IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
FOREVER 21, INC., *et al.*,[1]	)	Case No. 19-12122 (___)
Debtors.	)	(Joint Administration Requested)

DECLARATION OF JONATHAN GOULDING, CHIEF RESTRUCTURING OFFICER OF FOREVER 21, INC., IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

I, Jonathan Goulding, hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer of Forever 21, Inc., a corporation organized under the laws of Delaware and one of the above-captioned debtors and debtors in possession.

2. As a managing director at Alvarez and Marsal North America, I have been advising Forever 21 on its restructuring and deleveraging efforts since June 2019. I have more than 20 years of experience in management consulting and financial restructuring, specializing in liquidity management, financial and strategic planning, and implementation of financial strategies for corporate turnarounds and restructurings. I am a Certified Insolvency and Restructuring Advisor and a CFA charterholder with experience in a wide variety of industries, including retail, energy, agriculture, transportation and logistics, manufacturing, telecommunications, and financial services.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: Forever 21, Inc. (4795); Alameda Holdings, LLC (2379); Forever 21 International Holdings, Inc. (4904); Forever 21 Logistics, LLC (1956); Forever 21 Real Estate Holdings, LLC (4224); Forever 21 Retail, Inc. (7150); Innovative Brand Partners, LLC (7248); and Riley Rose, LLC (6928). The location of the Debtors' service address is: 3880 N. Mission Road, Los Angeles, California 90031.

3. I am familiar with Forever 21's day-to-day operations, business and financial affairs, and books and records. I submit this declaration to assist the Court and parties in interest in understanding the circumstances that resulted in the commencement of these chapter 11 cases and in support of the relief that Forever 21 has requested pursuant to the motions and applications filed on the first day of these cases.

4. All facts in this declaration are based upon my personal knowledge, my discussions with the management team and advisors, my review of relevant documents and information concerning Forever 21's operations, financial affairs, and restructuring initiatives, or my opinions based upon my experience and knowledge. I am over the age of 18 and authorized to submit this declaration on behalf of Forever 21. If called upon to testify, I could and would testify competently to the facts set forth in this declaration.

Forever Dreaming: A Roadmap to the American Dream

5. Forever 21 is a story about family and the "American Dream." In an age when retail, as most Americans know it, is under assault, Forever 21 intends to use these proceedings to remain viable and write a different ending from so many retail companies before it. The goal of these chapter 11 cases is clear: emerge with a viable and feasible standalone business and keep the dream alive.

6. What is the "American Dream?" It is "the belief that anyone, regardless of where they were born or what class they were born into, can attain their own version of success in a society where upward mobility is possible for everyone. The American Dream is achieved through sacrifice, risk-taking, and hard work, rather than by chance."[2]

2 American Dream Definition, Investopedia (May 24, 2019), https://www.investopedia.com/terms/a/american-dream.asp.

7. The Changs, the founders and owners of Forever 21, serve as a rare and exemplary model of the American Dream. From humble beginnings, the Changs created a worldwide enterprise that, at its peak, employed 43,000 people and had $4.1 billion in annual sales. And yet, despite the meteoric rise of the Forever 21 empire, the core of Forever 21's success and the value of its brand continues to stem from its modest beginnings—its commitment to customers to provide the latest fashion at affordable prices. Strong relationships with its vendors and landlords, that in many instances stretch close to 30 years, have served as a foundation for success. These relationships—carefully cultivated over the course of two plus decades—have been the backbone of Forever 21's success since its inception. And it is these relationships that allowed Forever 21 to operate with very little funded debt, supported Forever 21 during its recent difficulties, resulting in virtually no cash-on-delivery demands or actions to "lock" Forever 21 out of its stores, and will be critical sources of support for Forever 21's successful restructuring. Vendor relationships together with support from Forever 21's longstanding landlord community will ensure the fresh start necessary to keep the dream alive—not only for the Changs and Forever 21, but for hundreds of vendors and thousands of employees who also have realized their dreams through Forever 21's meteoric rise.

Forever Striving: A Story of Grit, Determination, and Passion

8. In 1981, Jin Sook and Do Won Chang landed at LAX after a short layover in Hawaii, where they had just secured a green card. The couple emigrated from South Korea at the age of 22. With no savings, no formal secondary education, and minimal familial and social contacts residing stateside, the Changs faced overwhelming odds. To make ends meet, Mr. Chang simultaneously held three jobs: as a janitor, a gas station attendant, and a café worker. Earning only $3 per hour at the café, Mr. Chang needed to supplement his income and started a small office cleaning business. Mrs. Chang worked as a hairdresser, a skill she picked up in South Korea.

9. Mr. and Mrs. Chang worked hard and saved. It took three years, but the couple was eventually able to scrape together $11,000 to put their entrepreneurial ambitions into action. During his time as a gas station attendant, Mr. Chang took notice of the customers that drove the most luxurious cars—the customers working in the garment industry. This realization piqued Mr. Chang's interest. He recognized that together with his wife, they were perfectly suited to enter the fashion industry. This would enable the couple to capitalize on Mr. Chang's relationship-building prowess and Mrs. Chang's keen sense of fashion.

10. In her limited spare time, Mrs. Chang explored the streets of Los Angeles observing window displays and taking notes. She noted the latest trends and predicted the next big trend in

fashion in the weeks and months to come. In 1984, Mr. Chang opened the first store in the Highland Park area of Los Angeles, naming it "Fashion 21," while Mrs. Chang continued to work as a hairdresser. Once Mr. Chang's new store began earning enough cash to keep food on the table and a roof over the couple's heads, Mrs. Chang joined him at the store full-time. Mrs. Chang, and her nearly-clairvoyant ability to predict trends, were part of the catalyst that boosted Forever 21's upswing.

11. Fashion 21 was an instant success. The first store (pictured below)—merely 900 square feet—sold $700,000 of merchandise during its first year.

Fashion 21

Forever Innovating: The Creation of Fast Fashion

12. Upon the founding of Fashion 21, Mr. Chang was no stranger to selling. Although he had no formal education, he grew up an entrepreneur. As a child and teenager, using his creativity

FAST FASHION

- "Fast-fashion" is the term used to describe clothing designs that move quickly from the catwalk to stores to meet new trends.
- The collections are often based on designs presented at high-end fashion weeks. Fast fashion allows mainstream consumers to purchase trendy clothing at an affordable price.
- Fast fashion is made possible by innovations in supply chain management among fashion retailers. Its goal is to produce articles of clothing quickly that are cost-efficient. These clothes respond to fast-shifting consumer demands. The assumption is that consumers want high fashion at a low price.
- Fast fashion follows the concept of category management, linking the manufacturer with the consumer in a mutually beneficial relationship.
- The speed at which fast fashion happens requires this kind of collaboration, as the need to refine and accelerate supply chain processes is paramount.

Fast Fashion, Investopedia (May 27, 2019), https://www.investopedia.com/terms/a/american-dream.asp.

and energy, Mr. Chang successfully launched and operated a coffee delivery service in his village. He has a remarkable ability to identify consumers' preferences and design the product most likely to satisfy such preferences. Living in Tinseltown, Mr. Chang quickly identified 21 as the most enviable age; children and young adults saw 21-year-olds as having the independence they so desired and older adults fondly remembered being 21 and unburdened by life's obligations and responsibilities. In 1987, Mr. Chang rebranded the Company as "Forever 21."

> *I came here with almost nothing and I'll always have a grateful heart toward America for the opportunities that it's provided me . . . and I wanted to pay it forward* — Mr. Chang[3]

13. Following the rebranding, the Changs established Forever 21 as the leader in defining fast fashion. Consumers in more than just Hollywood were interested in Forever 21's merchandise. To launch additional stores, the Changs did what many small family business-owners do, they reached out to their extended families. Mrs. Chang enlisted her brothers and cousins to open stores in Houston and Northern California. Once they had proven that their fast fashion could succeed outside of Los Angeles, they continued to open a new store nearly every six months. They reinvested all earnings into improving the merchandise assortment and opening new stores.

> I had dreamed of coming to the U.S. since I was in sixth grade. My parents had visited and I would always say next month, next month? — Mr. Chang[4]

14. Mr. Chang realized, though, that regardless of its growth and success, Forever 21 had to stay true to its roots. Mrs. Chang kept control of the design and merchandising while Mr. Chang maintained the relations with landlords and vendors.

---

[3] Grace Chung, *Exclusive Interview with One of America's Most Successful Immigrants: Forever 21's Do Won Chang*, Forbes (Oct. 5, 2016 11:00 AM), https://www.forbes.com/sites/gracechung/2016/10/05/exclusive-interview-with-one-of-americas-most-successful-immigrants-forever-21s-do-won-chang/#755188d242ab.

[4] *Id.*

15. Mr. Chang has developed long-lasting, reliable relationships with Forever 21's vendors by continuing to use the same vendors year over year. Over time, as Forever 21 grew in size, the vendors have continued to provide Forever 21 with more favorable trade terms. Furthermore, it has maintained the ability to provide new products at a rapid pace. Despite outstanding accounts payable as of the filing of these cases totaling approximately $347 million, Forever 21's relationships with its vendors remain ironclad. The vendor's continued faith in Forever 21 has allowed it to continue operations despite its inability to keep up with accounts payable.

16. As a result, Forever 21 was, and remains, truly unique; it has the underlying horsepower to churn out high volumes of product as a nationwide chain, but retains the agility of a family business to make quick decisions.

Forever in the Family

Linda, Don, and Esther Chang

17. Throughout the lifespan of Forever 21, the Changs retained their ownership stake, declining numerous opportunities that would facilitate generational wealth, and, at age 65, Mr. Chang remains heavily involved in the daily operations of the Company. In the Changs' eyes, Forever 21 is more than just their business; Forever 21 is their family. The Changs have two daughters, Linda and Esther, who have always been, and remain, integral to the business. From an early age, Linda and Esther spent their summer breaks working in Forever 21 retail stores and

spent the Christmas season wielding price tag guns in warehouses. Following high school, Linda and Esther both attended Ivy League Universities, University of Pennsylvania and Cornell University, respectively. Despite finding success in the outside business world independently, both sisters have since returned to Forever 21. Currently, Linda sits on the Company's board of directors and holds the position of Executive Vice President; Esther is the Vice President of Merchandising. Like their parents, the Chang sisters are not content with being average. Both of the sisters have actively sought not only to preserve, but also to improve, their parent's legacy. Indeed, the founding of Riley Rose ("Riley"), a ground-breaking beauty and lifestyle brand, was one of the Chang sisters' major projects to grow Forever 21.

