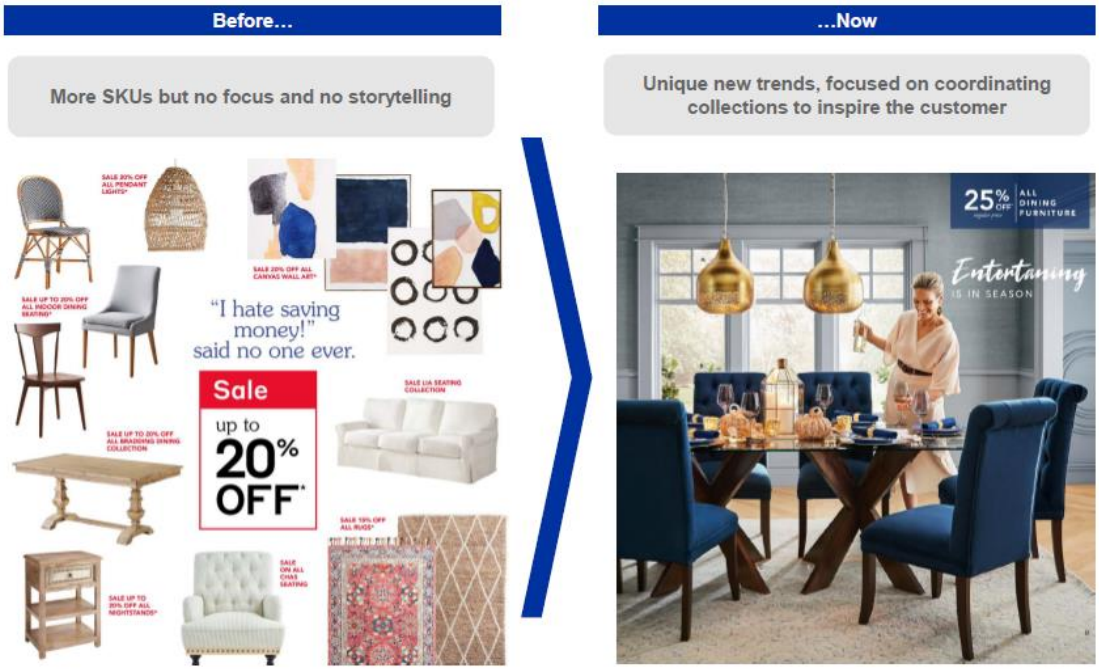
23. Further, the company has returned to its historic product mix and quality. New management has reduced the SKU count and redesigned the stores to show customers a compelling design story that they can bring into their own home. The company has shifted to a curated product mix with proprietary designs and higher quality. This new product mix reflects a focus on fast-growing segments such as furniture and home décor and accessories. The below examples depict the company's updated product mix:





24. These key strategies allow the company to capitalize on new trends and coordinate collections, which will inspire the customer and maintain brand loyalty. The limited SKU count allows the company to showcase compelling merchandise which has favorable unit economics. As an example, sales of the company's top furniture collections from August through December 2019 increased 47% from the year prior, while merchandise margin increased 44% over the same period. Additionally, the company has implemented new inventory management systems to drive execution and accountability for SKU realization, including new tools and guardrails to ensure inventory plans are financially sound and well executed.

25. The company's updated marketing materials reflect the refreshed focus on an elevated and cohesive style. Whereas before these strategic changes the advertisements focused squarely on breadth of SKUs and the low-cost attributes, the current marketing materials show distinct style and complementary pieces, providing a more fulsome design to inspire the company's core customers. The below advertisings provide a clear picture of the company's efforts to present a refined and elevated style.




**E. Supply Chain and Vendor Relationships.**

26. The Debtors' supply chain and vendor relationships are some of the most important components of its business. The company maintains an integrated supply chain aimed at ensuring the uninterrupted flow of fresh merchandise to their brick-and-mortar locations and to the company's distribution centers. In order to meet the changing demands and preferences of customers and adapt to trends within the market, the company works closely with various vendors and logistics providers to ensure merchandise is up to the standards the Company's customers demand, and delivered on time. The company also utilizes buying agents (the "Buying Agents") in overseas markets to assist with product development and sampling, order management, product inspection, and quality control.

27. Over the past year, the company implemented an integrated industry standard "End2End" process, previously nonexistent at the company, that is data driven and reinforces a culture of collaboration, accountability, and results. The iterative process begins with the company developing a style story, and considering merchandise selection and mix. Samples are produced,

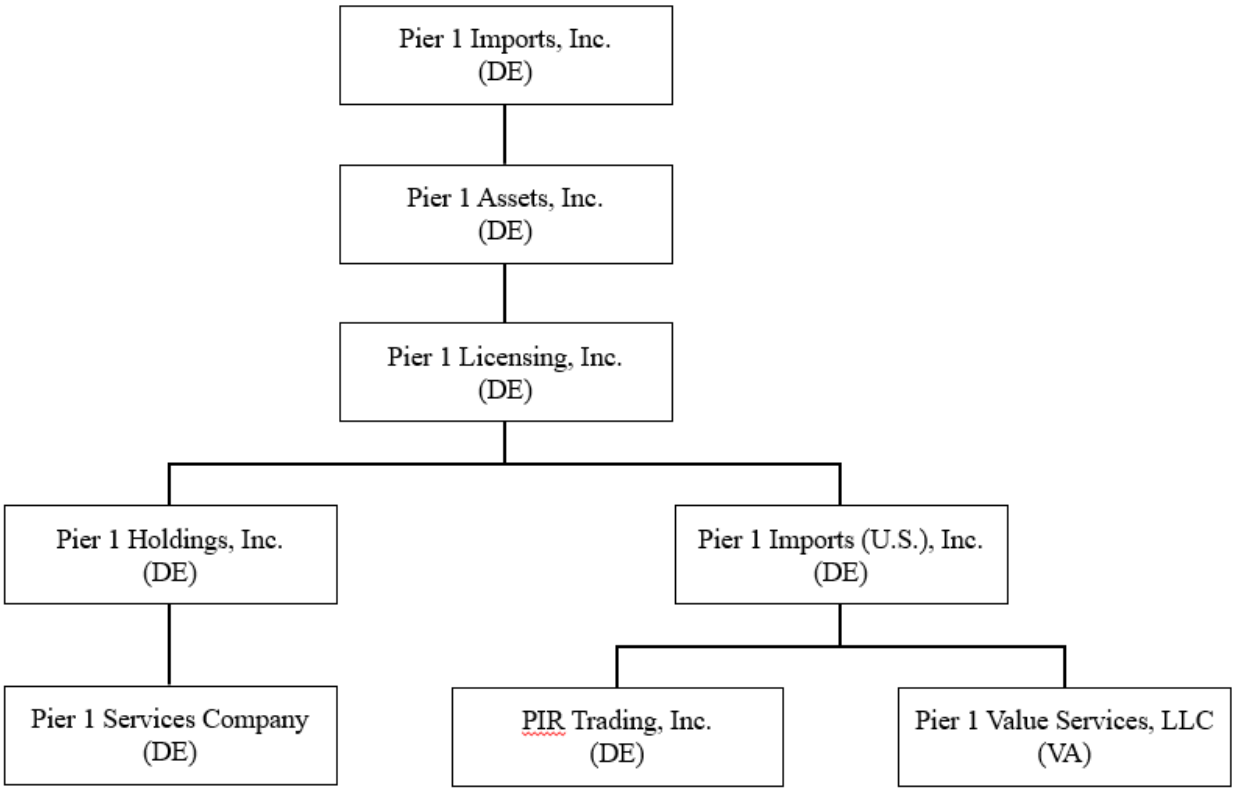
and employees and Buying Agents liaise with merchants and vendors. The product line and mix are then reviewed from a financial and marketing perspective, ensuring that any changes are implemented to meet company goals and standards. While the final product is being produced, employees work through final mock store walkthroughs in order to present the merchandise in a cohesive and elevated manner. Once the vendor ships the final orders, it takes approximately 12 weeks for the order to arrive and for employees to prepare the floor sets. In total, this integrated process requires 54 weeks of lead time.

28. The company, utilizing their Buying Agents, coordinates with overseas vendors to ship the merchandise on ocean freight carriers to the company's destination port. Once the goods arrive at the destination port, the company oversees their transport to the appropriate distribution center.

29. During fiscal year 2019, the company sold merchandise imported from many different countries, with approximately 60% of its sales derived from merchandise produced in China, 16% in India and 17% collectively in Vietnam, the United States, and Indonesia. The remainder of its merchandise is sourced from other countries around the world. Most merchandise is shipped from the supplier to the company's distribution centers, where merchandise is then allocated and delivered to retail stores, fulfillment centers, or to third-party carriers fulfilling customer orders.

