

IN THE MATTER OF THE BANKRUPTCY OF
THINGS REMEMBERED CANADA INC.
of the City of Scarborough in the Province of Ontario

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

I BACKGROUND

Things Remembered Canada Inc. ("**TR Canada**" or the "**Company**") is a privately held corporation, which was incorporated under the *New Brunswick Corporation Act* on February 23, 2012. The Company operated as a specialty retailer focused on personalized, engraved, and embroidered gifts. The Company sold a broad range of personalized gifts such as handbags, apparel, fashion jewellery and homeware, all of which could be customized to add a personalized message. The Company's main premises in Canada was located at 300 Borough Drive, Scarborough, Ontario.

The Company is 100% owned by Things Remembered, Inc. ("**TR US**") which is headquartered in Ohio. TR US commenced Chapter 11 proceedings on February 6, 2019 followed by TR Canada filing on February 6, 2019 of a Notice of Intention to Make a Proposal ("**NOI**") pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) ("**BIA**"), and Richter Advisory Group Inc. ("**Richter**") was named as trustee (the "**Proposal Trustee**") under the NOI.

Information in this report about TR US and TR Canada (collectively the "**TR Companies**") is, in part, based on information provided by management of the TR Companies as well as information contained in the *Declaration of Robert J. Duffy, Chief Restructuring Officer of the Debtors, in Support of the Debtors' Chapter 11 Petitions and First Day Motions* (the "**Duffy Affidavit**") which is dated February 6, 2019.

At the time of the commencement of the respective restructuring proceedings of the TR Companies, TR US operated 400 store locations throughout the United States and TR Canada operated 19 stores with over half of the stores located in Ontario. TR US employed approximately 2,900 full-time and part-time employees in its store operations, head office and fulfillment and distribution center and TR Canada employed approximately 213 employees in its store operations. The number of employees in the TR Companies would increase with the hiring of seasonal staff during the busy seasons. None of the employees in TR Canada were unionized and TR Canada did not maintain a pension plan for any of its employees.

The TR Companies operated through its retail locations as well as through its thingsremembered.com website. The TR Companies offered a wide range of personalized gifts and accessories with the office, jewelry and accessories generating the most sales. Customers could select products which could be customized in the stores or at the fulfillment and distribution center and have the products shipped to the customer or to a nearby store. TR Canada does not independently source its own merchandise. The buying of merchandise and logistic functions for the Company were run out of the head office of TR US, which uses its purchasing power to acquire large amounts of inventory for use in both the U.S. and the Canadian stores from foreign manufacturers, located predominantly in Europe and Asia. TR Canada's operations are fully integrated with TR US' operations. In fact, all corporate, strategic and financial decision making occurs in the U.S. The Company was entirely reliant on the TR US' managerial functions for all overhead services, including accounting, finance, marketing and IT. As a result, TR Canada did not have its own lending facility as it received the majority of its product and services directly from TR US. TR US also

administered customer programs offered by the TR Canada, including gift card programs and returns, exchanges and refunds.

The TR Companies had been suffering from various industry wide challenges most particularly the shift away from shopping at physical store locations, declining mall traffic and a challenging on-line retail environment. Internal operational challenges further impacted the TR Companies results, resulting in reduced margins and tightened liquidity. The lack of liquidity resulted in key suppliers holding back inventory ahead of key holiday seasons. As a result, TR US had engaged operational and restructuring advisors to examine all options.

As part of its restructuring process, a marketing process was undertaken in December 2018 with the goal of a going-concern transaction (the "**Pre-Filing Sales Process**"). Two competing offers were received in January 2019 that contemplated the closing of all store locations while maintaining the TR Companies on-line presence. In late January 2019, a US\$17.5 million offer was received from Enesco LLC ("**Enesco**"), an international giftware business. The Enesco transaction contemplated the acquisition of the business of TR US as well as certain store locations in the United States but no locations in Canada (the "**Transaction**"). The Transaction also included the acquisition of two trademarks registered to TR Canada for an amount of US\$50,000.

The Transaction with Enesco was entered into on February 5, 2019 and was to serve as a stalking horse bid for an eventual auction to be conducted through an expedited Chapter 11 proceeding in the United States. Thus, TR US commenced their chapter 11 proceedings on February 6, 2019 and TR Canada commenced filed their NOI on the same date.

On January 24, 2019, TR US and TR Canada entered a contractual joint venture comprised of Hilco Merchant Resources, LLC and Gordon Brothers Retail Partners, LLC (collectively, the "**Agents**"). The Agents are United States based companies that have extensive experience in conducting retail store liquidations. The Agents were engaged to sell the inventory located in TR Canada's 19 retail locations and the TR US locations that were not acquired by Enesco as part of the Transaction (the "**Sale**"). The sale commenced in Canada on January 25, 2019 and was completed on February 26, 2019. After deducting the fees payable to the Agent, the proceeds of the Sale attributable to TR Canada are approximately CAD\$406,000.

Prior to filing the NOI, TR Canada transferred CAD\$1.2 million to its legal counsel, which funds were then transferred on February 12, 2019 to the Proposal Trustee. These funds were to be used to (1) finance operations during the NOI period (to the extent required), (2) to fund a proposal, and / or (3) to be distributed in the event of a bankruptcy pursuant to the applicable laws and the scheme of collocation of the BIA.

The Trustee understands that the auction to be conducted under the Chapter 11 was ultimately cancelled as no other competing bids were received by the bid deadline and the Chapter 11 Court issued an order on March 6, 2019 approving the Transaction with Enesco.