> *For me family is the most important . . . When people talk about the American Dream, they are talking about a better life. However, if the business is doing well but your family is broken, that isn't quite success to me* — Mr. Chang[5]

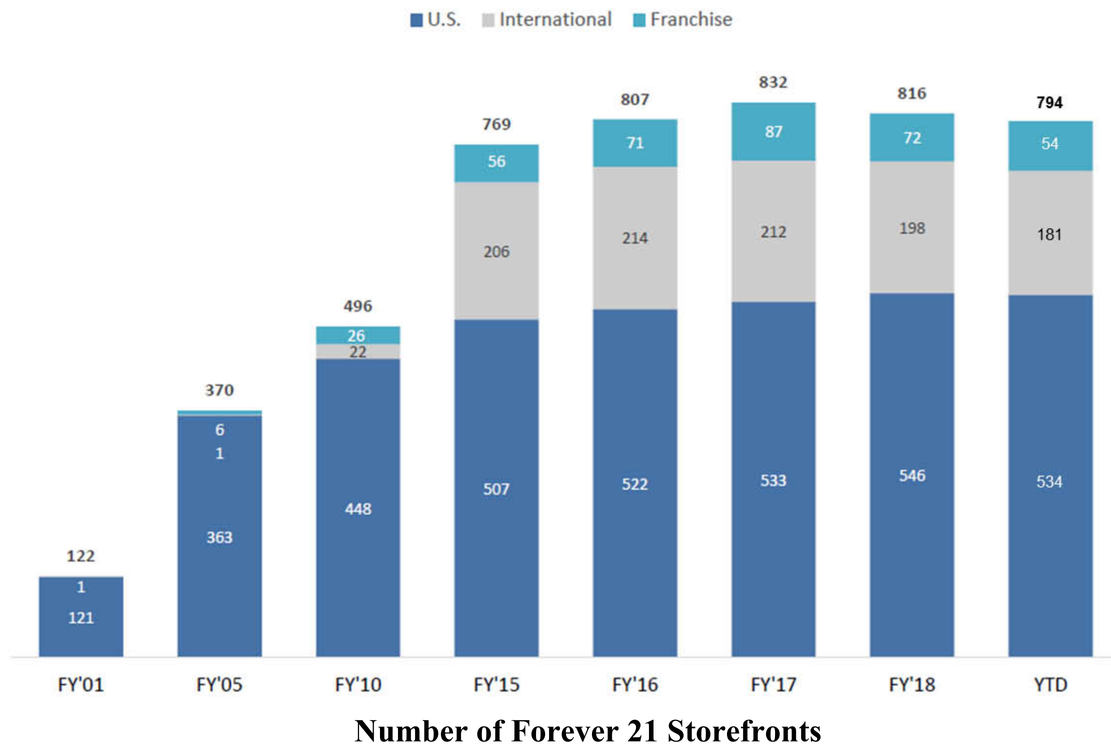
Forever Growing: Organic Domestic Expansion

18. During the late 1980s and 1990s, Forever 21 expanded slowly up and down the west and south coasts. Mr. Chang continued to build out his relationships within the garment industry, and Mrs. Chang continued to refine her ability to capture the ever-evolving fashion trends in America. Forever 21 was able to increase sales by providing customers with new merchandise each day because of the entrepreneurial culture of the family owned company. This phase proved mission critical. By the mid to late 2000s, Forever 21 stood poised to capture the momentum it had built up in the preceding decades to become a phenomenon. By then, Mr. Chang had constructed a world-class supply chain. It was no longer a matter of whether Forever 21 could beat its competitors to market with new ideas, but merely by how much time it would win.

[5] *Id.*

19. Two macro factors enabled Forever 21 to grow at such a rapid pace. ***First***, following the real estate crash of 2009, because of Forever 21's continued success, landlords offered prominent locations to set up stores. Many locations became available at advantageous prices because of vacancies. Forever 21 acquired locations from some of America's largest retailers including Saks, Sears, Mervyns, and Borders. During this campaign, Forever 21 laid claim to some of the most prestigious real estate in the world including locations in Manhattan, London's Oxford Street, and Tokyo's Shibuya District. ***Second***, Forever 21's ultra-low prices have always been one of its main customer draws. When combined with its trendy merchandise, low prices made Forever 21's merchandise particularly attractive in a depressed economy. As a result, Forever 21 continues to operate some of the largest and most valuable storefronts in the country.

Forever Growing Round 2: International Edition



Number of Forever 21 Storefronts

20. During the 2000s and early 2010s, Forever 21 followed a growth-oriented business strategy, both domestically and internationally, that closely aligned with consumer demand. Forever 21 opened its first international store in Canada in 2001. In 2005, there were seven international stores. By 2015, Forever 21 operated 251 international stores. The expansion took place in approximately 40 countries across five continents. Unfortunately, this rapid international expansion challenged Forever 21's single supply chain and the styles failed to resonate over time across other continents despite its initial success.

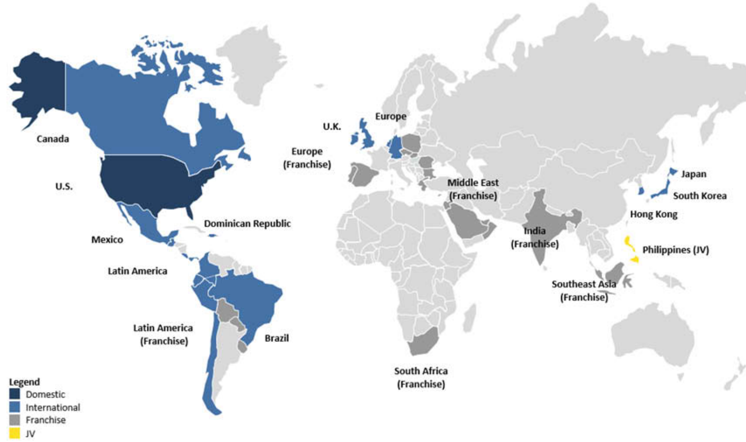
Forever Connecting: Ongoing Vendor Support

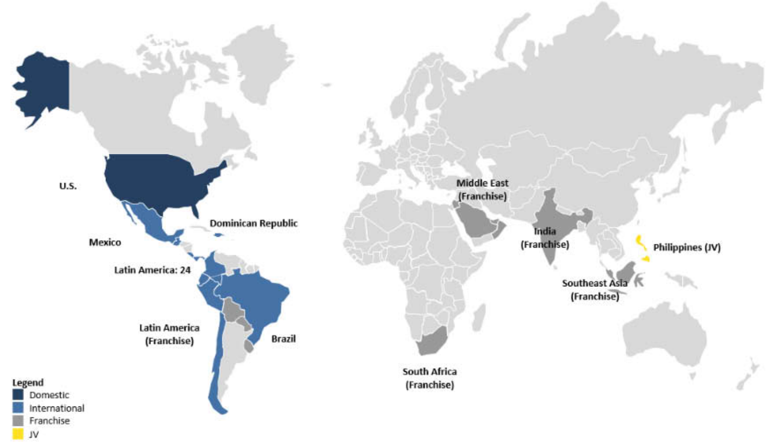
21. In advance of the Petition Date, members of Forever 21's management team met with more than 100 of its vendors, representing over 80 percent of outstanding vendor prepetition payables. As a result of these meetings, Forever 21 was able to calm key vendors regarding its ability to continue to make payments after a chapter 11 filing to minimize supply chain disruption heading into the critical 2019 holiday season. While there is still much work to be done, unlike nearly every other retailer who finds itself filing for chapter 11 during the fourth quarter, Forever 21 has, to date, not experienced a flood of cash-on-delivery demands or shipping freezes. This is a testament to Mr. Chang's uniquely strong relationship with Forever 21's vendors.

22. Furthermore, Forever 21 has entered into more than 130 Vendor Support Agreements with its key vendors. Through these agreements, the vendors have agreed to continue to provide goods to Forever 21 on equal or better terms than they had previously. In the aggregate, Forever 21 has entered into agreements with vendors expected to ship more than 75 percent of its more than $300 million of goods to be delivered in the coming months. This support is key at this turbulent time in Forever 21's lifespan.

Forever Learning: An Operational and Financial Rebirth

PREPETITION GLOBAL STORE FOOTPRINT	POST EMERGENCE GLOBAL STORE FOOTPRINT





23. At the tail end of its international expansion, Forever 21's European and Asian locations began to encounter substantial headwinds, resulting in a decline of consolidated net revenue by 18 percent and an EBITDA decline of 137 percent. Further, Forever 21's merchandise failed to resonate in markets outside of the United States and Latin America.

24. Between 2005 and 2015, Forever 21 opened more than 200 stores internationally. More than 70 of its stores exceed 35,000 square feet. This amount of floor space strained the valuable supply chain. The large format stores forced Forever 21 to create complicated assortment strategies and triggered inventory management challenges. The scale drove new merchandise sourcing strategy that greatly slowed "speed to market" and increased risk generally. As a result, the European and Asian stores undermined Forever 21's ability to nimbly bring inventory to market, and, by extension, hurt its worldwide profitability while distracting the management team. In the weeks and months preceding the Petition Date, Forever 21 commenced the process of exiting unprofitable international locations, positioning itself to focus on its domestic and Latin American businesses' long-term success.

25. The challenges faced by Forever 21 overseas encouraged it to initiate an operational "rebirth" premised on three core strategies: (a) shuttering underperforming locations, domestically and internationally; (b) a comprehensive "Back-to-Basics" merchandising plan that reinforces Forever 21's core strength—identifying forthcoming trends likely to be attractive to Forever 21's core customer base, and sourcing them affordably from its worldwide vendors, allowing Forever 21 to give its customers access to the latest fashions at affordable prices; and (c) reinforcing its relationship with its vendors to obtain superior trade terms on a go-forward basis.

26. To assist with the initial component of the strategy, Forever 21's management team and its advisors worked with its largest landlords to right size its geographic footprint. Four landlords hold almost 50 percent of its lease portfolio. To date, Forever 21 and its landlords have engaged in productive negotiations but have not yet reached a resolution. The parties have exchanged proposals and diligence is ongoing. Forever 21 looks forward to continuing to work with its landlords to reach a mutually agreeable resolution and proceeding through these chapter 11 cases with the landlords' support.

27. In tandem with these negotiations, Forever 21 and its advisors met with nearly all of its individual landlords to discuss potential postpetition rent concessions and other relief on a landlord-by-landlord basis. Many of these smaller, individual negotiations proved more fruitful than negotiations with the larger landlords. Although Forever 21 has not finalized the terms of a holistic landlord deal as of the Petition Date, Forever 21 anticipates that good-faith negotiations with its landlord constituency will continue postpetition, and that all parties will work together to reach a consensual, value-maximizing transaction.

28. The key to successfully effectuating this restructuring is speed and cooperation. Access to new capital is not endless. On the contrary, Forever 21's DIP Facilities are highly

conditioned on moving quickly through these cases with support from all major stakeholders, including lenders, trade vendors, and landlords. In an ever-shifting retail landscape that has seen dozens of casualties over the last several years, the traits that initially led to the success of Forever 21—collaboration, grit, and creativity—are the same traits that will propel Forever 21 through these chapter 11 cases successfully, but only so long as all parties in interest work collaboratively to ensure that these cases stay on track.