## II. The Debtors' Prepetition Corporate and Capital Structure.

30. The below chart depicts the Debtors' current corporate structure:




As of the Petition Date, the Debtors' capital structure consists of outstanding funded-debt obligations in the aggregate principal amount of approximately $400.0 million. The following table summarizes the Debtors' outstanding funded-debt obligations as of the Petition Date (collectively, the "Prepetition Credit Facilities"):

| Funded Debt | Maturity | Facility | Interest Rates | Funded Debt Outstanding as of the Petition Date |
|---|---|---|---|---|
| **Revolving Credit Facility** | June 2, 2022 | ABL Facility | Libor + 1.25–1.50% or Prime rate + 0.25–0.50% | $187,300,000[11] |
| | | FILO Facility | Libor + 3.00% Prime rate + 0.25–0.50% | |
| | | ABL Term Loan | Libor + 8.00% or Prime rate + 7.00% | |
| **Term Loan Facility** | April 30, 2021 | Term Loan Facility | Libor [12] + 3.50% or Base rate + 2.50% | $189,000,000 |
| **TOTAL** | | | | **$400,000,000**[13] |

**A. Prepetition Revolving Credit Facility.**

31. Pier 1 Imports (U.S.), Inc. ("Pier 1 (U.S.)"), as lead borrower, certain affiliates of Pier 1 (U.S.), as guarantors, Bank of America, N.A. ("BofA"), as administrative agent and collateral agent (the "Prepetition ABL Administrative Agent"), Pathlight Capital Fund as ABL Term Loan agent, and certain financial institutions, as lenders (the "Prepetition Revolving Lenders"), are party to the Prepetition Credit Agreement, which provides for a senior secured asset based revolving credit facility that matures on June 2, 2022 (the "ABL Facility"), a senior secured tranche "first in last-out" term loan that matures on June 2, 2022 (the "FILO Facility"), and an asset based term loan (the "Term Loan Facility", and together with the ABL Facility and the FILO Facility, the "Revolving Credit Facility").

32. The obligations under the Prepetition Credit Agreement are secured, subject to certain exceptions, by a first priority lien on certain of the assets of Pier 1 and the other domestic

[11] Amount is inclusive of approximately $47.3 million in Letters of Credit Outstanding.

[12] There is 1.00% LIBOR Floor.

[13] Amount is inclusive of approximately $9.5 million outstanding under industrial revenue bonds and approximately $14.2 million in loans secured by company-owned life insurance policies.

guarantors, including, without limitation, eligible merchandise inventory, third-party credit card receivables, and related assets, and a second lien on substantially all other assets of certain subsidiaries. As of the Petition Date, approximately $90.0 million in borrowings and approximately $47.3 million of letters of credit are outstanding under the Prepetition Credit Agreement.

**B. Prepetition Term Loan Facility.**

33. Pier 1 (U.S.), as lead borrower, certain affiliates of Pier 1 (U.S.), as guarantors, Wilmington Savings Fund Society, FSB, as successor administrative agent (the "Term Agent"), and certain financial institutions, as lenders (the "Term Loan Lenders"), are party to that certain Term Loan Credit Agreement, dated as of April 30, 2014 (as amended, novated, supplemented, extended or restated from time to time, the "Term Loan Agreement"), which provides for a secured term credit facility consisting of a term commitment of $200.0 million, which matures on April 30, 2021.

34. The obligations under the Term Loan Agreement are secured, subject to certain exceptions, by a second priority lien on all assets subject to a first priority lien under the Revolving Credit Facility, and a first lien on substantially all other assets of certain subsidiaries. As of the Petition Date, approximately $189.0 million in borrowings are outstanding under the Term Loan Agreement.

**C. Industrial Revenue Bonds.**

35. Pier 1 Imports (U.S.), Inc. owns certain property in Mansfield, Texas (the "Mansfield Property"), which was financed by certain bonds (the "Industrial Revenue Bonds") incurred under that certain loan agreement by and between itself and the City of Mansfield Industrial Development Corporation dated November 1, 1986 (the "Mansfield Loan Agreement"). The current value of the Mansfield Property is estimated in excess of $9.9 million. The Industrial

Revenue Bonds have approximately $9.5 million of principal and interest outstanding. Under the Term Loan Agreement, the Mansfield Property is not required to be pledged as collateral as long as the Mansfield Loan Agreement remains outstanding. The Mansfield Loan Agreement is due to mature on November 1, 2026.

**D. Company-Owned Life Insurance**

36. The Debtors are party to certain company-owned life insurance contracts (collectively, "COLIs") by and between Pier 1 Services Company and John Hancock Mutual Life Insurance Company ("John Hancock"), and Voya Financial ("Voya" and together with John Hancock, the "Insurers"). The COLIs are life insurance policies on certain former employees held for the benefit of the company. Pursuant to the COLIs, the policyholder is permitted to borrow against the cash surrender value of each individual COLI. As of the Petition Date, the collective cash surrender value of the COLIs is roughly $16.1 million. As of the Petition Date, the Debtors' have borrowed roughly $14.2 million against the collective cash surrender value of the COLIs. Such borrowing is secured by the future proceeds of the loan against the COLI and is afforded first lien priority against such COLI. When a COLI policy becomes payable, the related outstanding loan is deducted from the proceeds of the COLI.

**E. Equity Interests.**

37. The Debtors' common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "PIR." As of the Petition Date, there were approximately 4.2 million shares outstanding, trading at $3.56 per share. On August 5, 2019, the Debtors received a delisting notice from NYSE that they were no longer in compliance with Section 802.01B of the NYSE Listed Company Manual because the Debtors' average global market capitalization over a consecutive thirty (30) trading-day period was less than $50 million and, at the same time, its shareholders' equity was less than $50 million. On November 4, 2019, the Debtors announced that NYSE had

accepted the company's business plan to regain compliance with NYSE continued listing standards.

## III. Circumstances Leading Up to the Petition Date and Restructuring Efforts.

### A. Operational Challenges

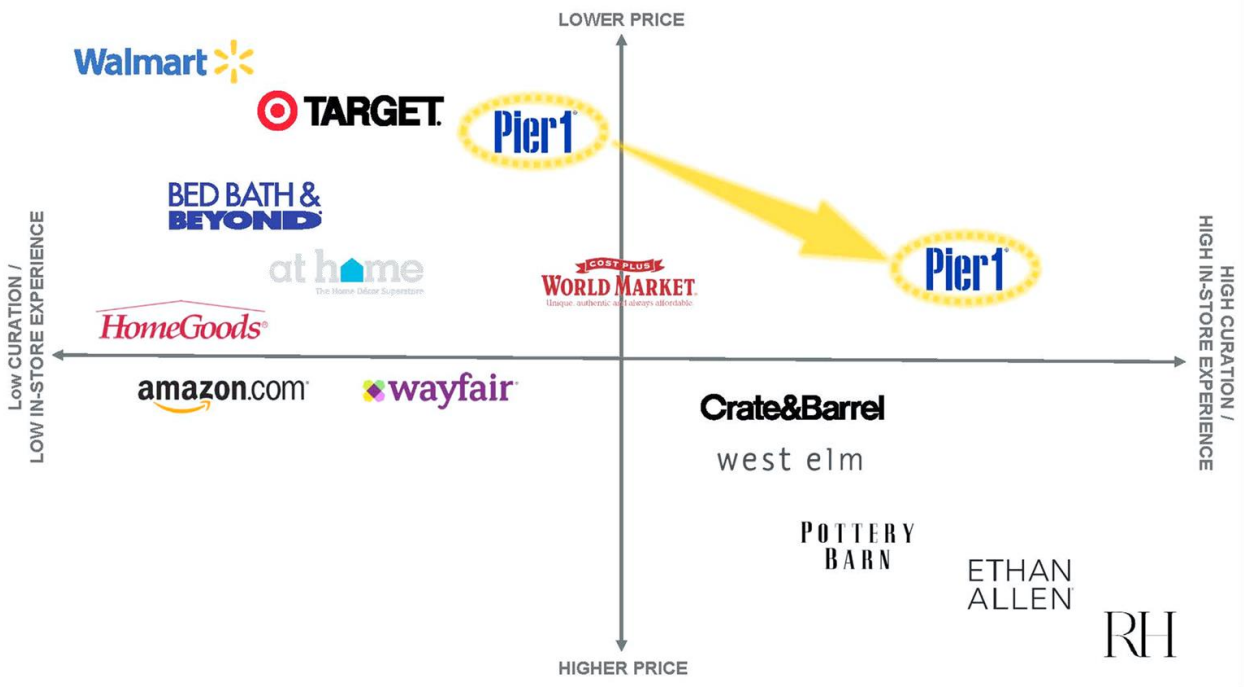
38. A confluence of operational and strategic factors contributed to the company's need to commence these chapter 11 cases. The most significant factor was a strategy launched under past management to turn to a mass-market merchandizing strategy based on high volume, low price, lower margin commodity items. Pier 1's struggles derive from a misguided effort by prior management to adapt to the changing retail environment by seeking to compete in the marketplace with low-price, low curation retailers. This strategy failed to resonate with core customers, leading to a glut of inventory on shelves that the company could not move, requiring significant discounting (and loss of margin) to open up space in stores with fixed inventory capacities, or stripping the stores of the inventory taking more significant losses.

