

IN THE MATTER OF THE BANKRUPTCY OF  
SFP Canada Ltd.  
of the City of Toronto in the Province of Ontario

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

**BACKGROUND**

SFP Canada Ltd. ("**SFP Canada**" or the "**Company**") was incorporated on April 9, 2009 under the *Business Corporations Act* (New Brunswick). It operated 76 retail stores across Canada under the "Papyrus", "Carlton Cards / Cartes Carlton" and "Paper Destiny" brand names selling stationery, greeting cards, paper products and gift items.

SFP Canada is a wholly owned subsidiary of Schurman Fine Papers ("**SFP US**", and together with its subsidiaries, including SFP Canada, the "**Schurman Group**"), which was founded in 1950 as an importer and wholesaler of fine art greeting cards and stationery from Europe. Over the years, SFP US' business evolved and, in 2009, as part of a larger transaction (the "**Transaction**") expanded into Canada.

The Transaction involved the sale of SFP US' wholesale business and the "Papyrus" brand and related trademarks to American Greetings Corporation ("**American Greetings**"). As part of the Transaction, the Schurman Group acquired the retail business operated by American Greetings in Canada and the United States. To facilitate the Transaction, the Schurman Group and American Greetings also entered into mutual transition services agreements in addition to ongoing commercial licensing, supply and marketing agreements (collectively, the "**American Greetings Agreements**"). As a result of these agreements, the Schurman Group was highly dependent on American Greetings for the majority of goods sold in SFP Canada's retail locations as well as for the trademarks (the "**Trademarks**") required to operate its retail business under the "Papyrus" and "Carlton Cards / Cartes Carlton" names.

**Events Leading to SFP Canada's CCAA Proceedings**

Due to a number of factors, including costs incurred in refurbishing and / or closing underperforming retail stores acquired as part of the Transaction with American Greetings, pricing decisions made by American Greetings in respect of the products it sold to the Schurman Group, and unfavourable brick-and-mortar retail market trends, the Schurman Group's Canadian and US operations suffered financial losses, resulting in liquidity issues.

As a result of these and other challenges, the Schurman Group's collective obligations to American Greetings ballooned to approximately US\$48 million of which, approximately US\$9 million was owed by SFP Canada.

Unfortunately, the Schurman Group's attempts to address its liquidity issues were unsuccessful and, in early December 2019, American Greetings informed SFP US that it was immediately terminating the American Greetings Agreements and ceasing its supply of products to the Schurman Group. Subsequent negotiations between the Schurman Group and American Greetings to settle on new terms upon which the Schurman Group would be permitted to continue using the Trademarks and purchasing products from American Greetings failed, and American Greetings informed the Schurman Group that it was not willing to engage in further negotiations.

As a result of the above, SFP US concluded that it could no longer operate as a going concern and commenced insolvency proceedings in the United States to, among other things, pursue an orderly wind-down / liquidation of its retail stores in the United States. On January 23, 2020, SFP US commenced voluntary reorganization proceedings (the "**Chapter 11 Proceedings**") in the United States Bankruptcy Court for the District of Delaware under Chapter 11 of the United States Bankruptcy Code.

SFP Canada was in a similar position to that of SFP US. Without a license to use the Trademarks or the ongoing supply of products from American Greetings that accounted for in excess of 50% of SFP Canada's gross sales, SFP Canada could no longer operate as a going concern. Moreover, as the Schurman Group was a highly integrated business primarily managed out of the United States, SFP Canada was dependent on SFP US for many critical services. As a result of the wind-down of operations of SFP US, these critical services would, in the near-term, no longer be available. Without the continued support of SFP US, SFP Canada determined that it could no longer survive as a going concern and that, in the circumstances, it was in the best interest of all stakeholders for SFP Canada to complete a court-supervised, orderly liquidation of its inventory and other assets.

### **SFP Canada's CCAA Proceedings**

On January 23, 2020 (the "**CCAA Filing Date**"), the Ontario Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**"), as amended pursuant to an order of the Court dated January 31, 2020 (the "**Amended and Restated Initial Order**") granting SFP Canada protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Among other things, the Initial Order, appointed Richter Advisory Group Inc. ("**Richter**") as Monitor of SFP Canada (the "**Monitor**"). The proceedings commenced by SFP Canada under the CCAA are herein referred to as the "**CCAA Proceedings**".

No relief was sought in the Chapter 11 Proceedings with respect to SFP Canada and, similarly, no relief was sought in the CCAA Proceedings with respect to SFP US, save and except for the provisions in the Initial Order restricting transfers to related parties by SFP Canada and providing for SFP Canada's continued use of certain trademarks.

## **The Liquidation Sale**

On January 24, 2020, the Court issued an order (the "**Liquidation Sale Approval Order**") which, among other things, authorized SFP Canada, with the assistance of an experienced liquidator, to liquidate the Company's inventory, certain owned furniture, fixtures and equipment and certain other goods at the Company's retail locations (the "**Liquidation Sale**") in accordance with the sale guidelines appended to the Liquidation Sale Approval Order.

The Liquidation Sale concluded on February 29, 2020. Each of SFP Canada's 76 retail store leases were terminated (and the premises vacated) on or before February 29, 2020, either by way of disclaimer or expiration of the lease. Furthermore, all SFP Canada employees were terminated upon or prior to the completion of the Liquidation Sale.