29. To familiarize the Court with Forever 21, its business, the circumstances leading to these chapter 11 cases, and the relief it is seeking in those certain motions and applications filed contemporaneously herewith, I have organized this declaration as follows:

- **Part I** provides a general overview of Forever 21's current operations;
- **Part II** provides an overview of Forever 21's prepetition capital structure;
- **Part III** describes the circumstances leading to these chapter 11 cases;
- **Part IV** describes Forever 21's proposed debtor-in-possession financing and marketing process;
- **Part V** sets forth the evidentiary basis for the relief requested in each of the first day pleadings.

I. Forever 21's Current Operations.

A. The Forever 21 Brand.

30. With a fiercely loyal customer base consisting primarily of young women, Forever 21 offers trendy clothing and accessories at affordable prices. Since its founding in 1984, Forever 21's core mission has been to make fashion fun. Forever 21 stocks its stores with vibrant clothing, jewelry, handbags, eyewear, scarves, shoes, and thousands of accessories grouped together across a range of styles to fit any occasion. Forever 21 generates substantial brand awareness through an outsized social media presence with active accounts on Facebook, Twitter, Instagram, Pinterest, YouTube, and Snapchat. With more than 16 million Instagram followers,

Forever 21 far outpacing the presence of its peers, including Urban Outfitters, GAP, J.Crew, and Abercrombie & Fitch. This significant social media presence has helped spur increased domestic internet sales. Domestic internet sales have increased over the past four quarters.

B. The Riley Rose Brand.

31. In late 2017, the Chang sisters spearheaded the founding of Riley Rose, LLC. Riley is Forever 21's beauty and wellness brand, with a brand image that focuses on femininity, self-discovery, and indulgence. Its primary product categories include makeup, skin care, and home décor. Riley operates 15 stores around the United States in addition to operating a robust e-commerce platform separate and apart from Forever 21's platform. Riley primarily leverages Instagram and YouTube influencers to advertise its products. Its stores include experiential elements for customers, allowing them to test beauty products and receive beauty services on site. For example, customers are encouraged to share their experience at Riley retail locations, each of which have "Selfie Walls" and photo booths.

C. Forever 21's Business Operations.

32. ***Brick-and-Mortar Presence***. Forever 21 and its non-Debtor affiliates maintain both a substantial domestic and international presence, operating and franchising 785 stores worldwide. Its global store footprint expanded rapidly over the past two decades. Currently, Forever 21 operates 534 stores across 46 states in addition to Guam and Puerto Rico and Forever 21's non-Debtor affiliates operate 251 stores internationally. Of the 251 international stores, Forever 21's non-Debtor affiliates own and operate 181 stores; 54 of the stores are franchises and 16 are joint ventures.

33. Forever 21's franchise stores and joint ventures are exclusively located internationally. The Company intends to continue to supply merchandise to and work with its franchise partners and its Philippines joint venture. Domestically, Forever 21 operates all stores. The stores are located in lifestyle centers, shopping malls, street level shops, and outlets.

34. ***The E-Commerce Platform***. Recognizing the online shopping boom during the early-2000s, Forever 21 launched its e-commerce platform in 2005; Riley launched its e-commerce platform shortly after its founding, in early 2018. Today, approximately 16 percent of Forever 21's total sales originate from its websites. Between Forever 21 and Riley, the Debtors operate nine e-commerce sites and ship their products globally. Online shoppers can purchase merchandise

and seek out fashion advice, tips, trends, and styles. Compared to its peers, Forever 21's online sales as a proportion of its overall sales are low, leading to expansion opportunities. Forever 21 expects its e-commerce customer base to grow 20 percent in 2019. Further, to capitalize on mobile shopping, Forever 21 recently launched a mobile app where consumers purchase merchandise and then rate clothing on a scale from "I like it" to "Not my style." Forever 21's design team utilizes this tool to gather customers' preferences in an environment of ever-changing tastes and preferences. The Company has implemented additional social media initiatives to increase e-commerce sales. For example, Forever 21 recently launched a "Shop the 'Gram'" section of its website where consumers can purchase clothing, makeup, and accessories through a layout similar to Instagram's format. It inspires consumers by showing what an outfit looks like through a social media lens. Forever 21 is investing further time and resources to expand and improve its online presence to ensure it stays ahead of competitors.

D. Overview of Forever 21's Merchandise and Key Customer Base.

35. Forever 21 offers specialty handbags, apparel, fashion jewelry, and beauty products. Historically and prior to implementation of some of the Company's prepetition turnaround initiatives, Forever 21 utilized 90 percent import-sourced merchandising. Consumers rely on Forever 21 for trendy and affordable merchandise. It enjoys a competitive advantage over its peers because of its ultra-low prices even when compared to similarly inexpensive peers (*e.g.*, H&M, Urban Outfitters, and American Eagle Outfitters). Unlike other brands' merchandise at a similar price point, Forever 21's merchandise is more similar in style to premium, more expensive lifestyle brands. Forever 21's inventory price point and demographics cover a wide range, reflective of the variety of products stocked in its stores and the tastes of its customers. Forever 21 places an emphasis on outfit solutions to provide its customers with complete outfits, including fashion accessories, jewelry, and handbags. This approach requires offering a wide

assortment of apparel pieces in regular and plus-sizes across various color varieties. Essential to the Forever 21 and Riley brands is the promise of a wide range of products that are unique, innovative, and reflective of the latest trends. Forever 21's loyal customer base shops regularly in its stores and proudly advocates for the brand.

E. Critical Components of Forever 21's Cost Structure.

1. Supply Chain.

36. Delivering trendy merchandize at inexpensive prices is the essence of Forever 21's business. Therefore, its business truly depends on the uninterrupted flow of inventory through its worldwide supply chain and distribution network. Low pricing and the ability to adapt to an ever-changing market is an essential component of Forever 21's success.

37. Not only is the Company relying heavily on its vendors to deliver outstanding orders, the Company is also relying on its vendors to provide future deliveries, namely those set to occur during the pendency of these chapter 11 cases. Because of substantial production lead-time and the transport time necessary to receive goods, Forever 21 receives orders up to five months after placement. Accordingly, it is required to forecast future demand when placing such orders. Failure to do so would leave Forever 21 with an inappropriate volume of merchandise. Any interruption to Forever 21's supply chain would put both current and future orders at risk and the Debtors would have limited ability to place orders with replacement suppliers. Additionally, because many of its vendors are located internationally, Forever 21 must pay charges and fees related to the importation of its goods in order to ensure a stable supply chain. Accordingly, the support of the vendors and suppliers is critical to the success of these chapter 11 cases.

2. Employee Compensation and Benefits.

38. Forever 21 employs approximately 32,800 employees, including approximately 6,400 full-time employees and approximately 26,400 part-time employees

(collectively, the "Employees"). Forever 21 offers its Employees the opportunity to participate in a number of insurance and benefits programs, including, among other programs, medical and dental plans, life insurance, accidental death and dismemberment insurance, disability benefits, workers' compensation, non-insider incentive programs, paid time off, non-insider severance, director compensation, and other employee benefit plans.

3. Real Estate Obligations.

39. Forever 21 leases almost all of its stores and offices, including its headquarters in Los Angeles, California. The aggregate annual occupancy costs of Forever 21's current stores is approximately $450 million. Currently, Forever 21 leases approximately 12.2 million total square feet for its retail stores. Forever 21's headquarters is located in Los Angeles, California, consisting of two buildings owned by BRE Fortnight Owner LLC: (a) its corporate headquarters (approximately 263,000 square feet) and (b) a distribution center (approximately 1.3 million square feet). Forever 21's locations are in some of the most desirable storefronts around the globe.

II. Forever 21's Prepetition Corporate and Capital Structure.

40. As of the Petition Date, the Debtors' capital structure consists of outstanding funded-debt obligations in the aggregate principal amount of approximately $227.7 million, including the ABL Facility, the Term Loan Agreements, and the Praxton Agreement. The following table summarizes the Debtors' outstanding funded-debt obligations as of the Petition Date:

Funded Debt	Maturity	Interest Rates	Principal Amount Outstanding
ABL Facility	March 2022	LIBOR + 1.25–1.75%	$194.5 million
Term Loan Agreements	December 2019	2.00%	$20.0 million
Praxton Note	October 2020	2.75%	$13.2 million[6]
TOTAL			$227.7 million

A. The ABL Revolving Credit Facility.

41. The Debtors are party to that certain Credit Agreement, dated as of March 7, 2017 (as amended by that certain First Amendment to Credit Agreement, dated as of October 24, 2018, that certain Second Amendment to Credit Agreement, dated as of December 6, 2018, that certain Third Amendment to Credit Agreement, dated as of July 30, 2019, that certain Fourth Amendment to Credit Agreement, dated as of September 5, 2019, and as may be further amended, restated, modified or supplemented from time to time, the "Prepetition ABL Credit Agreement"), by and among Forever 21, Inc., a Delaware corporation (the "Company"), each of the other U.S. Borrowers from time to time party thereto, each of the Canadian Borrowers from time to time party thereto, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (the "ABL Agent"). The Prepetition ABL Credit Agreement provides for a $375 million facility (subject to a borrowing base composed primarily of credit card receivables, franchise receivables and inventory) with a maturity date of March 7, 2022 (the "ABL Facility").[7]

[6] PHP 686.1 million is approximately $13.2 million, calculated using PHP / USD exchange rate of 0.0192647 as of September 28, 2019.

[7] The ABL Facility provides for LIBO Rate and Prime Rate loans. The LIBO Rate loans bear interest at the LIBO Rate plus an applicable margin of (a) 3.75 percent if the Average Aggregate Availability (as defined in the Credit Agreement) is equal to or exceeds 50 percent or (b) 4.00 percent if the Average Aggregate Availability is less than 50 percent. The Prime Rate loans bear interest at a Prime Rate, plus an applicable margin of (x) 2.75 percent if the Average Aggregate Availability is equal to or exceeds 50 percent or (y) 3.00 percent if the Average Aggregate Availability is less than 50 percent.

42. The obligations under the ABL Facility (the "ABL Obligations") are secured by substantially all of each Debtor's working capital assets, including, without limitation, by a first priority lien on the Debtors' accounts (including receivables), inventory, deposit accounts, security accounts, cash, and cash equivalents, but excluding the Debtors' intellectual properties and certain of the Debtors' real estate assets. Each non-borrower Debtor has guaranteed all obligations under the ABL Facility.[8] Due to the Debtors' ongoing liquidity constraints, the aggregate availability under the ABL Facility has been constrained for many months preceding the Petition Date. As of the Petition Date, there is effectively no availability under the ABL Facility.

B. The Term Loans.

43. The Company is party to that certain Loan Agreement, dated as of January 21, 2015 (as amended, restated, amended and restated, modified, or supplemented from time to time, the "Term Loan A Agreement"), with Do Won Chang, an individual, as lender thereunder. Under the Term Loan A Agreement, Do Won Chang provided the Company with a $10 million loan, the balance of which is due at its maturity.

44. The Company is also party to that certain Loan Agreement, dated as of January 21, 2015 (as amended, restated, amended and restated, modified, or supplemented from time to time, the "Term Loan B Agreement"), with the Linda Inhee Chang 2012 Trust as lender thereunder. Under the Term Loan B Agreement, the Linda Inhee Chang 2012 Trust provided the Company with a $5 million loan, the balance of which is due at its maturity.