39. While implementing this strategy, the company lost focus of its core customer and the financial assumptions underlying the strategy did not materialize, leading to a loss of sourcing savings and inventory productivity. Even after bringing in new management, the company was left with a large quantity of low-price, low-quality inventory that it needed to sell before implementing a new strategy, thus causing continuing losses into fiscal year 2020.

40. In addition, the company did not rationalize its store footprint in any meaningful way or close underperforming stores to account for these losses. The decline in store traffic was also a result of heightened competition both online, with the entrance of Amazon and Wayfair, and in-store, with the entrance of AtHome, Cost Plus World Markets, HomeGoods, HomeSense, Target and others. The macroeconomic trends impacting the home furnishings sector of the retail industry also generally contributed to the company's performance shortfalls.

41. The company has worked to further enhance and develop their omni-channel approach, and have transferred a large share of their customers to online shopping. Nonetheless, heightened competition online—with the entrance of Amazon, Wayfair, and Overstock—coupled with added in-store competition from AtHome, Cost Plus World Market, HomeGoods, HomeSense, and increased furniture offerings from big box retailers such as Target and Walmart have added competition in the retail space. The company did not timely respond to meet all of these challenges, and suffered diminished performance as a result. Over time, these factors have tightened the company's liquidity position and the Debtors now have insufficient liquidity to meet their operating obligations. As a result, net income dropped to $11.6 million in fiscal year 2018 and the company experienced a loss of $198.8 million in fiscal year 2019.

42. Armed with a new management team with extensive retail experience and demonstrated ability to quickly design and execute a turnaround business plan in today's retail landscape, Pier 1 is already in the process of implementing a turnaround and the company's new leadership is executing a new business plan quickly. In recent months, Pier 1 has undertaken several initiatives to optimize and realign the business, and has already seen the benefits associated with these efforts. The company has made tremendous strides in implementing a new vision to restore Pier 1 back to the original roots of its success, refocusing its marketing and merchandising on its core customer, rationalizing the store footprint (including exiting the Canadian market), reducing overhead expenses, and repositioning the company back to its unique place amongst competitors of offering an incredible value on high-quality goods.




43. With these efforts, Pier 1 has already improved its margins, sales levels, and customer engagement. In addition, the company's Term Loan Lenders have analyzed the business plan, met with management, and are working constructively with the company as part of this chapter 11 process to maximize the company's ability to implement a going-concern restructuring, including by executing the Plan Support Agreement.

44. Additionally, as the company's liquidity has tightened, certain supply chain vendors have begun to place pressure on the supply chain cost structure. Some of the company's inventory is currently located in ports in China, Vietnam, and Indonesia, and a number of foreign vendors have signaled that they are unwilling to ship the product absent payment in full prior to delivery. This in turn reduces the company's ability to generate revenue from sales, creating a negative feedback loop decreasing liquidity. Any disruption to the supply chain poses a threat to the company, as without the flow of fresh inventory, the company's retail business will effectively starve. The flow of fresh inventory is the lifeblood of retail sales, and ensuring the uninterrupted flow of inventory to the company's customers is of the utmost importance.

45. Further, the company, like many other companies, are facing potential disruptions from the COVID-19 virus (commonly referred to as Coronavirus) currently facing China and other parts of the world. While factories are beginning to reopen in China, this will likely have some effect on inventory levels for the foreseeable future.

**B. Overhead Rationalization.**

46. Pier 1 has taken key initiatives to reduce overhead and streamline operations to adapt to certain trends and improve overall efficiency. The company has cut over $90 million in selling, general, and administrative expenses in the last 12 months, and has strategically re-negotiated media contracts, all without sacrificing sales and operational efficiency. The company has also implemented sourcing and supply chain savings to improve profit margins, such as renegotiating agent commissions and optimizing logistics. On January 6, 2020, the company also announced that it would right-size its corporate overhead by including a reduction in head count. The Debtors are in the process of completing that rationalization, along with right-sizing the company's distribution center network. Additionally, the company is in discussions with the landlord of their corporate offices regarding a reduction in space or will otherwise likely reject the lease during these cases and find new corporate offices.

**C. Inventory Rationalization.**

47. As a result of the unsuccessful shift in its retail strategy towards higher volume, lower margin product in 2018, and new management's strategy to revert to the company's historic stronghold, the company was left with a large amount of excess inventory that does not meet their current plan. In order to effectively realize this excess inventory, the company ran concentrated clearance sales in 169 underperforming stores (the "Clearance Sales"). The Clearance Sales were an effective mechanism to clear this excess inventory while also helping to maintain liquidity. Further, the Clearance Sales were offered at historically under-performing locations, allowing the

company to monetize this excess inventory while maintaining the brand strength in stores that are most likely to have a role in a go-forward business plan. As described below, on January 6, 2020, the company announced that it ultimately determined to close up to 450 stores (including these 169 stores). The company intends to continue to sell the excess inventory through the store closings.

**D. Store Closings.**

48. During 2019 the company recognized that their store footprint was unsustainable for any go-forward business and began developing a strategy in conjunction with AlixPartners, A&G Realty Partners, LLC ("A&G"), and partner Gordon Brothers Retail Partners, LLC ("Gordon Brothers") to help right-size the company's store footprint and assist with the Clearance Sales. Company management undertook a store by store analysis of the financial performance of each store location. The analysis resulted in a store reduction target creating a simplified and substantially more profitable store base. Based on this analysis, company management decided that in any go-forward scenario, the company needed to close up to 450 stores. The remaining go-forward stores achieved superior sales and customer metrics in the last twelve months compared to the closing stores, including approximately 15% greater sales per square foot on average.

49. On January 6, 2020, the company announced an intention to close up to 450 stores. On or around January 10, 2020 the company initiated the store closings at approximately 270 locations, which included 169 stores where the Clearance Sales have been conducted. Within the next few days, the company intend to initiate closings of 56 stores in Canada, and an additional U.S. store. The company expects all Sales at the Initial Store Closings to be completed and the properties vacated by March 31, 2020. The company estimates that the proceeds from all the Sales will be approximately $177 million. The company intends for Gordon Brothers to manage all of the store closing operation as further set forth in the *Debtors' Motion for Interim and Final Orders*

*(I) Authorizing the Debtors to Assume the Consulting Agreement, (II) Authorizing and Approving the Conduct of Store Closing Sales, With Such Sales to be Free and Clear of All Liens, Claims, and Encumbrances, (III) Authorizing Customary Bonuses to Employees of Closing Stores, and (IV) Granting Related Relief*, filed contemporaneously herewith. The company expects to conclude all of these closings and exit the leases by the end of March 2020.

50. The company is continuing to negotiate with certain of its landlords and pending the outcome of those negotiations and ongoing discussions with creditors and potential purchasers as part of these chapter 11 cases, may announce the closing of additional stores. The store footprint rationalization plan allows the company to take advantage of inventory management, and logistics initiatives, freeing up net working capital.

**E. Strategic Alternatives and Sale Process.**

51. In late 2018, certain of the company's term loan lenders started organizing as a result of a growing concern about the company's future and became imcreasingly focused on contingency planning. Recognizing the need to explore restructuring alternatives, in December 2018 the company retained Credit Suisse Securities (USA) LLC ("Credit Suisse") to assist the company's board of directors (the "Board") in its review of strategic alternatives. Credit Suisse commenced a process seeking a comprehensive out-of-court merger or sale proposals for the company's entire business. The company, however, did not receive any actionable proposals. In January 2019, the company hired AlixPartners to assist in its operational restructuring efforts, including assisting with a store rationalization strategy and inventory pricing strategy. The AlixPartners team also took on significant responsibility within the Company's finance and liquidity management apparatus, with AlixPartners employees taking temporary positions as both CFO and Treasurer in the middle of 2019. Kirkland & Ellis was retained in March 2019 to further facilitate the company's turnaround efforts and to pursue strategic alternatives.

52. In the summer of 2019, the company engaged Guggenheim Securities LLC ("Guggenheim Securities") to serve as its investment banker and assist the company in connection with the evaluation of various strategic alternatives. Additionally the AlixPartners team assisted the company in preparing cash-flow models and other related diligence in connection with these conversations. In conjunction with the employment of an investment banker, the company had a full suite of restructuring advisors that were able to jump start formal negotiations with organized lender groups. These negotiations picked up speed going into February 2020 as it became clear that time was of the essence for this company and a path forward need to be forged sooner, rather than later. In early 2020, the Company engaged in substantive negotiations with its Term Loan Lenders and launched a broader marketing process with the assistance of Guggenheim Securities.

53. As part of this process, the company, with the assistance of Guggenheim Securities, has reached out to approximately 22 strategic buyers and investors, who were selected based on their business model, historical acquisition activity, and financial capabilities, among other factors. Approximately 69 financial buyers and investors, who were selected based on their historical interest in retail, consumer and branding opportunities, existing and past investment and financial capabilities, and other factors, were also contacted. Approximately four brand/inventory buyers, who were selected based on their historical interest in individual retail assets, were also contacted. In total, approximately 95 strategic, financial, and brand/inventory buyers were contacted and received introductory materials and non-disclosure agreements ("NDAs"), of which 35 parties have executed or are in the process of executing NDAs and 25 parties have received a Confidential Information Memorandum and other information containing business and brand overviews, product positioning, management team information, channel overviews, customer demographics, strategic plans, growth opportunities, and historical and projected financial information.