Copies of all documents issued during the NOI proceedings can be obtained from the Proposal Trustee's website at <https://www.richter.ca/insolvencycase/things-remembered-canada-inc/>.

Following the closing of all of the store locations in Canada on or about February 26, 2019, TR Canada's sole assets were cash on hand and the receivable relating to the sale of certain trademarks pursuant to the Transaction. TR Canada determined that it could not make a proposal that would provide more to the creditors than a bankruptcy and thus, as TR Canada failed to present a viable proposal to its creditors within the time period required by the Court, pursuant to section 50.4(8) of the BIA, TR Canada was deemed to

have made an assignment in bankruptcy on March 9, 2019. Richter was appointed to act as trustee in bankruptcy of the Company (the "Trustee").

On March 15, 2019, all known creditors of Things Remembered were provided with notice of the first meeting of creditors and a link to the Trustee's website to access a list of creditors, a proof of claim form and a form of proxy. On March 19, 2019, notice of the bankruptcy and the first meeting of creditors was published in the National Post.

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.

II CAUSES OF BANKRUPTCY

As noted previously in this report, TR Canada did not have its own lending facilities and was dependent on TR US for the supply of the majority of its inventory, for the provision of general and administrative services and financial support. TR US was experiencing significant financial losses attributed to changing consumer habits including the shift from brick and mortar store locations to on-line sales, poor traffic in the malls in which it was located, inventory shortages due to an inability to obtain product from its suppliers, etc. Year over year comparable store sales for the TR companies reflected a 6% decline.

Based upon the factors cited in the Duffy Affidavit, the Trustee understands that TR US was unable to continue operating within its credit facilities and was on the verge of closing all store locations including Canada prior to the implementation of the Transaction. Unfortunately, the Transaction did not allow for the continuation of any of the Canadian store operations and without the ability to continue operations on its own, TR Canada sold off its inventory while operating under the NOI and closed all store locations on or about February 26, 2019.

As noted in section I, on February 6, 2019, TR Canada elected to file an NOI and restructure its business pursuant to the provisions of the BIA. Following the filing of the NOI, TR Canada continued to pursue parties who had expressed interest in the Canadian business during the Pre-Filing Sales Process and ultimately engaged with two parties to try and negotiate a transaction. These parties were interested in acquiring certain assets owned by TR Canada, including certain store locations, equipment and the inventory at all of the TR Canada stores. Following negotiations with the interested parties, the Company and the Proposal Trustee analysed the benefits of each proposed transaction on a number of criteria and determined that the Sale would generate the most value for the creditors of TR Canada. On March 9, 2019, following the completion of the Sale, TR Canada was deemed to have made an assignment in bankruptcy pursuant to subsection 50.4(8) of the BIA as a consequence of not filing a proposal within the required time period.

III FINANCIAL POSITION/ASSETS

As detailed in the Statement of Affairs, the Company's assets as at the date of bankruptcy was approximately CAD\$1,606,780 in cash which includes the CAD\$1.2 million transferred to the Proposal Trustee at the commencement of the NOI proceedings as more fully described above. The balance of CAD\$406,780 was transferred to the Trustee following the bankruptcy. In addition, there is a receivable of US\$50,000 relating to the sale of certain trademarks as part of the Transaction. The receivable was collected by the Trustee on March 25, 2019.

A claims process has been initiated by the Trustee and it is anticipated that there will be funds available for distribution to the Company's proven creditors.

IV SECURED CREDITORS

The Company's Statement of Affairs indicates that there were no known secured creditors as at the date of bankruptcy.

V SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA. Based on the Company's books and records, all amounts owing in respect of wages and/or vacation pay to the Company's former employees were paid by Things Remembered on or prior to March 8, 2019.

The Trustee will, however, comply with the requirements of the *Wage Earner Protection Program Act*, where applicable.

VI PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there are no known preferred creditors as at the date of the bankruptcy.

VII UNSECURED CREDITORS

The Company's Statement of Affairs indicates that there are approximately 44 unsecured creditors with claims totalling approximately \$14,458,155.

VIII CLAIMS FILED

As at 8:00 a.m. on the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Claims Filed (#)	Amount (\$)	Proxies in Favour of Trustee (#)	Amount (\$)
Secured	Nil	Nil	Nil	Nil
Preferred	3	99,306.51	0	Nil
Unsecured	4	14,539,750.08	0	Nil
TOTAL	7	\$14,639,057.31	0	\$0

IX PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Trustee has not performed a review of the Company's books and records, with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the inspectors.

X TRUSTEE'S FEES

In consideration for consenting to act in these proceedings, TR Canada has provided a deposit to the Trustee in the amount of US\$28,250 (the "**Deposit**") to guarantee payment of the Trustee's fees and disbursements including the fees and disbursements of its legal counsel, for statutory work in accordance with the provisions of the BIA.

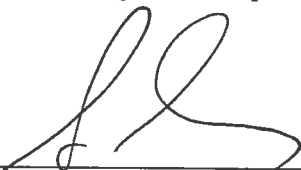
XI OTHER

Further information relating to the Company's bankruptcy or NOI proceedings may be obtained from Richter's website at <https://www.richter.ca/insolvencycase/things-remembered-canada-inc/>

Dated at Toronto, Ontario, this 27th day of March, 2019.

RICHTER ADVISORY GROUP INC.

in its capacity as Trustee of the estate of
Things Remembered Canada Inc.,
and not in its personal capacity



Andrew Adessky, CA-CIRP, CA, LIT