---

[8] Additionally, Forever 21 has entered into certain deposit account control agreements in favor of the ABL Agent with respect to its bank accounts. Thus, substantially all of the Debtors' cash is subject to a perfected security interest in favor of the ABL Agent. Under the ABL Facility, if aggregate availability is less than the greater of (a) 12.5 percent of the then-applicable borrowing base (or, if less, the total commitments) and (b) $25 million, for at least five consecutive business days, the Debtors must remit all cash receipts on a daily basis to a non-Debtor account maintained by the ABL Agent (the "Agent Account").

45. The Company is also party to that certain Loan Agreement, dated as of January 21, 2015 (as amended, restated, amended and restated, modified, or supplemented from time to time, the "Term Loan C Agreement," together with the Term Loan A Agreement and the Term Loan B Agreement, the "Term Loan Agreements"), with the Esther Duk-Hee Chang 2012 Trust as lender thereunder. Under the Term Loan C Agreement, the Esther Duk-Hee Chang 2012 Trust provided the Company with a $5 million loan, the balance of which is due at its maturity.[9]

C. The Praxton Note.

46. The Company is party to that certain Loan Agreement, dated as of October 9, 2015 (as amended, restated, amended and restated, modified, or supplemented from time to time, the "Praxton Agreement"), with Praxton Commercial Corp, a company organized and existing under the laws of the Philippines, as lender thereunder. The Praxton Agreement provides the Company with a PHP 950 million (approximately $18.3 million)[10] facility maturing October 9, 2020. The loans borrowed under the Praxton Agreement accrue interest monthly at a rate of 2.75 percent. Interest is paid annually on October 9, and the outstanding principal is amortized over the final 36 months of the term of the loan.[11] As of the Petition Date, there is approximately PHP 686.1 million outstanding on account of the Praxton Note.[12]

---

[9] The obligations of the Company under the Term Loan Agreements are unsecured. Pursuant to that certain Subordination Agreement, dated as of March 7, 2017, by and among, *inter alia*, Linda In-Hee Chang as trustee of the Linda In-Hee Chang 2012 Trust, Do Won Chang, an individual, the ABL Agent, and the Company, the indebtedness of the Company owing to the Linda Inhee Chang 2012 Trust, the Esther Duk-Hee Chang 2012 Trust, and Do Won Chang under the Term Loan Agreements is subordinated in right of payment to the ABL Obligations.

[10] The initial principal of the Praxton Note was PHP 950 million (approximately $18.3 million), calculated using PHP / USD exchange rate of 0.0192647 as of September 28, 2019.

[11] The obligations of the Company under the Praxton Agreement are not secured. Pursuant to that certain Subordination Agreement, dated as of March 10, 2017, by and among Praxton Commercial Corp., the ABL Agent and the Company, the indebtedness of the Company owing to Praxton Commercial Corp. under the Praxton Agreement is subordinated in right of payment to the ABL Obligations.

D. Equity Interests.

47. As of the Petition Date, Do Wan Chang, the Debtors' Chief Executive Officer and founder, and his family directly or indirectly hold approximately 99 percent of the common equity interests of Forever 21. Alex Ok, the President of Forever 21, directly holds approximately 1 percent of the common equity interests of Forever 21. There have been no other equity issuances.

III. Events Leading to these Chapter 11 Cases.

48. A number of factors, both macro and micro contributed to the need to commence these chapter 11 cases. Most significantly is the decrease in mall traffic. Many Forever 21 storefronts are located in malls. As its neighbors have closed, the number of customers walking past Forever 21 has declined. This has led to a decrease in sales through what has traditionally been Forever 21's predominant retail channel, its brick and mortar stores. Despite Forever 21's continued efforts to adjust its sales strategy to one capitalizing on its online store, it remains saddled with excessive floor space from leases entered almost a decade ago or more in unprofitable markets. Over time, Forever 21's liquidity has become strained and its vendor relations have been tested. Its vendor relationships have passed those tests. Despite continued vendor and landlord support, the following factors culminated with dwindling cash flows and the inability to access incremental liquidity under its prepetition debt facilities.

A. Challenging Operating Environment and Right-Sizing.

49. Forever 21, along with many other apparel and retail companies, has faced a challenging commercial environment over the past several years brought on by increased competition and the shift away from shopping at brick-and-mortar stores. Given its substantial

[12] PHP 686.1 million is approximately $13.2 million, calculated using PHP / USD exchange rate of 0.0192647 as of September 28, 2019.

brick-and-mortar presence in the United States, and the expenses associated therewith, Forever 21's domestic business has been heavily dependent on physical consumer traffic, and resulting sales conversion, to meet sales and profitability targets. The combination of the above factors, and others plaguing the retail industry as a whole, contributed to the Company falling short of its sales targets and depressed profitability performance domestically. Depressed domestic profitability was exacerbated by the albatross created by its burdensome international footprint.

50. Additionally, Forever 21 suffered from recent merchandising miscalculations that have contributed to the decline in EBITDA. Historically, merchandising decisions largely were in reaction to the previous year's performance, resulting in a "pendulum" phenomenon whereby Forever 21 underspent one year and overspent the next. Specifically, Forever 21 materially under-purchased inventory in 2017 due to excess 2016 inventory levels. Following this under-purchase, Forever 21 materially over purchased in 2018. Additionally, the in-house product design team was structured around styles (*e.g.*, work, weekend, night), leading to duplicative stock keeping units within a given category (*i.e.*, tops, bottoms dresses). For example, if the teams assigned to design "work clothing" designed a striped top, it is possible that the team assigned to design "casual clothing" may design a similar striped top, unaware that their work was duplicative. As part of the "Back-to-Basics" plan, design teams will now be centered around categories such as "tops" or "bottoms." This will reduce duplicative design and help produce the trendy fashion upon which its brand was built.

B. Burdensome International Portfolio.

1. Rapid International Overexpansion.

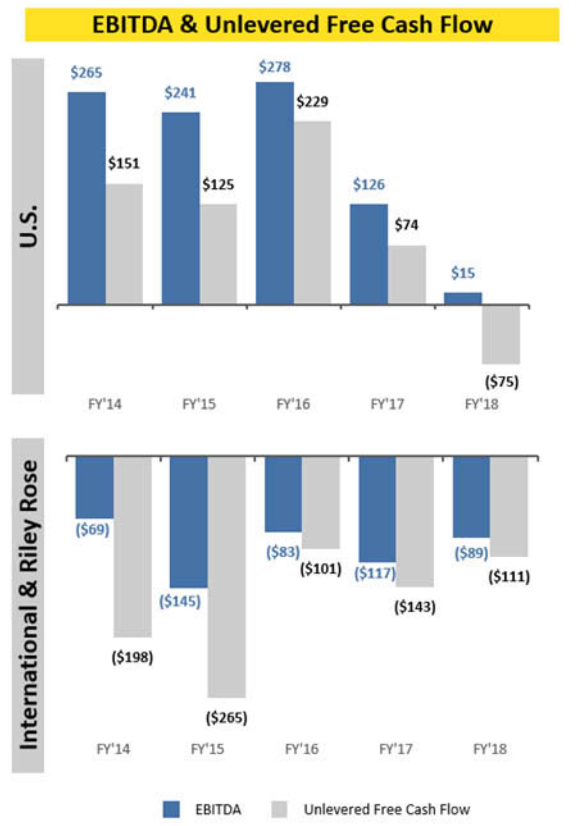
51. In 2008, Forever 21 began expanding into international markets. The initial strategy was to create a hub within a city, with a flagship store surrounded by more affordable rent locations spread throughout a metro area. Forever 21, however, was generally unable to

accumulate sufficient storefronts in lower-rent areas and were left with several high-rent locations without the necessary surrounding support. Therefore, Forever 21 entered lease agreements for store footprints which were too large and required more products to fill the available space.

52. Compounding the risk of high-rent locations, Forever 21's focus on rapid expansion left Forever 21 without the operational capabilities to scale effectively. By 2015, there were 262 international stores. The majority of the international stores were unprofitable due to variances in local fashion trends and elevated labor costs. As a result, Forever 21 was unable to account for geographical differences in taste and climate, ultimately leading to operational scaling inefficiencies.

2. International Underperformance.

53. Despite relatively strong domestic sales, international sales have remained depressed and have counter-balanced the strong performance of the stateside stores. Global sales dropped from $4.1 billion in 2014 to $3.1 billion in the latest twelve months as of July 31, 2019. Specifically, Forever 21's storefronts in Canada, Europe, and Asia are losing approximately $10 million per month on average over the past 12 months. These losses from international operations, compounded with the foregoing factors, have rendered Forever 21 unable to service its outstanding debt.



C. Borrowing Base Challenges.

54. As is typical in the apparel industry, inventory levels form a substantial portion of the ABL Facility borrowing base. When new inventory failed to resonate with customers, the

ABL made it difficult to clear inventory at lower margin rates as this would depress the borrowing base and, therefore, liquidity. As a result, Forever 21 continued to carry aged inventory which crowded out new product and low liquidity made it challenging to procure new product. Forever 21 has continued to sell through older inventory rather than bringing in new product. The lack of fresh inventory has a negative impact on sales which tightens liquidity (including by reducing the borrowing base under the ABL Facility), creating a negative feedback loop. Without the flow of fresh inventory, Forever 21's business will effectively starve.

D. Prepetition Strategic Turnaround Initiative.

55. Forever 21, recognizing the need to reevaluate its business, hired a number of turnaround advisors, including: Lazard Frères & Co. LLC ("Lazard"), Alvarez & Marsal LLC ("A&M"), Kirkland & Ellis ("K&E"), and RCS Real Estate Advisors ("RCS") to assist with an all-inclusive restructuring. Forever 21 worked with its advisors to develop and implement a comprehensive operational turnaround to simplify its business and build on the core strengths of Forever 21 and Riley. The turnaround initiative includes processes to: (a) right-size the Company's physical store footprint; (b) reduce its operation costs at the store, field, and corporate levels; (c) refocus on its product assortment; (d) streamline the supply chain process; (e) enhance the customer experience; (f) optimize marketing; and (g) grow its e-commerce offering. Fundamental to the turnaround initiative is a realigned merchandising strategy focused on ensuring the core product categories are "trend right."

1. Addition of Directors and Appointment of New Executives.

56. The first step taken to implement the turnaround initiative was to improve Forever 21's corporate governance through the hiring of experienced executives and independent directors to bolster the existing management team and refine its corporate governance structure. More specifically, the Debtors added three directors to Forever 21's Board (for a total of six

members on the Board), all of whom have extensive experience in the retail space (and in the distressed retail space). This includes Russell Belinsky, Lisa Gavales, and Lawrence Meyer. Additionally, in the last six months, the Company added four new members to its management team: (a) in March 2019, Brad Sell was appointed as Chief Financial Officer; (b) in August 2019, Lawrence Meyer was hired as Chief Strategy Officer, in light of his prior experience with the Company and his experience with distressed retailers; and (c) Matthew Katz and Jonathan Goulding were appointed as Interim Chief Operations Officer and Chief Restructuring Officer, respectfully, in light of their nearly forty collective years of experience in the distressed retail space. These additions to the management team will work with the existing leaders to chart a path for Forever 21's future sustained success.