54. The culmination of the company's efforts and decision making, with the support of its advisors, was entry into the Plan Support Agreement on February 16, 2020. Along with the first day pleadings, the Debtors have filed the Plan Support Agreement—supported 63.8 percent of the copmany's term loan lenders—and Bidding Procedures setting out the process pursuant to which parties can submit bids for any or all of the Debtor's assets, either on a going concern basis, a piecemeal basis, or for the purposes of a liquidation. Depending on the outcome of the marketing and auction process, the Consenting Term Lenders have agreed to either release their liens on the Pier 1 assets in exchange for the sale proceeds (after payment of all applicable more senior claims as contemplated by the Plan) or convert their debt claims into equity in a reorganized Pier 1.

55. Moreover, the compromises and settlements embodied in the Plan Support Agreement, to be implemented pursuant to a Plan, preserve value by enabling the Debtors to avoid protracted, value-destructive litigation that would delay their emergence from chapter 11. Instead of litigating with the Consenting Term Lenders over the sale and potential recoveries, the Consenting Term Lenders have agreed to become parties to the Plan Support Agreement and support the Debtors' sale and Plan—each of which provides significant value to the Debtors.

**F. Governance Matters.**

56. The company's Board consists of eleven members, including two disinterested restructuring industry veterans who were recently appointed on January 6, 2020, Pamela Corrie and Steven Panagos (the "Disinterested Directors").

## IV. Proposed Debtor-In-Possession Financing.

57. By the DIP Motion[14] filed contemporaneously herewith, the Debtors seek authorization from the Court to enter into the DIP Senior Credit Facility (as defined in the DIP

[14] As defined in **Exhibit A**.

Motion). The Debtors require immediate access to additional liquidity to ensure that they are able to continue to operate during these chapter 11 cases and maximize the value of their estates for the benefit of all parties in interest.

58. As set forth in greater detail in the DIP Motion and the Savini Declaration,[15] the Debtors, with the assistance of their advisors, undertook a comprehensive marketing process to solicit proposals for debtor-in-possession financing. These efforts culminated in the credit facility, which will fund the Debtors' working capital needs and the chapter 11 process.

59. Certain of the Prepetition DIP ABL Parties (as defined in the DIP Motion, and together with any other parties that may become a party to the DIP Credit Agreement, the "DIP Lenders") have agreed to provide the DIP Senior Credit Facility. The DIP Senior Credit Facility is a commitment by and between Pier 1 (U.S.), as borrower, the Facility Guarantors named therein, BofA, as administrative agent and collateral agent (in such capacities, the "DIP ABL Agent"), Pathlight Capital LP ("Pathlight") (or an affiliated debt fund) as administrative agent for the ABL Term Lenders (in such capacity, the "DIP ABL Term Loan Agent" and together with the DIP ABL Agent, the "Agents" or "DIP Agents", as applicable). Notably, the structure of the DIP Senior Credit Facility is similar in structure to the Debtors' prepetition Revolving Credit Facility. The DIP Lenders have agreed to provide an aggregate amount of approximately $256 million in debtor-in-possession financing. Upon entry of an Interim DIP Order, the DIP Senior Credit Facility will refinance and/or roll up, as applicable the prepetition ABL facility as follows: (a) $137.3 million of Revolving Commitments will refinance

[15] As used herein, the "Savini Declaration" shall mean the *Declaration of Durc Savini in Support of the Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (V) Granting Adequate Protection to the Prepetition Secured Parties, (V) Modifying the Automatic Stay, (VI) Scheduling A Final Hearing, and (VII) Granting Related Relief,* filed contemporaneously herewith.

prepetition revolving commitments (including approximately $47.3 million in Letters of Credit Outstanding); (b) $15 million of the FILO Commitments will refinance prepetition FILO commitments; and (c) $41 million of the ABL Term Loan will roll up the prepetition ABL term loans. The Prepetition ABL Secured Parties have also consented to the Debtors' use of their cash collateral in connection with the DIP Senior Credit Facility.

The Debtors require immediate access to additional liquidity to ensure that they are able to continue to operate during these chapter 11 cases and maximize the value of their estates for the benefit of all parties in interest. Specifically, based on the Debtors' forecast, the Debtors anticipate that they will be unable to generate sufficient levels of operating cash flow in the ordinary course of business to cover working capital needs and the projected restructuring costs of these chapter 11 cases without access to the postpetition financing provided by the DIP Senior Credit Facility, and that the liquidity provided by the DIP Senior Credit Facility is necessary to provide the Debtors' customers, vendors, and employees with comfort that the Debtors will continue to operate in the ordinary course of business during these chapter 11 cases.

**V. Evidentiary Basis for Requested First Day Relief.**

60. Contemporaneously, the Debtors have filed a number of first day pleadings seeking relief that the Debtors believe is necessary to enable them to efficiently administer their estates with minimal disruption and loss of value during these chapter 11 cases. The Debtors request that the relief requested in each of the first day motions be granted as critical elements in ensuring the maximization of value of the Debtors' estates. I believe that the relief requested in the first day motions is necessary to allow the Debtors to operate with minimal disruption during the pendency of these chapter 11 cases. I have reviewed each of the first day motions discussed below and the facts set forth in each first day motion are true and correct to the best of my knowledge and belief with appropriate reliance on corporate officers and advisors. A description of the relief requested

in and the facts supporting each of the first day motions is set forth in **Exhibit A** attached hereto and incorporated herein by reference.

*[Remainder of page left intentionally blank]*

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

Dated: February 17, 2020

/s/ *Robert J. Riesbeck*
Robert J. Riesbeck
Chief Executive Officer of Pier 1 Imports, Inc.

**Exhibit A**

**Evidentiary Support for First Day Motions**

**Evidentiary Support for First Day Motions**[1]

**I. Debtors' Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief (the "Joint Administration Motion").**

1. Pursuant to the Joint Administration Motion, the Debtors seek entry of an order: (a) directing procedural consolidation and joint administration of these related chapter 11 cases; and (b) granting related relief. Given the integrated nature of the Debtors' operations, joint administration of these chapter 11 cases will provide significant administrative convenience and cost savings to the Debtors without harming the substantive rights of any party in interest.

2. Many of the motions, hearings, and orders in these chapter 11 cases will affect each and every Debtor entity. Joint administration also will allow the U.S. Trustee and all parties in interest to monitor these chapter 11 cases with greater ease and efficiency.

3. The entry of an order directing joint administration of these chapter 11 cases will reduce fees and costs by avoiding duplicative filings and objections. Joint administration of these chapter 11 cases, for procedural purposes only, under a single docket, will also ease the administrative burdens on the Court by allowing the Debtors' cases to be administered as a single joint proceeding, instead of multiple independent chapter 11 cases. Parties in interest will not be harmed by the relief requested; instead, parties in interest will benefit from the cost reductions associated with the joint administration of these chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Joint Administration Motion should be approved.

[1] Capitalized terms used but not defined herein shall have the meanings ascribed to them in the applicable first day motion.

**II. Debtors' Motion for Entry of Interim and Final Orders (I) Extending Time to File Schedules and Statements of Financial Affairs, (II) Authorizing the Debtors to File a Consolidated List of Creditors in Lieu of Submitting a Separate Mailing Matrix for Each Debtor, (III) Authorizing the Debtors to File a Consolidated List of the Debtors' Thirty Largest Unsecured Creditors, (IV) Waiving the Requirement to File a List of Equity Security Holders, (V) Authorizing the Debtors to Redact Certain Personal Identification Information, and (VI) Granting Related Relief (the "Creditor Matrix Motion").**

4. Pursuant to the Creditor Matrix Motion, the Debtors seek entry of an order: (a) extending the deadline by which the Debtors must file their schedules of assets and liabilities, schedules of current income and expenditures, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the "Schedules and Statements") by 14 days, for a total of 28 days from the Petition Date; (b) authorizing the Debtors to file a consolidated list of creditors in lieu of submitting a separate mailing matrix for each Debtor; (c) authorizing the Debtors to file a consolidated list of the Debtors' thirty largest unsecured creditors in lieu of filing lists for each Debtor; (d) waiving the requirement to file a list of equity holders; (e) authorizing the Debtors to redact certain personal identification information; and (f) granting related relief.

5. Although I understand that that Schedules and Statements are typically filed within 14 days of the Petition Date, in a complex chapter 11 case the Court may extend the time "for cause." Collecting the necessary information for the Schedules and Statements requires an enormous expenditure of time and effort on the part of the Debtors, their employees, and their professional advisors in the near term, which resources would be best used to stabilize the Debtors' business operations.