## **Termination of CCAA Proceedings and Bankruptcy Assignment**

Following the conclusion of the Liquidation Sale, SFP Canada had no ongoing business operations and substantially all of its assets had been sold during the Liquidation Sale. As the net proceeds realized from the Liquidation Sale were insufficient to satisfy, in full, SFP Canada's secured indebtedness (discussed further below) or support a meaningful distribution to SFP Canada's unsecured creditors, the Company was not in a position to present a Plan of Compromise or Arrangement to its creditors.

As certain proceeds generated from the Liquidation Sale were not subject to the claims of SFP Canada's secured creditor, a process to efficiently assess creditor claims and finalize a potential distribution to the Company's creditors was required.

On June 30, 2020, the Court issued an order (the "**Distribution, Discharge and CCAA Termination Order**") that, among other things,

- (i) approved a distribution to American Greetings in respect of its secured claims against SFP Canada (discussed further below);
- (ii) terminated the CCAA Proceedings upon the filing of a certificate (the "**Discharge Certificate**") by the Monitor with the Court certifying that all Remaining Matters (as defined in the Distribution, Discharge and CCAA Termination Order) in the CCAA Proceedings had been completed;
- (iii) authorized SFP Canada to assign itself into bankruptcy; and
- (iv) directed SFP Canada to pay \$100,000 (plus HST) to Richter, in its capacity as the proposed trustee in bankruptcy of SFP Canada (the "**Bankruptcy Reserve**"), in order to fund the administration costs associated with the bankruptcy proceedings of SFP Canada.

The Discharge Certificate was filed on August 14, 2020. On the same date, SFP Canada made an assignment in bankruptcy. Richter was appointed as trustee in bankruptcy of SFP Canada (in such capacity, the "**Trustee**"), subject to affirmation by the Company's creditors at the first meeting of creditors.

Richter, in its capacity as Monitor, filed four (4) reports with the Court (the “**Monitor Reports**”), which, among other things, provided the Court with information relating to the CCAA Proceedings, the Monitor's activities and the results of the Liquidation Sale. The Monitor Reports, the Amended and Restated Initial Order and other material documents pertaining to the CCAA Proceedings are available on Richter's website at <https://www.richter.ca/insolvencycase/sfp-canada-ltd/>.

## **SFP CANADA'S BANKRUPTCY ADMINISTRATION**

On August 20, 2020, the Trustee sent notice of the first meeting of creditors, a list of creditors, a proof of claim form and form of proxy to all known creditors of SFP Canada. On August 24, 2020, notice of the first meeting of creditors was published in *The Globe and Mail* (National Edition).

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the Bankruptcy and Insolvency Act (Canada) (the “**BIA**”).

### **Financial Position / Assets**

As at the date of bankruptcy, SFP Canada's assets consisted of: (i) funds on deposit with financial institutions totaling approximately \$130,500, and (ii) potential sales tax receivables.

The Trustee has arranged for the funds held in the Company's bank accounts to be transferred to the estate account set up by the Trustee. Realizations, if any, from the potential sales tax receivables are expected to be nominal.

### **Secured Creditors**

According to the Company's Statement of Affairs, the Company's only secured creditor is American Greetings, which was owed approximately CAD\$5.1 million as at the date of bankruptcy.

In its prior capacity as Monitor, Richter instructed its counsel, Stikeman Elliott LLP (“**Stikeman**”), to review the security agreement entered into between SFP Canada and American Greetings (the “**American Greetings Security**”) in the jurisdictions in which SFP Canada had retail operations in Canada. Stikeman provided the Monitor with legal opinions in respect of the Provinces of Ontario, British Columbia and Alberta, and agent opinions from Ohio counsel (the American Greetings Security is governed by Ohio law) and local counsel in Saskatchewan, Manitoba, Nova Scotia and Newfoundland and Labrador, which conclude, subject to standard qualifications and limitations, that the American Greetings Security was valid in all Canadian provinces in which SFP Canada had retail operations, except Quebec, and enforceable under Ohio law.

As the American Greetings Security was not valid in Quebec, the net proceeds realized from the Liquidation Sale at SFP Canada's six (6) retail stores located in Quebec, which totaled approximately CAD\$130,500, were not subject to the American Greetings Security.

### 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.

The Trustee will comply with the provisions of the *Wage Earner Protection Program Act* and related regulations, where applicable.

### Preferred Creditors

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

### Unsecured Creditors

The Company's Statement of Affairs indicates that there are approximately 186 unsecured creditors, excluding former employees, with claims totalling approximately CAD\$2.6 million, excluding any former employee claims for termination and / or severance.

### Claims Filed

As at 5:00 p.m. on September 2, 2020, the Trustee has recorded proofs of claim filed, as follows:

	Claims Filed (#)	Amount (CAD)	Proxies in Favour of Trustee (#)	Amount (CAD)
Secured	1	6,657,466.36	-	-
Preferred	-	-	-	-
Unsecured	14	7,069,758.02	1	63,014.40
<b>TOTAL</b>	<b>15</b>	<b>13,727,224.38</b>	<b>1</b>	<b>63,014.40</b>

### 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.

### Trustee's Fees

Pursuant to the Distribution, Discharge and CCAA Termination Order, the Bankruptcy Reserve was established to fund the costs of SFP Canada's bankruptcy proceedings.

**Other**

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

Dated at Toronto, Ontario, this 2<sup>nd</sup> day of September, 2020.

**RICHTER ADVISORY GROUP INC.**

in its capacity as Trustee of the estate of  
SFP Canada Ltd.  
and not in its personal or corporate capacity



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Adam Sherman, MBA, CIRP, LIT