2. Streamlining the Supply Chain Process.

57. The second component involves optimizing vendor relationships, improving inventory management, and increasing speed to market, to enable Forever 21 to respond quickly to evolving customer preferences. This vendor and inventory optimization strategy includes streamlining inventory offerings and selecting proven go-forward categories. Additionally, Forever 21 has endeavored to improve flow patterns in its supply chain by: (a) reducing shipments to stores from five to three times per week; (b) optimizing shipping and packing materials in the distribution centers; (c) eliminating cost of returns of e-commerce orders from stores to the distribution center; (d) consolidating global freight forwarders; (e) reducing local store delivery fleets and optimizing distribution routes; and (f) reducing the headcount needed to support distribution center quality assurance processes of inbound shipments. Further, the Debtors have identified and begun to implement additional supply chain initiatives such as enhancing

distribution center labor scheduling by creating visibility into timing of receipts and true product availability for allocation, as well as driving phased reduction of local store deliveries.

58. These initiatives have already increased run rate EBITDA by $3.9 million, with an expected total improvement of approximately $8.2 million in run rate EBITDA in the near term. Forever 21 believes that this strategy will lead to shorter vendor response times and a more efficient purchasing process to keep product fresh and on trend, resulting in higher merchandise margins as it reduces reliance on inventory markdowns to offload excess inventory.

3. Right Sizing Physical Store Footprint.

59. This third component of the turnaround initiative focuses on streamlining Forever 21's real estate footprint.

(a) Prepetition Store Closures.

60. In 2016, the Company began the process of exiting unprofitable stores and analyzing optimal markets in which to maintain a physical presence on a go-forward basis, including a large-scale reduction of its international store footprint. Although its largest international region is in North America (excluding the United States), where it operates 119 stores as of May 31, 2019, Latin America is the strongest international region, with approximately 96 percent of stores generating positive cash contribution on a last twelve months basis. Despite this footprint reduction and improving comparable store sales trends, the Debtors' international stores contributed approximately $95 million in negative EBITDA over the last twelve months.

(b) Postpetition Store Closures.

61. Pursuant to the store closing motion, Forever 21 intends to quickly wind-down its unprofitable, domestic stores. In parallel, and prior to the Petition Date, Forever 21 terminated cash support to its underperforming international locations and is in the process of developing and implementing various wind-down plans internationally.

62. In parallel with the store closings, Forever 21, with the assistance of its advisors—specifically RCS, Lazard, and A&M—commenced rent concession negotiations with landlords for the remaining stores. The efforts of RCS, Lazard, and A&M remain ongoing as of the Petition Date. This two-pronged process will reduce the stress on the profitable domestic business and provide the first foothold for a comprehensive restructuring that maximizes the Forever 21's value as a going concern.

4. Reducing Operation Costs at the Store, Field, and Corporate Levels.

63. The fourth component of the turnaround initiative seeks to reduce operational costs through strategic alignment with industry standards and specific cost rationalization. Forever 21 has already began improving processes and right sizing labor expense and productivity expectations through: (a) aligning to industry standard wages as a percentage of sales; (b) optimizing store labor to better account for high traffic dates and times; (c) adjusting store open and close support and processes; (d) reducing selling, general, and administrative cost; (e) reducing corporate headquarters headcount; and (f) pursuing additional outsourcing opportunities. It is also in the process of reviewing store business processes and visual merchandising to support labor reductions, consolidating districts to increase management efficiency, and updating pricing to account for foreign exchange and local market changes.

64. To date, these initiatives have already realized an improvement of approximately $87.8 million in run rate EBITDA, with an expected improvement of approximately $113.8 million in the aggregate.

5. Refocusing on Product Assortment.

65. The fifth component of the turnaround initiative aims at shifting Forever 21's focus and efforts to merchandise categories with proven profitability: trendy and affordable apparel,

accessories, jewelry, and handbags. Forever 21 has elected to focus on these categories because of its historically high profit margins, its ability to weather recessions and industry down cycles, and its growth potential. This involves, among other things, a focus on trendy styles and value, strategic brand partnerships, and a renewed focus on customer demand to dictate growth of apparel. Buying functions and inventory management have been greatly improved.

66. Further, Forever 21 has begun to broaden its product offering while shifting to higher average unit retail categories to recapture its customer base ("a garment for every girl") and focus international products on higher-margin categories (*i.e.*, denim, graphic tees, core basics). In order to drive higher sales and profit margins, the Company is locally sourcing international inventory to simplify supply chains, increasing speed-to-market times and reducing logistics costs.

6. Enhancing the Customer Experience.

67. The sixth component of the turnaround initiative seeks to improve the customer experience to drive customer conversion. Forever 21 expects to achieve that goal by implementing impactful in-store marketing and event initiatives to maximize product relevance and improving in-store product layout to ease navigation of key product categories and highlight competitive inventory pricing. Finally, the Company will train staff members to achieve incremental customer conversion while lessening administrative burdens so the staff can focus on sales.

7. Optimizing Marketing.

68. The seventh component aims to refocus the Debtors' marketing efforts on the "high spender" customer to build brand awareness and generate traffic. This strategy involves: (a) investing in targeted advertising on social media platforms and other online forums; (b) improving coordination between marketing and merchandising; (c) improving the effectiveness of existing marketing channels; (d) selectively increasing new customer acquisition

efforts by, among other things, boosting messaging to lapsed customers; and (e) a redesign of the Debtors' customer loyalty, credit card, and brand ambassador programs.

8. Growing Forever 21's E-commerce Offering.

69. The final component of the turnaround initiative seeks to bolster the preexisting e-commerce platform. Forever 21 believes that e-commerce augments the brick-and-mortar model and solidifies the seamless customer experience. Forever 21 has a strong online presence that can be made even stronger with simple initiatives such as driving bottom line by increasing initial markups (Forever 21 currently sits well below market compared to comparable firms).

70. The e-commerce platform has a path to bring in a quarter of all of the Debtors' sales. The plan to accomplish this aggressive goal by building online merchandising team to deliver 20 percent higher gross margins, increasing the availability of online inventory (web assortment represents 28 percent of online sales, but only 15 percent of inventory), and strategically offering branded products that can drive potentially 59 percent higher average unit retail (*e.g.*, Levi's, Reebok, Champion). One advantage of the e-commerce platform is that the online merchandising team can chase into a product more quickly than standard product development teams. Additionally, customers who shop both online and offline buy more frequently—marrying in-store and online capabilities can drive additional purchases (ship-to-store customers drive approximately 20 percent additional in-store purchases and online returns-to-store drive approximately 10 percent additional in-store purchases).

E. The Need for Imminent Liquidity.

1. Efforts to Access Liquidity Under ABL Facility.

71. Additionally, Forever 21 attempted to ameliorate its liquidity issues through an amendment of its ABL Facility that would allow them to borrow more money against its assets and accounts. On July 30, 2019, Forever 21 entered into the Third Amendment to Credit

Agreement (the "Third ABL Amendment"). Although unsuccessful in securing additional capital under an amended ABL agreement, through the Third ABL Amendment, Forever 21 was able to negotiate a forbearance of its audit requirements for the months of July and August. The audit amendment was necessary to avoid a premature default under the ABL Facility's covenants. On September 5, 2019, Forever 21 entered into the Fourth Amendment to Credit Agreement (the "Fourth ABL Amendment"). The Fourth ABL Amendment further extended the ability of Forever 21 to continue to operate its business without defaulting under the ABL Facility.

2. Efforts to Obtain the FILO Loan to Purchase Holiday Inventory.

72. Beginning in July 2019, the Debtors, with the assistance of Lazard, evaluated potential funding alternatives necessary to obtain liquidity needed for purchasing inventory and implementing the Debtors' go forward business plan reflecting the Debtors' turnaround initiatives. The Debtors contacted 25 parties regarding potential financing, including an out-of-court first-in-last-out term loan (a "FILO Loan"). Of the 25 contacted parties, 22 parties signed non-disclosure agreements ("NDAs") and were granted data room access (two of them had existing NDAs with the Company). As a result of these efforts, the Debtors received four financing offers. After further review of the ongoing turnaround initiative efforts, however, the Debtors decided that a FILO Loan would not put the Debtors' on a value-maximizing long-term path for success without the tools made available in connection with a chapter 11 process (including, most significantly, the ability to reject burdensome domestic and international leases). Therefore, the Debtors focused on preparing for a potential chapter 11 filing, including finding postpetition financing.

3. The In-Court Restructuring

73. After exhausting all out-of-court options and recognizing that a simple financing arrangement alone would not provide the tools necessary for Forever 21 to reorganize its business, it recognized the need to pursue an in-court process.

74. Speed and the cooperation of each of the economic stakeholders is critical to achieving success in these chapter 11 cases. With the support of its key economic stakeholders and landlords, have a genuine opportunity to reorganize into a successful, more nimble enterprise that can return significant value to its stakeholders.

F. The Proposed DIP Financing.

75. By motion filed contemporaneously herewith, Forever 21 seeks authorization from the Court to enter into a postpetition financing agreement for an immediate infusion of capital (through two debtor in possession financing facilities) on an expedited timeline.

76. Forever 21's negotiations with its funded debtholders and third parties, which ultimately culminated in the DIP Facilities, were guided by two key considerations. ***First***, speed is key. Given the potential business disruption and costs associated with a chapter 11 filing, it is crucial that the Debtors emerge from chapter 11 as quickly as possible. Forever 21's profit margins depend on maximizing the 2019 holiday season, which require s ensuring that fresh inventory inflows are not disrupted. ***Second***, a fresh liquidity infusion is critical to making good on the Company's long-standing positive relationships with its vendors, and enable them to dedicate the resources necessary to implement the Back-to-Basics plan.

77. In connection with a chapter 11 filing, the Debtors, with the assistance of Lazard, initiated a process for identifying sources of capital on the best available terms. Specifically, with the assistance of Lazard, Forever 21 began soliciting indications of interest from potential debtor in possession lenders (including specialty lenders and those that routinely provide debtor in

possession financing) to gauge their interest in providing debtor in possession financing ("DIP Financing").

78. To avoid disruptive news coverage, Lazard initially limited its outreach to only 13 potential lenders to solicit proposals for DIP Financing (including the prepetition ABL Agent). Several of those parties were already under an NDA in connection with the request for proposals regarding the potential FILO Loan. Further, several of those parties were already familiar with the Debtors' business as they had performed substantial diligence and, in many instances, provided proposals for financing.

79. Approximately one week after the initial DIP Financing outreach, with the risk of disruptive news coverage becoming moot, Lazard expanded its outreach and solicited proposals from 18 additional parties. Many of those parties were already familiar with the Debtors and the collateral available to secure DIP Financing, and had largely indicated an interest to participate in a potential DIP Financing facility.