6. I am also aware that a list of creditors usually is filed on a debtor-by-debtor basis, but in a complex chapter 11 bankruptcy case involving more than one debtor, the debtors may file a consolidated creditor matrix "in the interest of justice." Requiring the Debtors to segregate and

convert their computerized records to a Debtor-specific creditor matrix format would be an unnecessarily burdensome task and result in duplicate mailings.[2]

7. Furthermore, I believe that the requirement to file a list of equity holds and provide notice directly to those equity holders should be waived. Pier 1 Imports, Inc. is a publicly held company, and as of the Petition Date had approximately 4,223,045 shares of common stock outstanding, held by 3,666 stockholders. It would create an undue expense and administrative burden for the Debtors to compile a list of equity holders and provide notice to each holder.

8. Additionally, I believe that it is appropriate to authorize the Debtors to redact from the Creditor Matrix address information of individuals—including the Debtors' employees, former employees, customers, and equity holders because such information could be used to perpetrate identity theft or locate survivors of domestic violence or stalking. The Debtors propose to provide an unredacted version of the Creditor Matrix to the U.S. Trustee, any official committee of unsecured creditors appointed in these chapter 11 cases, and the Court.

9. Accordingly, on behalf of the Debtors, I respectfully submit that the Creditor Matrix Motion should be approved.

## III. Debtors' Motion for Entry of an Order (I) Establishing Certain Notice, Case Management, and Administrative Procedures and (II) Granting Related Relief (the "Case Management Motion").

10. Pursuant to the Case Management Motion, the Debtors seek entry of an order: (a) establishing certain notice, case management, and administrative procedures, which (i) direct that matters requiring notice under rule 2002(a)(2)–(6) of the Federal Rules of Bankruptcy Procedure will be served only to individuals and entities identified on a shortened

[2] The Debtors submit that if any of these chapter 11 cases converts to a case under chapter 7 of the Bankruptcy Code, the applicable Debtor will file its own creditor mailing matrix.

mailing list and those creditors who, in accordance with rules 2002-1 and 9013-1(M) of the Local Rules of the United States Bankruptcy Court for the Eastern District of Virginia, file with the Court a request that they receive such notice pursuant to Bankruptcy Rule 2002; (ii) allow electronic service of all documents (except complaints and summonses) for the 2002 List; and (iii) direct that all matters be heard at periodic omnibus hearings to be scheduled in advance by the Court; (b) approving the notice of commencement; and (c) granting related relief.

11. Given the size and complexity of these chapter 11 cases, I believe implementing the Case Management Procedures will facilitate the fair and efficient administration of these cases and promote judicial economy.

12. Accordingly, on behalf of the Debtors, I respectfully submit that the Case Management Motion should be approved.

## IV. Debtors' Motion for Entry of Interim and Final Orders (I) Approving the Debtors' Proposed Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services, (III) Approving the Debtors' Proposed Procedures for Resolving Additional Assurance Requests, and (IV) Granting Related Relief (the "Utilities Motion").

13. Pursuant to the Utilities Motion, the Debtors seek entry of interim and final orders: (a) approving the Debtors' Proposed Adequate Assurance of payment for future Utility Services; (b) prohibiting Utility Companies from altering, refusing, or discontinuing services; (c) approving the Debtors' proposed procedures for resolving Adequate Assurance Requests; and (d) granting related relief.

14. In connection with the operation of their business and management of their properties, the Debtors historically obtain necessary electricity, telephone, internet, natural gas, propane, water, waste management, and other similar services (collectively, the "Utility Services") from a number of Utility Companies.

15. To manage the Debtors' payments owed to most of their Utility Companies, the Debtors entered into a service agreement with Engie (the "Engie Agreement"). Pursuant to the Engie Agreement, the Debtors pay Engie the amounts invoiced for the Utility Services managed by Engie, plus a monthly fee of approximately $5.00 per Utility Company, in the ordinary course of business. The Debtors seek authority, but not direction, to pay all service fees.

16. On average, the Debtors pay approximately $2.3 million each month for third-party Utility Services, calculated as a historical average payment for the twelve-month period ending December 31, 2019, including amounts paid to Engie and the Landlords. The Debtors estimate that their cost for Utility Services during the next 30 days (not including any deposits to be paid or fees payable to Engie) will be approximately $2.4 million. The Debtors estimate the aggregate amount currently held as deposits, prepayments, or surety bonds by the Utility Providers providing services to stores that the Debtors intend to continue operating is approximately $150,000. Additionally, the Debtors provide a $14,500 letter of credit for the benefit of Engie.

17. To provide additional assurance of payment, the Debtors propose depositing $701,500 into a segregated account as additional assurance of payment (the "Adequate Assurance Deposit"), which is an amount sufficient to cover one-half of the Debtors' average monthly cost based on the historical average payment, and excludes Utility Services billed directly to the Landlords, the service fees paid to Engie, Prepetition Deposits, and letters of credit. The Adequate Assurance Deposit will be held by the Debtors, and the Debtors' creditors will have no lien on any Adequate Assurance Deposit.

18. The Debtors are conducting store closing sales for certain retail locations, which are expected to be completed on or before March, 2020. After these stores are closed and utility accounts associated therewith are settled, the Debtors will reduce the amount of the Adequate

Assurance Deposit to reflect Utility Services that are no longer being provided. The applicable Utility Companies will be required to return deposits within a reasonable amount of time of receiving notice from the Debtors that the respective Utility Service is no longer in use.

19. Additionally, the Debtors seek approval of their proposed Adequate Assurance Procedures. These procedures allow Utility Companies to request adequate assurance for unpaid Utility Services and additional adequate assurance when they believe the proposed amount is not sufficient. This ensures that all key stakeholder groups obtain notice of such request before it is honored.

20. Furthermore, the Debtors request that Utility Companies be prohibited from refusing or disrupting Utility Services, for any duration, including those that are indirectly obtained through nonresidential real property leases with Landlords associated with certain retail locations. Landlords must continue to honor their obligations and pay for Utility Services in accordance with such leases until the applicable lease is rejected pursuant to section 365 of the Bankruptcy Code, notwithstanding any current or future nonpayment, deferral, waiver, or other compromise of rent. Utility Services should be preserved on an uninterrupted basis because it is essential to the Debtors' ongoing operations and a successful reorganization. The Debtors' retail enterprise requires maintaining open and active stores to entice and allow customers to make purchases. Any disruption would adversely impact customer relationships and result in a significant decline in the Debtors' revenues and profits. This, in turn, jeopardizes the value of the Debtors' estates and impact creditor recoveries. Therefore, it is critical that Utility Services continue uninterrupted during these chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Utilities Motion.

**V. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, (C) Maintain Existing Business Forms, and (D) Perform Intercompany Transactions, and (II) Granting Related Relief (the "Cash Management Motion").**

21. Pursuant to the Cash Management Motion, the Debtors seek entry of interim and final orders: (a) authorizing the Debtors to (i) continue to operate their Cash Management System; (ii) pay any prepetition or postpetition amounts outstanding on account of Bank Fees; (iii) maintain existing Business Forms in the ordinary course of business; and (iv) continue to perform Intercompany Transactions consistent with historical practice; and (b) granting related relief.

22. The Debtors operate an intricate cash management system to facilitate the timely and efficient collection, management, and disbursement of funds used in the Debtors business. The Debtors use their Cash Management System in the ordinary course to transfer and distribute funds and to facilitate cash monitoring, forecasting, and reporting. The Debtors' treasury department maintains daily oversight over the Cash Management System and implements cash management controls for entering, processing, and releasing funds. Additionally, the Debtors' corporate accounting, treasury, and internal audit departments regularly reconcile the Debtors' books and records to ensure that all transfers are accounted for properly. The Debtors estimate that cash collections for the Cash Management System average approximately $107 million per month, including store cash receipts, credit and debit card receipts, and website sales. The Debtors estimate that total disbursements will average approximately $100 million per week during these chapter 11 cases.

23. The Debtors maintain business relationships and have entered into certain agreements with each other (the "Intercompany Transactions") resulting in intercompany receivables and payables in the ordinary course of business (collectively, the "Intercompany Claims"). The Intercompany Transactions include the transfer of funds

through direct deposits to purchase merchandise, fund operating expenses, and settle obligations arising from such agreements on behalf of certain Debtor entities. Accordingly, at any given time there may be Intercompany Claims owing by one Debtor to another Debtor. Such Intercompany Transactions are typically conducted pursuant to intercompany trade arrangements and joint use of certain shared service platforms, among others.

24. Among the Debtors, Intercompany Transactions occur regularly resulting from, among other things, informal loan, services, management, and licensing agreements, among the Debtor entities. These Intercompany Claims are reflected as journal entry receivables and payables, as applicable, in the respective Debtors' accounting systems.

25. Because of the nature of the Debtors' business and the disruption to the business that would result if they were forced to close their existing bank accounts, I believe that it is critical that the existing Cash Management System remain in place on a postpetition basis. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the Cash Management Motion should be approved.

## VI. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses and (B) Continue Employee Benefits Programs, and (II) Granting Related Relief (the "Wages Motion").

26. Pursuant to the Wages Motion, the Debtors seek entry of interim and final orders: (a) authorizing, but not directing, the Debtors to (i) pay prepetition wages, salaries, reimbursable expenses, and other obligations on account of the Employee Compensation and Benefits Programs (as defined in the Wages Motion) in the ordinary course of business and (ii) continue to administer

the Employee Compensation and Benefits programs in the ordinary course of business; and (b) granting related relief.

27. As of the Petition Date, the Debtors employ over 3,600 individuals on a full-time basis and 14,100 individuals on a part-time basis (collectively, the "Employees") in the United States and Canada.[3] Approximately 16,100 Employees are paid on an hourly basis, and approximately 1,600 Employees earn a salary.[4] The Employees are not party to any collective bargaining agreements. In addition to the Employees, the Debtors also periodically retain specialized individuals as independent contractors (the "Independent Contractors"), as well as temporary workers, to complete discrete projects and fulfill certain duties on a short- and long-term basis when the Debtors are otherwise unable to fill required positions (the "Temporary Staff"). The Debtors source the Temporary Staff either directly or from various staffing agencies and do not pay the individual worker directly. The Independent Contractors and Temporary Staff are an important supplement to the efforts of the Debtors' Employees.

28. The majority of Employees and Temporary Staff rely on the Employee Compensation and Benefits Programs to pay their daily living expenses. Thus, Employees and Temporary will face significant financial consequences if the Debtors are not permitted to continue the Employee Compensation and Benefits Programs in the ordinary course of business. The Debtors seek to minimize the personal hardship the Employees and Temporary Staff would suffer if employee obligations are not paid when due or as expected. Consequently, I believe the relief requested is necessary and appropriate.

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[3] On January 6, 2020, the Debtors announced the closing of up to 450 stores and reduction of workforce in the home office. The Debtors estimate that approximately 6,000 employees will be terminated during these chapter 11 cases.

[4] The included figures do not include seasonal staff which the Debtors do not anticipate utilizing during these chapter 11 cases.

29. The Debtors are seeking authority to pay and honor certain prepetition claims relating to the Employee Compensation and Benefits, including, among other things, wages, salaries, other compensation, withholding obligations, payroll processing fees, reimbursable expenses, non-insider employee incentive programs, health insurance, life insurance, workers' compensation benefits, short- and long-term disability coverage, supplemental benefits, retirement plans, paid and unpaid leave, severance, and other benefits that the Debtors have historically directly or indirectly provided to the Employees in the ordinary course of business and as further described in the Wages Motion.

30. Pursuant to the Wages Motion, the Debtors also seek authority to continue their incentive programs and to honor their obligations to non-insider Employees under the pre-existing short- and long-term incentive programs (together, the "Non-Insider Employee Incentive Programs"), as described more fully in the Wages Motion. The Non-Insider Employee Incentive Programs are highly targeted programs with specific aims of incentivizing, retaining, and motivating certain Employees. The Debtors believe these incentive programs drive Employee performance, align Employees' interests with those of the Debtors generally, increase Employee retention and promote the overall efficiency of the Debtors' operations. I believe that maintaining these programs is vital to the Debtors' operations. Out of an abundance of caution, to the extent that a Non-Insider Employee Incentive Program is not described or included in the amounts requested pursuant to the Wages Motion, the Debtors request the authority, but not the direction, to maintain these Non-Insider Employee Incentive Programs in the ordinary course of business. I understand that "insiders" (as the term is defined in section 101(31) of the Bankruptcy Code) of the Debtors are excluded from the relief requested in the Wages Motion with respect to any incentive programs or severance payments.

31. I believe the Employees provide the Debtors with services necessary to conduct the Debtors' business, and, absent the payment of the Employee Compensation and Benefits Programs owed to the Employees, the Debtors will likely experience Employee turnover and instability at this critical time. I believe that, without these payments, the Employees may become demoralized and unproductive because of the potential significant financial strain and other hardships the Employees may face. Employees may then elect to seek alternative employment opportunities. I believe enterprise value may be materially impaired to the detriment of all stakeholders in such a scenario. I, therefore, believe that payment of the prepetition obligations with respect to the Employee Compensation and Benefits is a necessary and critical element of the Debtors' efforts to preserve value and will give the Debtors the greatest likelihood of retention of their Employees as the Debtors seek to operate their business in these chapter 11 cases.

32. Therefore, I believe that the relief requested in the Wages Motion inures to the benefit of all parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Wages Motion.

## VII. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Maintain, Renew, or Supplement Their Insurance Policies and Honor All Obligations in Respect Thereof, and (B) Maintain, Renew, or Supplement Their Surety Bond Program, and (II) Granting Related Relief (the "Insurance Motion").

33. Pursuant to the Insurance Motion, the Debtors seek interim and final orders: (a) authorizing the Debtors to (i) maintain, renew, or supplement their insurance policies (the "Insurance Policies") and honor all obligations in respect thereof; and (ii) maintain, renew, and supplement their surety bond program (the "Surety Bond Program") on an uninterrupted basis; and (b) granting related relief.

34. The Debtors' Insurance Policies[5] and Surety Bonds are essential to the preservation of the value of the Debtors' business, properties, and assets. I understand that, in many cases, insurance coverage such as that provided by the Insurance Policies is required by diverse regulations, laws, and contracts. The Debtors work with Insurance Brokers to obtain these Insurance Policies and may owe certain Brokers' Fees. Failure to make the payments required by the Debtors' Insurance Policies, or renew such Insurance Policies when they expire, and to the Insurance Brokers (if any) could have a significant negative impact on the Debtors' operations. As of the Petition Date, the Debtors estimate that they owe approximately $115,000 in premiums on behalf of their Insurance Policies.

35. Similarly, the Debtors maintain a robust Surety Bond Program, including 95 U.S. Bonds, 4 Canada Bonds, and 8 Notary Bonds. Two of the U.S. Bonds are required by the United States Customs and Border Protection Agency in order to be able to import merchandise into the United States. The majority of the remaining Surety Bonds are required by certain utility companies. Given that the Debtors rely on imported merchandise to replenish their inventory and invigorate their operations and are required to maintain the Surety Bonds by other utility providers and regulatory authorities, failure to provide, maintain, or timely replace the Surety Bonds will jeopardize the Debtors ability to operate their businesses. The Debtors pay approximately $52,000 annually in premiums on account of the Surety Bond Program. The Debtors estimate that 9 Surety Bonds need to be renewed in the 21 days after the Petition Date.

[5] In addition to the Insurance Policies, the Debtors maintain workers' compensation policies that are reflected in Exhibit C to the Insurance Motion, but for which relief is not sought in the Insurance Motion. The Debtors' policies with respect to, among other things, workers' compensation, employee health, dental, disability, and life insurance benefits are described, and relief is requested with respect to such policies in the Wages Motion, filed contemporaneously herewith.

36. I believe that the relief requested in the Insurance Motion is in the best interest of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Insurance Motion should be approved.

## VIII. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Maintain and Administer Their Existing Customer Programs and Honor Certain Prepetition Obligations Related Thereto and (II) Granting Related Relief (the "Customer Programs Motion").

37. Pursuant to the Customer Programs Motion, the Debtors seek entry of interim and final orders: (a) authorizing the Debtors to maintain and administer their customer-related programs (collectively, the "Customer Programs") as described in the motion and honor certain prepetition obligations related thereto; and (b) granting related relief.

38. The Debtors have historically provided certain incentives, discounts, and accommodations to their customers to attract and maintain positive customer relationships. The Customer Programs promote customer satisfaction and inure to the goodwill of the Debtors' business and the value of their brand, including a Rewards Program, Gift Card and Merchandise Credit Programs, Refund and Exchange Program, Registry Program, Customer Relations Program, Trade Perks Program, Delivery Programs, and Customer Donation Programs. Accordingly, maintaining the goodwill of their customers is important to the Debtors' ongoing operations in these chapter 11 cases, and is necessary to maximize value for the benefit of all of the Debtors' stakeholders.

39. In the ordinary course of business, the Debtors offer promotional certificates, such as Rewards Certificates, and other benefits through the Rewards Program. The Debtors estimate that as of the Petition Date there are approximately 340,000 Rewards Certificates outstanding that translate to $6 million in value, assuming all Rewards Certificates are redeemed within the

prescribed periods. The Debtors also maintain a Gift Card and Merchandise Credit Programs pursuant to which their customers can purchase physical, pre-paid, non-expiring Gift Cards in various denominations, with a maximum denomination of $1,000, or are issued a Merchandise Credit in various denominations up to $1,000 in exchange for a merchandise return. The Debtors estimate that as of the Petition Date, approximately $59 million in issued Gift Cards and Merchandise Credit are outstanding.

40. The Debtors occasionally conduct Sales Promotions both online and at selected stores. The Sales Promotions consist of clearance discounts, seasonal discounts, and coupons for discounts on future purchases through direct mail, in-store flyers, and online channels.