80. In total, more than 30 parties were contacted and more than 30 NDAs were executed. All parties subject to NDAs were granted access to a virtual data room containing detailed information regarding the Debtors and received access to non-public information. As a result of these efforts, several parties engaged in negotiations with the Debtors and their advisors and discussed the terms of potential DIP Financing. Ultimately, the Debtors received one proposal for a DIP ABL facility and eight proposals for a junior term loan facility. No party was willing to provide financing to the Debtors on an unsecured or administrative priority basis. Additionally, the Debtors solicited interest for a "unitranche" DIP facility to ensure competitive tension with the potential lender for the DIP ABL facility; interest in such a facility, however, was very limited.

81. As set forth in greater detail in the *Declaration of Christian Tempke in Support of the Debtors' Motion Seeking 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 ABL Secured Parties, (V) Modifying the Automatic Stay, (VI) Scheduling A Final Hearing, and (VII) Granting Related Relief* (the "Tempke Declaration"), these efforts culminated in two DIP Facilities (as discussed below, the "DIP ABL Facility" and the "DIP Term Facility" and together, the "DIP Facilities"). The DIP Facilities will fund the working capital needs and the chapter 11 process.

82. The DIP Facilities contemplate postpetition financing in the form of (a) a $275 million senior secured superpriority ABL revolving credit facility, which includes a $75 million sublimit for letters of credit and a "creeping roll up" of the prepetition ABL Facility, and (b) a $75 million senior secured superpriority term loan credit facility, reflecting $75 million of new money financing. In particular, borrowings shall be made under the DIP ABL Facility but cash receipts postpetition shall be used to pay down the prepetition ABL Facility on a dollar-for-dollar basis so long as Forever 21 is in cash dominion on the DIP ABL Facility. Any amounts outstanding on the prepetition ABL Facility as of the entry of the final order approving the DIP ABL Facility will be "rolled" into that facility. Because the prepetition ABL Facility is being "rolled up" into the DIP ABL Facility and the DIP ABL Facility is senior in priority to the DIP Term Loan Facility (with respect to the collateral securing the DIP ABL Facility), the DIP Facilities do not effectuate any priming of the prepetition ABL secured parties' liens on their collateral under the prepetition ABL Facility. Accordingly, the Debtors avoid the need to engage in a priming fight at the outset of these chapter 11 cases. The prepetition ABL secured parties

have also consented to the Debtors' use of their cash collateral in connection with the DIP Facilities.

IV. Evidentiary Support for First Day Motions.

83. Contemporaneously, Forever 21 has filed a number of first day pleadings seeking relief that it believes is necessary to enable them to efficiently administer its estates with minimal disruption and loss of value during the pendency of these chapter 11 cases. Forever 21 requests that the relief requested in each of the first day motions be granted as critical elements in ensuring the maximization of value of the estates. I believe that the relief requested in the first day motions is necessary to allow the Company 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 intentionally left blank*]

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

Dated: September 30, 2019
Wilmington, Delaware

/s/ Jonathan Goulding
Name: Jonathan Goulding
Title: Chief Restructuring Officer
Forever 21, Inc.

Exhibit A

Evidentiary Support for First Day Motions

Evidentiary Support for First Day Motions[1]

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

1. Pursuant to the Joint Administration Motion, the Debtors request entry of an order (a) directing procedural consolidation and joint administration of their 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. For example, virtually all of the relief sought by the Debtors in the First Day Motions is sought on behalf of all of the Debtors. 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. Accordingly, 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 Seeking Entry of Interim and Final Orders Authorizing the Debtors to (I) File a Consolidated List of Creditors in Lieu of Submitting a Separate Mailing Matrix for Each Debtor, (II) File a Consolidated List of the Debtors' Fifty Largest Unsecured Creditors, (III) Redact Certain Personal Identification Information for the Debtors' Employees and European Union Member Countries' Citizens, and (IV) Granting Related Relief (the "Creditor Matrix Motion").

3. Pursuant to the Creditor Matrix Motion, the Debtors seek entry of interim and final orders: (a) authorizing the Debtors to file a consolidated list of creditors in lieu of submitting a separate mailing matrix for each Debtor; (b) authorizing the Debtors to file a consolidated list of the Debtors' fifty largest unsecured creditors in lieu of filing lists for each Debtor; (c) authorizing the Debtors to redact certain personal identification information for the Debtors' employees and European Union member countries' citizens; and (d) granting related relief.

4. Although I understand that a list of creditors usually is filed on a debtor-by-debtor basis, 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]

5. Additionally, I believe that it is appropriate to authorize the Debtors to redact from the Creditor Matrix address information of individual creditors—including the Debtors' employees and European Union member countries' citizens—and interest 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

[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.

U.S. Trustee, any official committee of unsecured creditors appointed in these chapter 11 cases, and the Court.

6. Accordingly, I respectfully submit that the Court should approve the Creditor Matrix Motion.

III. Debtors' Motion Seeking 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) Continue to Perform Intercompany Transactions and (II) Granting Related Relief (the "Cash Management Motion").

7. 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) honor certain prepetition obligations related thereto; (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.

8. The Debtors' Cash Management System is similar to the centralized cash management systems used by other comparably sized companies to manage cash flow. 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 total disbursements will average approximately $52 million per week during these chapter 11 cases.

9. In the ordinary course of business, the Debtors engage in routine business relationships with each other and their non-Debtor affiliates (the "Intercompany Transactions"),

resulting in intercompany receivables and payables (the "Intercompany Balances"). Accordingly, at any given time there may be Intercompany Balances owing by one Debtor to another Debtor or by a non-Debtor affiliate to a Debtor. Such Intercompany Transactions are typically conducted pursuant to intercompany trade arrangements and joint use of certain shared service platforms, among others.

10. Debtor to Debtor Intercompany Transactions are the most common. For example, in the normal course of business, Debtor Forever 21 transfers funds from the Master Operating Account to certain Disbursement Accounts so that Debtor F21 Retail can undertake transactions necessary for its day-to-day operations, such as satisfying accounts payable and payroll. Additionally, Debtor F21 Retail transfers funds to Debtor F21 Logistics to settle Intercompany Balances that arise from shipping services provided by Debtor F21 Logistics to Debtor F21 Retail.

11. Certain Intercompany Transactions also occur between the Debtors and their non-debtor foreign affiliates (the "International Entities"). ***First***, pursuant to these Intercompany Transactions, Intercompany Balances arise from the Debtors' purchase of merchandise and other goods (the "Goods") from third-party vendors on behalf of certain International Entities, and, in exchange for which, the International Entities provide cash to the Debtors. Specifically, the International Entities sweep their remaining cash at the end of every month, after accounting for rent and operating expenditures, to Forever 21. Historically, this has resulted in Forever 21 recouping less than the total cost of the Goods from the International Entities, and the Debtors anticipate that the historical rate of return will improve during these chapter 11 cases as the Debtors exit certain underperforming foreign jurisdictions. Given the Debtors' intention to significantly reduce their international store portfolio (as described in greater detail in the First

Day Declaration), the Debtors intend to continue performing these Intercompany Transactions on a go-forward basis for the Philippine, Mexican, and Latin American International Entities (the "Go-Forward International Entities"). Conversely, the Debtors will be winding down the operations of those International Entities that are not Go-Forward International Entities (the "Wind-Down International Entities"). As of the Petition Date, the Wind-Down International Entities are not receiving, and will no longer receive, Goods from the Debtors.

12. ***Second***, in addition to continuing to provide the Go-Forward International Entities with Goods, as described above, the Debtors will also continue to provide the Go-Forward International Entities with continued access to certain shared services. Historically, Forever 21 provided certain shared services for the benefit of all the International Entities, including, among other services, strategic and marketing functions, development of overall marketing strategy, performance of market research, design of marketing activities, selection of external service providers, collection and analysis of customer feedback, logistics, and day-to-day operational needs such as executive, legal, accounting, information technology support services, buyer's agency services, and warehousing services. Employees at the Debtors' two representative offices in China and Korea (the "Rep Offices") historically have assisted in providing these services to both the International Entities and the Debtors. Additionally, certain International Entities, in exchange for corresponding Intercompany Balances, utilize the Debtors' intellectual property portfolio.[3] The Debtors expect that the Wind-Down International Entities will continue to access the above-described shared services as needed until their wind down is

[3] The intellectual property portfolio includes trade names, trademarks, and service marks, as well as certain business systems, including marketing programs, merchandizing strategies, store designs, store specifications, and operations manuals.

complete.[4] Continued access to the shared services for the Wind-Down International Entities will ensure an orderly international wind-down process that does not disrupt the United States' reorganization process. Specifically, access to these shared services consistent with historical practice will allow the International Entities to operate in the ordinary course during the Debtors' reorganization and international wind-down process, thereby protecting the Debtors' overall brand integrity and ultimately serving as a benefit to all of the Debtors' stakeholders.

13. Importantly, the Debtors will also continue to receive the benefits of these historical shared services. For example, Forever 21 Trading (Shanghai) Company Ltd. provides, and will continue to provide, the Debtors with warehousing and logistics services. Given that a majority of the Debtors' vendors are located in Asia, an Asian warehouse and logistical presence is vital to the continued maintenance of an orderly supply chain. Additionally, the Rep Offices provide the Debtors with back-office support at a discounted rate.

14. The Debtors settle Intercompany Balances arising from these Intercompany Transactions periodically and journal entries are recorded for receivables and payables, as applicable, in the respective Debtor's and non-Debtor entity's accounting system. The non-Debtor participants in such Intercompany Transactions satisfy their Intercompany Balances based on available cash on hand after paying rent obligations and other operational expenses. Notably, and importantly, the Debtors will not be sending cash to ***any*** of the International Entities to support store-level operations during these chapter 11 cases. The Debtors will continue to track postpetition Intercompany Transactions in the ordinary course of business. Any interruption of the Intercompany Transactions would severely disrupt the Debtors'

---

[4] The Debtors will provide certain shared services to non-Debtor Forever XXI, ULC during the course of its wind down pursuant to that certain Shared Services Agreement, dated September 28, 2019, by and among Forever 21 and Forever XXI, ULC.

operations and result in great harm to the Debtors' estates and their stakeholders. Further, notwithstanding the Debtors' continuing provision of the shared services described above, the Debtors will not provide funds to any of the International Entities during the course of these chapter 11 cases. Accordingly, the Debtors seek the authority to continue the Intercompany Transactions in the ordinary course of business, in a manner consistent with prepetition practice.

15. Because of the disruption that would result if the Debtors were forced to close their existing bank accounts, I believe that it is critical that the existing Cash Management System remain in place. 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.

IV. Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing, but Not Directing, the Debtors to (A) Pay Prepetition Employee Wages, Salaries, Other Compensation, and Reimbursable Employee Expenses and (B) Continue Employee Benefits Programs and (II) Granting Related Relief (the "Wages Motion").

16. 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, other compensation, withholding obligations, payroll processing fees, reimbursable employee expenses, non-insider employee incentive programs and (ii) continue employee benefits programs in the ordinary course, including payment of certain prepetition obligations related thereto, in an aggregate amount not to exceed $25 million pursuant to the Interim Order and $37.1 million pursuant to the Final Order; and (b) granting related relief.