41. Similar to many retail companies, the Debtors also accept Non-Cash Payments from customers. The Debtors pay Payment Processing Companies a Processing Fee in exchange for processing these Non-Cash Payments. I believe that it is essential to continue to accept Non-Cash Payments because a majority of the Debtors' sales are made using Non-Cash Payments and a failure to accept such payments would have a sever negative effect on the Debtors' ongoing operations.

42. I also believe that continuing to administer the Customer Programs without interruption during the pendency of the chapter 11 cases will help preserve the Debtors' valuable customer relationships and goodwill, which will inure to the benefit of all of the Debtors' creditors and benefit their estates. In contrast, if the Debtors are unable to continue the Customer Programs postpetition, the Debtors risk alienating certain customers (who might then initiate business relationships with the Debtors' competitors) and might suffer corresponding losses in customer loyalty and goodwill that will harm their prospects maximizing the value of their estates. The Debtors' Customer Programs are essential marketing strategies for attracting new customers.

43. I believe that the failure to honor the Customer Programs could place the Debtors at a competitive disadvantage in the marketplace, amplifying the negative effect of customer uncertainty that may arise from the chapter 11 filings. Such uncertainty could erode the Debtors' hard-earned reputation and brand loyalty, which, in turn, could adversely impact their prospects for a successful emergence from bankruptcy.

44. I believe that the relief requested herein will pay dividends with respect to the long-term reorganization of their businesses, both in terms of profitability and the engendering of goodwill, especially at this critical time following the filing of the chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Customer Programs Motion.

## IX. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Payment of Prepetition Claims of Lien Claimants and 503(B)(9) Claimants, (II) Confirming Administrative Expense Priority of Outstanding Orders, and (III) Granting Related Relief (the "Lienholders Motion").

45. Pursuant to the Lienholders Motion, the Debtors seek entry of interim and final orders: (a) authorizing, but not directing, the Debtors to pay in the ordinary course prepetition claims held by certain (i) shippers, warehouseman and other lien claimants, and (ii) 503(b)(9) claimants, collectively, in an amount not to exceed $12 million on an interim basis and $30 million on a final basis; (b) confirming administrative expense priority of outstanding orders; and (c) granting related relief. In addition, the Debtors request that the Court schedule a final hearing within 21 days of the commencement of these chapter 11 cases to consider approval of the Lienholders Motion on a final basis

46. ***Lien Claimants.*** The Debtors' supply chain and order fulfillment depends on the services provided by, among others, customs brokers, freight forwarders, shippers, common or contract carriers, consolidators, and third-party logistics systems (collectively, the "Shippers") as

well as the Debtors' employees or temporary staff paid by the Debtors that operate the Debtors' distribution centers (the "Warehousemen").

47. Additionally, the Debtors employ various general contractors and vendors to assist with remodels and on-site construction and repairs at their corporate headquarters, warehouses, and retail stores (the "Non-Merchant Lienholders," and together with the Warehousemen and Shippers, the "Lien Claimants").

48. Under certain nonbankruptcy laws, the Lien Claimants may be able to assert liens on the goods in their possession to secure payment of the charges or expenses incurred in connection with these prepetition obligations. Specifically, Shippers may refuse to deliver or release Merchandise or other goods for delivery to the Debtors' distribution centers, customers, or stores if the Shippers are not paid current and may assert a possessory lien on the Merchandise until such time. Further, Warehousemen may refuse to release the Debtors' inventory or other goods for shipment to the Debtors' brick-and-mortar store locations or fulfill online orders if they are not paid current. Additionally, pursuant to section 363(e) of the Bankruptcy Code, the Lien Claimants may be entitled to adequate protection of any valid possessory lien, which would drain estate assets.

49. Collectively, the Debtors estimate that approximately $20 million is due and owing to the Lien Claimants as of the Petition Date (the "Lien Claims"), of which approximately $12 million may become due and owing during the interim period.

50. ***503(b)(9) Claimants (Final Order Only).*** The Debtors may have received certain Merchandise and goods from various foreign and domestic vendors (collectively, the "503(b)(9) Claimants") within the 20-day period immediately preceding the Petition Date, thereby giving rise to claims that may be accorded administrative priority under section 503(b)(9)

of the Bankruptcy Code (the "503(b)(9) Claims"). Many of the Debtors' relationships with the 503(b)(9) Claimants are not governed by long-term contracts. Rather, the Debtors obtain Merchandise, goods, or other materials from such Claimants on an order-by-order basis. As a result, a 503(b)(9) Claimant may refuse to supply new orders without prompt payment of its 503(b)(9) Claims. Such foreign vendors also may take actions against the Debtors based on the incorrect belief that they are not bound by the automatic stay, and may refuse to do business with the Debtors until their claims are paid. In light of the fact that such foreign vendors and domestic vendors are rightfully entitled to payments on account of 503(b)(9) Claims as administrative claims, the Debtors believe it is prudent to seek administrative status of such claims now.

51. The Debtors seek authority, but not direction, to pay up to $10 million pursuant to the final order only on account of the 503(b)(9) Claims.

52. Without the services of the entire supply chain functioning smoothly and efficiently, the Debtors would likely not be able to timely procure Merchandise, guarantee timely development of trend-reliant Merchandise, and/or reliably deliver the Merchandise to the stores for sale to their customers, which would be detrimental to the value of the Debtors' estates and cost the Debtors the ability to effectively compete with its competitors in the marketplace. Such harm would likely far outweigh the cost of payment of the Lien Claimants and 503(b)(9) Claimants. I believe that the relief requested in the Lienholders Motion will allow the Debtors to preserve stakeholder value by paying the prepetition claims of certain Lien Claimants and 503(b)(9) Claimants that are critical to the Debtors' business enterprise. I believe that the relief requested in the Lienholders Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their

business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Lienholders Motion.

**X. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of Certain Prepetition and Postpetition Taxes and Fees and (II) Granting Related Relief (the "Taxes Motion").**

53. Pursuant to the Taxes Motion, the Debtors seek entry of interim and final orders: (a) authorizing, but not directing, the Debtors, to remit and pay Taxes and Fees without regard to whether such obligations accrued or arose before or after the Petition Date, including those obligations subsequently determined upon audit or otherwise to be owed for periods prior to the Petition Date; and (b) granting related relief.

54. In the ordinary course of business, the Debtors incur and/or collect certain Taxes and Fees and remit such Taxes and Fees to various governmental authorities. The Debtors must continue to pay the Taxes and Fees to avoid potential costly distractions during these chapter 11 cases. Specifically, the Debtors' failure to pay the Taxes and Fees could adversely affect the Debtors' estates because the governmental authorities could file liens or seek to lift the automatic stay.

55. I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Taxes Motion should be approved.

**XI. Debtors' Motion Seeking Entry of an Order Establishing a Record Date for Notice and Sell-Down Procedures for Trading in Certain Claims Against the Debtors' Estates (the "Sell-Down Motion").**

56. Pursuant to the Sell-Down Motion, the Debtors seek entry of an order: (a) establishing the date the Court enters the Record Date Order as the effective date (the "Record Date") for notice and sell-down procedures for trading in certain claims against the

Debtors' estates in order to preserve the Debtors' ability to formulate a plan of reorganization that maximizes the use of their Tax Attributes; and (b) granting related relief.

57. The Debtors' ability to use their Tax Attributes may be lost (or extremely limited) if they experience an "ownership change" for tax purposes and are unable to take advantage of certain favorable rules that apply to ownership changes that occur pursuant to a bankruptcy plan of reorganization. Thus, in order to protect their ability to utilize the Tax Attributes (and, specifically, to rely on the favorable rule described below), the Debtors may ultimately need to seek an order (a "Sell-Down Order") requiring any persons or entities that have acquired debt claims against the Debtors during these chapter 11 cases in such an amount that the holders of such claims would be entitled to receive more than 4.5 percent of the equity of the reorganized Debtors (collectively, the "Substantial Claimholders"), to sell-down their claims below this threshold amount.

58. At this stage, it is too early to determine whether it is (or will be) necessary for the Debtors to obtain a Sell-Down Order. Accordingly, the Sell-Down Motion does not seek entry of a Sell-Down Order. Instead, the Sell-Down Motion merely seeks to establish the Record Date through entry of the proposed Record Date Order. The Record Date Order will provide notice of the Record Date to persons and entities that trade claims against the Debtors that their claims ultimately may be subject to sell-down.

59. I believe that the relief requested in the Sell-Down Procedures Motion is in the best interest of the Debtors' estates, their creditors, and all other parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Sell-Down Procedures Motion should be approved.

**XII. Debtors' Motion for Entry of Interim and Final Orders (I) Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness with Respect to Common Stock, and (II) Granting Related Relief (the "NOL Motion").**

60. Pursuant to the NOL Motion, the Debtors seek entry of interim and final orders: (a) approving certain notification and hearing procedures related to certain transfers of, or declarations of worthlessness with respect to, Debtor Pier 1 Imports, Inc.'s existing common stock or any Beneficial Ownership therein (any such record or Beneficial Ownership of common stock, the "Common Stock"), as detailed in Exhibit 1 to the interim order and final order (the "Procedures"); (b) directing that any purchase, sale, other transfer of, or declaration of worthlessness with respect to Common Stock in violation of the Procedures shall be null and void *ab initio*; and (c) granting related relief.

61. As of the end of the 2019 fiscal year, the Debtors estimate they had NOLs in the amount of approximately $133 million and approximately $13.5 million of 163(j) Carryforwards. They further estimate that they may generate additional NOLs, disallowed interest carryforwards, or other tax attributes in the 2020 and 2021 fiscal years (NOLs, together with certain other tax attributes, the "Tax Attributes"). These Tax Attributes may provide the potential for material future tax savings (including in post-emergence years) or other tax structuring possibilities in these chapter 11 cases. The value of the Tax Attributes will inure to the benefit of all of the Debtors' stakeholders.

62. Notably, the Debtors have limited the relief requested herein to the extent necessary to preserve estate value. Specifically, the proposed Interim Order and Final Order will affect only: (a) holders of the equivalent of Beneficial Ownership of more than 190,038 shares of Common

Stock[6] (*i.e.*, 4.5 percent or more of outstanding Common Stock); (b) parties who are interested in purchasing sufficient Common Stock to result in such party becoming a holder of 4.5 percent or more of Beneficial Ownership of outstanding Common Stock; and (c) any "50-percent shareholder" seeking to claim a worthless stock deduction.

63. I believe that the relief requested in the NOL Motion is in the best interest of the Debtors' estates, their creditors, and all other parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the NOL Motion should be approved.

## XIII. Debtors' Application for Entry of an Order Pursuant to 28 U.S.C.§ 156(c) (I) Authorizing the Retention and Appointment of Epiq Corporate Restructuring, LLC as the Claims and Noticing Agent to the Debtors, Effective *Nunc Pro Tunc* to the Petition Date and (II) Granting Related Relief (the "Claims and Noticing Agent Retention Application").

64. Pursuant to the Claims and Noticing Agent Application, the Debtors seek entry of an order: (a) approving the services agreement between the Debtors and Epiq Corporate Restructuring, LLC ("Epiq") and the Debtors' retention and employment of Epiq as claims and noticing agent (the "Claims and Noticing Agent") for the Debtors in lieu of the Clerk (the "Clerk") of the United States Bankruptcy Court for the Eastern District of Virginia (the "Court") and for related relief, effective *nunc pro tunc* to the date hereof (the "Petition Date"); and (b) granting related relief.

65. Based on my discussions with the Debtors' advisors, I believe that the Debtors' selection of Epiq to act as the Claims and Noticing Agent is appropriate under the circumstances and in the best interest of the estates. Moreover, it is my understanding that based on all

[6] Based on approximately 4,223,045 shares of Common Stock outstanding for purposes of section 382 of the IRC as of the Petition Date.

engagement proposals obtained and reviewed that Epiq's rates are competitive and comparable to the rates charged by their competitors for similar services.

66. The Debtors anticipate that there will be thousands of entities to be noticed. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, the Debtors submit that the appointment of Epiq as the Claims and Noticing Agent is both necessary and in the best interests of the Debtors' estates and their creditors because the Debtors will be relieved of the burdens associated with the Claims and Noticing Services. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Claims and Noticing Agent Retention Application.

## XIV. Motion for an Order Authorizing Pier 1 Imports, Inc. to Serve as Foreign Representative on Behalf of the Debtors' Estates (the "Foreign Representative Motion").

67. Pursuant to the Foreign Representative Motion, the Debtors seek entry of an order: (a) authorizing Pier 1 Import's, Inc. ("Pier 1") to act as a Foreign Representative on behalf of the Debtors' estates in the Canadian Proceedings (as defined herein); (b) authorizing Pier 1 to seek recognition by the Canadian Court (as defined herein) of these chapter 11 cases and the orders made by the Court in these chapter 11 cases; (c) requesting that the Canadian Court lend assistance to this Court; (d) granting any other appropriate relief from the Canadian Court that Pier 1 deems just and proper in the furtherance of the protection of the Debtors' estates; and (e) obtaining related relief.

68. Pier 1, as the proposed Foreign Representative, will shortly commence an ancillary proceeding in Canada (the "Canadian Proceedings") on behalf of the Debtors' estates under Part IV of the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C 36, as amended, (the "CCAA") in the Ontario Superior Court of Justice (Commercial List) (the "Canadian Court"). The purpose of the Canadian Proceedings is to request that the Canadian Court recognize these

chapter 11 cases as "foreign main proceedings" under the applicable provisions of the CCAA in order to, among other things, facilitate the wind down of Canadian operations.

69. Absent a court order, the Debtors may find it difficult to satisfy the requirements set out in the CCAA for an application for recognition of these chapter 11 cases. Accordingly, in order for Pier 1 to be recognized as the Foreign Representative in the Canadian Proceedings, and thereby apply to have these chapter 11 cases recognized by the Canadian Court, this Court must enter an order authorizing Pier 1 to act as the Foreign Representative in the Canadian Proceedings. After the order is granted, Pier 1 will be able to file the order with the Canadian Court as the instrument authorizing Pier 1 to act as the Foreign Representative pursuant to section 46 of the CCAA.

70. I believe that the relief requested in the Foreign Representative Motion will allow coordination of these chapter 11 cases and the Canadian Proceedings, and provide an effective mechanism to protect and maximize the value of the Debtors' assets and estates. Accordingly, on behalf of the Debtors, I respectfully submit that the Foreign Representative Motion should be approved.

## XV. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Secured Parties, (V) Modifying the Automatic Stay, (VI) Scheduling A Final Hearing, and (VII) Granting Related Relief (the "DIP Motion").

71. Pursuant to the DIP Motion, the Debtors seek entry of an interim order and final order: (a) authorizing the Debtors to incur the DIP Senior Credit Facility; (b) authorizing the Debtors to use Cash Collateral; (c) granting priming liens and providing superpriority administrative expense status to the DIP Senior Credit Facility; (d) granting adequate protection to the Prepetition Secured Parties under the Prepetition Credit Agreement; (e) modifying the

automatic stay imposed by section 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms of the DIP Orders; and (f) granting related relief.

72. Prior to the Petition Date, the Debtors, in consultation with their proposed restructuring advisor, AlixPartners, reviewed and analyzed their projected cash needs and prepared a projection (as updated from time to time in accordance with the terms of the DIP Senior Credit Facility Documentation, (the "Budget"). After a careful review of the Budget, the Debtors in consultation with their advisors, determined that the use of Cash Collateral alone would be insufficient to meet the Debtors' postpetition liquidity needs. In addition, the Cash Collateral is collateral of the Prepetition Secured Parties. As such, without access to the DIP Senior Credit Facility in addition to access the Cash Collateral, the Debtors likely would not be able to pursue a value-maximizing transaction, to the detriment of their stakeholders

73. The Debtors commenced these chapter 11 cases with firm commitments for approximately $256 million of postpetition financing to support their businesses at this critical juncture. Upon entry of the Interim Order: (a) $137.3 million of the Revolving Commitments will be used to refinance, in full, $137.3 million of revolving commitments under the Prepetition Credit Agreement (including approximately $47.3 million of the Letter of Credit Outstanding (as defined in the Prepetition Credit Agreement) being refinanced and constituting DIP Facility Obligations under the DIP Senior Credit Facility (including all existing letters of credit issued under the Prepetition Credit Agreement being deemed issued under the DIP Senior Credit Facility); (b) $15 million of the FILO Commitment will be used to refinance, in full, $15 million of the FILO facility under the Prepetition Credit Agreement; and (c) $41.2 million of the ABL Term Loan will be used to refinance, in full, the term loan under the Prepetition Credit Agreement. It became

apparent, throughout the negotiations, that this feature was a necessary prerequisite to acquiring postpetition financing, given the Debtors' time constraints.

74. The Debtors' access to their proposed DIP Senior Credit Facility will enable them to preserve their value as a going concern by providing crucial liquidity under terms that would allow them to pursue a dual-track value-maximizing sale and chapter 11 plan process. Accordingly, for all the reasons described in the DIP Motion, I believe that the proposed terms of the DIP Senior Credit Facility provide the best terms presently available to the Debtors. The proposed DIP Senior Credit Facility mitigates the risk of a substantial disruption to the Debtors' businesses during these chapter 11 cases.

75. I believe that without immediate access to the DIP Senior Credit Facility and Cash Collateral as provided for in the DIP Motion, the Debtors will suffer significant impairment to their business operations to the material detriment of all of their stakeholders. The Debtors will be unable to preserve and maximize the value of their estates, responsibly administer these chapter 11 cases, and execute its business plan. Therefore, I believe that approval of the DIP Senior Credit Facility as described herein and in the DIP Motion is in the best interests of the Debtors' estates.

76. Accordingly, on behalf of the Debtors, I respectfully submit that the DIP Motion should be approved.

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