17. As of the Petition Date, the Debtors employ approximately 28,500 Employees, including approximately 5,000 full-time Employees and approximately 23,500 part-time and seasonal Employees. In addition to the Employees, the Debtors also periodically retain

independent contractors and temporary workers (collectively, the "Temporary Staff") sourced regularly from various Staffing Agencies to fulfill certain duties on a short- and long-term basis. Typically, at any given time the Debtors retain approximately 500 Temporary Staff. In addition, over the next four to six months, in preparation for and during the retail holiday season, as well as relocation of the domestic distribution center, the Debtors anticipate that the number of Employees and Temporary Staff will increase by approximately 4,000 and 700 respectively.

18. 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.

19. 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-term disability coverage, supplemental benefits, retirement plans, paid time off, 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.

20. 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 bonus programs, described more fully in the Wages Motion. The Debtors believe the Non-Insider Employee Incentive Programs drive Employees' performance, align Employees' interests with those of the Debtors generally, and promote the overall efficiency of the Debtors' operations. 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 bonus programs or severance payments.

21. 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.

22. 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.

V. Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Prepetition Claims of (A) Lien Claimants and (B) Import Claimants, and (II) Granting Related Relief (the "Lien Claimants Motion").

23. Pursuant to the Lien Claimants Motion, the Debtors seek entry of interim and final orders (a) authorizing, but not directing, the Debtors to pay prepetition amounts in the ordinary course owing on account of certain (i) Lien Claimants and (ii) Import Claimants (each as defined herein), in an aggregate interim amount not to exceed $20 million and in an aggregate final amount not to exceed $29 million; (b) continuing to honor outstanding obligations to Lien Claimants and Import Claimants on a postpetition basis in the ordinary course of business and consistent with historical practice; and (c) granting related relief.

24. ***Lien Claimants.*** The Debtors' business depends on the uninterrupted flow of inventory and other goods through their supply chain and distribution network, including the purchase, importation, storage, and shipment of the Debtors' Merchandise. The Debtors pay various freight forwarders, common carriers, shipping lines, trucking companies, custom brokers, and other logistics service providers (collectively, the "Shippers") to transport the Merchandise.

25. In addition to Shippers, the Debtors also routinely transact business with a number of other third parties, including mechanics, technicians, and repairmen in connection with their brick-and-mortar stores and distribution centers (the "Materialmen," and together with the Shippers, the "Lien Claimants").

26. Collectively, the Debtors estimate approximately $31 million of charges on behalf of the Lien Claimants (the "Lien Charges") were due and owing as of the Petition Date, the vast majority of which will become due and owing within 30 days after the Petition Date. Accordingly, the Debtors seek authority, but not direction, to pay and discharge, on a

case-by-case basis, the Lien Charges in an aggregate amount up to approximately $17 million on an interim basis and up to approximately $23 million on a final basis.

27. ***Import Claimants.*** In the ordinary course of their business, the Debtors import inventory and related materials (collectively, the "Imported Goods"). Timely receipt or transmittal, as applicable, of the Imported Goods is critical to both the Debtors' domestic and foreign business operations. Any disruption or delay would adversely affect the Debtors' business operations and affect the Debtors' ability to efficiently administer these chapter 11 cases.

28. In connection with the import of goods, the Debtors may be required to pay various charges (the "Import Charges"), including customs duties, detention and demurrage fees, tariffs and excise taxes, and other similar obligations. The Debtors pay approximately $30 million annually on account of Import Charges. The Debtors estimate that approximately $6 million in Import Charges for goods currently in transit is outstanding as of the Petition Date, approximately $3 million of which will come due in the first 30 days after the Petition Date. Accordingly, the Debtors seek authority, but not direction, to pay and discharge, on a case-by-case basis, the Import Charges incurred on account of prepetition transactions in an aggregate amount up to $3 million on an interim basis and up to $6 million on a final basis.

29. The Debtors rely on timely and frequent delivery of critical inventory items, goods, and services and any interruption in this supply—however brief—would disrupt the Debtors' operations and could potentially cause irreparable harm to their businesses, goodwill, employees, customer base, and market share. Such harm would likely far outweigh the cost of payment of the Lien Charges and Import Charges. I believe that the relief requested in the Lien Claimants Motion will allow the Debtors to preserve stakeholder value by paying the prepetition

claims of certain counterparties that are critical to the Debtors' business enterprise. I believe that the relief requested in the Lien Claimants 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 Lien Claimants Motion.

VI. Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Prepetition Claims of (A) Critical Vendors, (B) Foreign Vendors, and (C) 503(b)(9) Claimants and (II) Granting Related Relief (the "Critical Vendors Motion").

30. Pursuant to the Critical Vendors Motion, The Debtors seek entry of interim and final orders (a) authorizing, but not directing, the Debtors to pay prepetition amounts in the ordinary course owing on account of certain (i) Critical Vendors, (ii) Foreign Vendors, and (iii) 503(b)(9) Claimants in an aggregate interim amount not to exceed $65 million and in an aggregate final amount not to exceed, inclusive of amounts paid pursuant to the Interim Order, $100 million; (b) authorizing, but not directing, the Debtors to honor outstanding obligations to the Critical Vendors, the Foreign Vendors, and the 503(b)(9) Claimants on a postpetition basis in the ordinary course of business and consistent with historical practice; and (c) granting related relief.

31. ***Critical Vendors.*** Pursuant to the Critical Vendors Motion, the Debtors seek entry of interim and final orders: (a) authorizing the Debtors to pay the Critical Vendors Claims in an amount not to exceed $8 million pursuant to the Interim Order and, in the aggregate, inclusive of amounts paid pursuant to the Interim Order, an amount not to exceed $14 million pursuant to the Final Order, in each case absent further order of the Court; and (b) granting related relief.

20. In the ordinary course of business, the Debtors engage a limited number of providers for certain of the critical services, inventory, and other materials the Debtors depend upon to provide top-quality product and service to their customers. The Debtors obtain such services, inventory, or materials from a limited number of highly specialized vendors, service providers, and other businesses, often on an order-by-order basis and without long-term contracts—replacement of which would likely be impossible or would result in substantially higher costs for the Debtors at this early, critical juncture in these chapter 11 case. Additionally, the Debtors also engage the services of certain Factors, who facilitate and enable the continuing provision of goods and services by the Factor Client Vendors to the Debtors. The Factors enable, provide, and aggregate the extension of trade credit to the Debtors by the provision of Financial Accommodations. Without the Financial Accommodations, such trade credit would not otherwise be directly available from the Factor Client Vendor. The maintenance of an uninterrupted supply chain depends upon the Factors continuing to provide the same Financial Accommodations to the Debtors' vendors in the ordinary course of business throughout these chapter 11 cases.

21. Recognizing that payment of all prepetition claims of such third-party vendors outside of a plan of reorganization would be extraordinary relief, the Debtors, with the assistance of their advisors, reviewed their books and records, consulted operations management and purchasing personnel, reviewed contracts and supply agreements, and analyzed applicable laws, regulations, and historical practices to identify the limited number of vendors that are critical to the continued and uninterrupted operation of the Debtors' businesses—the loss of which could materially harm their businesses, shrink their market share, reduce their enterprise value, and impair going-concern viability. The Debtors estimate that they owe approximately $350 million

to their vendors as of the Petition Date. The Debtors submit that the requested relief will allow the Debtors to preserve stakeholder value by paying certain prepetition claims of certain counterparties where critical to unlock incremental liquidity for the Debtors' business enterprise. Accordingly, the Debtors seek authority, but not direction, to pay and discharge, on a case by case basis, the Critical Vendor Claims in an aggregate amount up to approximately $8 million on an interim basis and up to approximately $14 million on a final basis.

32. ***Foreign Vendors.*** A critical component of the Debtors' supply chain involves transacting with certain foreign vendors, including by purchasing the Merchandise and other goods and materials from entities located in the People's Republic of China, Korea, Hong Kong, and others (collectively, the "Foreign Vendors"). Many of the Foreign Vendors supply goods, materials, or services to the Debtors that are crucial to the Debtors' ongoing U.S. operations—specifically, the Merchandise necessary to stock the shelves and racks in the Debtors' stores and populate the Debtors' e-commerce platform.

33. The Debtors propose to pay the Foreign Vendor Claims only to the extent necessary and only on such terms and conditions as are appropriate, in the Debtors' business judgment, to avoid disruptions to their business. The Debtors estimate that as of the Petition Date, approximately $267 million is accrued and outstanding on account of Foreign Vendor Claims, of which $220 million may come due within the first 30 days after the Petition Date. The Debtors further estimate that $47 million of additional prepetition Foreign Vendor Claims will become due and owing during the pendency of these chapter 11 cases.

34. Accordingly, the Debtors seek authority, but not direction, to pay and discharge, on a case-by-case basis, the Foreign Vendor Claims in an aggregate amount up to approximately $17 million on an interim basis and up to approximately $24 million on a final basis.

35. ***503(b)(9) Claimants.*** The Debtors have received certain inventory, goods, and materials from various foreign and domestic vendors (collectively, the "503(b)(9) Claimants") within the 20-day period immediately preceding the Petition Date. Certain of the 503(b)(9) Claimants do not have long-term contracts with the Debtors. Rather, the Debtors obtain inventory, goods, or other materials from the 503(b)(9) Claimants on an order-by-order basis. As a result, the 503(b)(9) Claimants may refuse to supply new orders without payment of their prepetition claims. Such refusal could negatively impact the Debtors' estates as the Debtors' business is dependent on the steady flow of inventory to stock their stores. The Debtors believe that, as of the Petition Date, they owe approximately $62 million on account of goods delivered within the 20 days immediately preceding the Petition Date, approximately $40 million of which may come due in the first 30 days after the Petition Date and the value of which may be entitled to administrative priority under section 503(b)(9) of the Bankruptcy Code.

36. Accordingly, the Debtors seek authority, but not direction, to pay and discharge, on a case by case basis, the 503(b)(9) Claims in an aggregate amount up to approximately $42 million on an interim basis and up to approximately $63 million on a final basis..

37. The Debtors rely on timely and frequent delivery of critical inventory items, goods, and services and any interruption in this supply—however brief—would disrupt the Debtors' operations and could potentially cause irreparable harm to their businesses, goodwill, employees, customer base, and market share. Such harm would likely far outweigh the cost of payment of the Critical Vendor Claims, Foreign Vendor Claims, and 503(b)(9) Claims. I believe that the relief requested in the Critical Vendors Motion will allow the Debtors to preserve stakeholder value by paying the prepetition claims of certain counterparties that are critical to the Debtors' business enterprise. I believe that the relief requested in the Critical Vendors 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 Critical Vendors Motion.

VII. Debtors' Motion Seeking 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").

38. 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.

39. 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. Accordingly, maintaining the goodwill of their customers is critical 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.

40. In the ordinary course of business, the Debtors offer discounts, special promotions, and other benefits through the Loyalty Program. The Debtors also maintain a Gift Card Program pursuant to which their customers can purchase physical, pre-paid, non-expiring gift cards in various denominations, with a maximum denomination of $200. The Debtors estimate that as of the Petition Date, approximately $118 million in issued Gift Cards are outstanding. Based on historical redemption rates and breakage, however, the Debtors estimate the value of outstanding Gift Cards to be approximately $38 million as of the Petition Date.

41. The Debtors occasionally conduct Sales Promotions both online and at selected stores. The Sales Promotions consist of clearance discounts, seasonal discounts, and other promotions. The Debtors also issue coupons for discounts on future purchases which can be presented by customers at the time of purchase of goods at the Debtors' retail stores or online on the Debtors' e-commerce platform.

42. I 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.

VIII. Debtors' Motion Seeking Entry of Interim and Final Orders (I) Determining Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Providers From Altering, Refusing, or Discontinuing Utility Services, (III) Establishing Procedures for Determining Adequate Assurance of Payment, (IV) Authorizing Certain Fee Payments for Services Performed, (V) Requiring Utility Providers to Return Deposits for Utility Services No Longer in Use, and (VI) Granting Related Relief (the "Utilities Motion").

45. Pursuant to the Utilities Motion, the Debtors seek entry of interim and final orders: (a) determining adequate assurance of payment for future utility services; (b) prohibiting utility providers from altering, refusing, or discontinuing services; (c) establishing procedures for determining adequate assurance of payment; (d) authorizing payment of prepetition fees to Engie Insight Services, Inc. f/k/a Ecova ("Engie"), the Debtors' third party administrator for the payment of utility fees, and Universal Environmental Consulting, Inc. ("UEC"), the Debtors' waste collection and disposal service provider, for services performed, (e) requiring utility providers to return deposits for utility services no longer in use, and (f) granting related relief.

46. In connection with the operation of their business and management of their properties, the Debtors historically obtain water, sewer service, electricity, waste disposal, natural gas, telecommunication, cloud, and other similar services (collectively, the "Utility Services") from a number of utility providers or their brokers (collectively, the "Utility Providers").

47. To manage the Debtors' payments owed to most of their Utility Providers, the Debtors entered into those Service Agreements with Engie and UEC. Pursuant to the Service Agreements, the Debtors pay Service Fees for managing the Debtors' various service providers.[5]

[5] The Service Fees do not include any amounts paid directly by the Debtors to the Utility Providers.

Pursuant to the Engie Service Agreement, the Debtors pay Engie the amounts invoiced for the Utility Services managed by Engie, plus a monthly fee of approximately $8,000, in the ordinary course of business. Pursuant to the UEC Service Agreement, the Debtors pay UEC the amounts invoiced for the Utility Services managed by UEC, plus a monthly fee of approximately $5,000, in the ordinary course of business. The Debtors seek authority, but not direction, to pay all prepetition Service Fees.

48. On average, the Debtors pay approximately $3,570,000 each month for third-party Utility Services, calculated as a historical average payment for the twelve-month period ending June 30, 2019, including Service Fees paid directly by the Debtors and excluding Utility Services billed directly to the Debtors' landlords. The Debtors estimate that their cost for Utility Services during the next 30 days (not including any deposits to be paid or the Service Fees payable to Engie or UEC) will be approximately $3,570,000. The Debtors estimate the aggregate amount currently held as deposits or prepayments by the Utility Providers providing services to stores that the Debtors intend to continue operating is approximately $952,000. The Debtors also have 9 surety bonds outstanding with 4 Utility Providers, totaling approximately $369,000. Additionally, the Debtors provide a $40,000 letter of credit for the benefit of a certain Utility Provider.

49. Over the next 30 days, the Debtors estimate that their cost for Utility Services (not including any deposits or fees paid to Engie) will be approximately $3,570,000. The Debtors propose depositing $1,428,552 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. The Adequate

Assurance Deposit will be held at JPMorgan Chase, N.A., and the Debtors' creditors will have no lien on any Adequate Assurance Deposit.

50. The Debtors are conducting store closing sales for certain retail locations, which are expected to be completed on or before October 31, 2019. 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 Providers will be required to return deposits within 21 calendar days of receiving notice from the Debtors that the respective Utility Service is no longer in use.

51. Additionally, the Debtors seek approval of their proposed Adequate Assurance Procedures. These procedures allow Utility Providers 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.

52. Furthermore, the Debtors request that Utility Providers 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.

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

53. The Debtors request authority to: (a) negotiate, remit and pay certain accrued and outstanding prepetition obligations accrued in the ordinary course of business on account of the Taxes and Fees (as defined herein) in an aggregate amount not to exceed $19,910,000 on an interim basis and $23,680,000 on a final basis, absent further order of the Court; and (b) continue negotiating and paying the Taxes and Fees accrued in the ordinary course of business on a postpetition basis.

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' estate 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.

X. Debtors' Motion Seeking 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").

56. 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 Forever 21, Inc.'s existing common stock or any Beneficial Ownership[6] therein (any such record or Beneficial Ownership of common stock, the "Common Stock"),[7] as detailed in Annex 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.

57. The Debtors currently estimate that, as of the end of their 2018 tax year,[8] they have approximately $567.6 million of federal NOLs and approximately $13.6 million of general business credit carryforwards (together with the federal NOLs and state and certain other tax attributes, the "Tax Attributes"). The Debtors further estimate that they may generate additional

---

[6] "Beneficial Ownership" will be determined in accordance with the applicable rules of section 382 of the Internal Revenue Code of 1986, 26 U.S.C. §§ 1–9834, as amended (the "IRC"), and the Treasury Regulations thereunder (other than Treasury Regulations section 1.382-2T(h)(2)(i)(A)), and includes direct, indirect, and constructive ownership (*e.g.*, (1) a holding company would be considered to beneficially own all equity securities owned by its subsidiaries, (2) a partner in a partnership would be considered to beneficially own its proportionate share of any equity securities owned by such partnership, (3) an individual and such individual's family members may be treated as one individual, (4) persons and entities acting in concert to make a coordinated acquisition of equity securities may be treated as a single entity, and (5) a holder would be considered to beneficially own equity securities that such holder has an Option to acquire). An "Option" to acquire stock includes all interests described in Treasury Regulations section 1.382-4(d)(9), including any contingent purchase right, warrant, convertible debt, put, call, stock subject to risk of forfeiture, contract to acquire stock, or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.

[7] For the avoidance of doubt, the definition of Common Stock shall not include any securities issued in connection with a chapter 11 plan of reorganization of the Debtors.

[8] As is common for many retailers, the Debtors utilize a non-calendar fiscal tax year, which ended March 2, 2019. These attribute estimates are based on the Debtors' current "provision" work for the 2018 tax year and will remain subject to change until the tax return for the 2018 tax year is filed. Additionally, the Debtors believe that they have certain disallowed business interest expense under section 163(j) of the IRC.

Tax Attributes in the 2019 tax year. The Tax Attributes are potentially of significant value to the Debtors and their estates because the Debtors may be able to carry forward certain Tax Attributes to offset future taxable income or utilize the Tax Attributes to offset any taxable income generated by transactions consummated during these chapter 11 cases. Accordingly, the value of the Tax Attributes will inure to the benefit of all of the Debtors' stakeholders.

58. 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 7,587 shares of Common Stock[9] (*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.

59. 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.

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 Procedures Motion").

60. 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.

[9] Based on approximately [168,611] shares of Common Stock outstanding for purposes of section 382 of the IRC as of the Petition Date.

61. 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 utilitze 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.

62. 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 Procedures Motion does not seek entry of a Sell-Down Order. Instead, the Sell-Down Procedures Motion merely seeks to establish the Record Date through entry of the 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.

63. 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 Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Their Obligations Under Insurance Policies Entered into Prepetition, (B) Continue to Pay Brokerage Fees, (C) Renew, Supplement, Modify, or Purchase Insurance Coverage, (D) Continue to Pay Workers' Compensation Coverage Fees, (E) Maintain the Customs Surety Bonds, and (F) Honor the Terms of the Financing Agreement and Pay Premiums Thereunder, and (II) Granting Related Relief (the "Insurance Motion").

64. The Debtors request authority to: (i) continue honoring their obligations under insurance policies entered into prepetition (the "Insurance Policies") and satisfy payment of prepetition obligations related thereto, including the payment of related brokerage fees, (ii) renew, supplement, modify, extend, or purchase insurance coverage in the ordinary course of business on a postpetition basis; (iii) pay the Workers' Compensation Coverage Fees, (iv) continue and renew their Surety Bonds on an uninterrupted basis; and (v) honor the terms of the Financing Agreement (as defined herein) and pay premiums thereunder; and (b) granting related relief, all in an aggregate amount not to exceed $920,000 on an interim basis and $3,643,000 on a final basis, absent further order of the Court.

65. The Debtors' Insurance Policies, Worker's Compensation Program, 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. Failure to make the payments required by the Debtors' Insurance Policies, including the Financing Agreement, could have a significant negative impact on the Debtors' operations.

66. The Debtors maintain workers' compensation insurance for their employees at the statutorily required level for each jurisdiction in which the Debtors have employees (collectively, the "Workers' Compensation Program"). The coverage for the Worker's Compensation Program is maintained through Chubb Limited ("Chubb") and administered by Broadspire Services, Inc. ("Broadspire"). The Debtors pay approximately $845,000 per year in fees and premiums

through a down payment and 9 installment payments to fund the Workers' Compensation Program. As of the Petition Date, the Debtors believe they owe 2 installment payments of approximately $141,000 on account of accrued but unpaid Workers' Compensation Coverage Fees.

67. Similarly, the Debtors are required by U.S. Customs and certain regulations to provide the Surety Bonds in order to be able to import merchandise into the United States, pay certain utilities, and satisfy consumer protection requirements. 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.

68. 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.

XIII. Debtors' Application For Entry of an Order (I) Authorizing and Approving the Appointment of Prime Clerk As Claims and Noticing Agent and (II) Granting Related Relief (the "Prime Clerk 156(c) Retention Application").

69. Pursuant to the Claims and Noticing Agent Application, the Debtors seek entry of an order (a) appointing Prime Clerk ("Prime Clerk") as claims and noticing agent for the Debtors and their chapter 11 cases, effective *nunc pro tunc* to the Petition Date, including assuming full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in the Debtors' chapter 11 cases, and (b) granting related relief.

70. Based on my discussions with the Debtors' advisors, I believe that the Debtors' selection of Prime Clerk 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 engagement proposals obtained and reviewed that Omni's rates are competitive and comparable to the rates charged by their competitors for similar services.

71. The Debtors anticipate that there will be thousands of persons and entities to be noticed in these chapter 11 cases. In light of the number of parties in interest and the complexity of the Debtors' business, the Debtors submit that the appointment of a claims and noticing agent will provide the most effective and efficient means of, and relieve the Debtors and/or the Clerk's office of the administrative burden of, noticing and processing proofs of claim and is in the best interests of both the Debtors' estates and their creditors. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Prime Clerk 156(c) Retention Application.

[*Remainder of page intentionally left blank*]