

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE BANKRUPTCY OF
RONSONS SHOE STORES LTD.

ORDINARY ADMINISTRATION

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

BACKGROUND

1. Ronsons Shoe Stores Ltd. ("**Ronsons**" or the "**Company**") was incorporated in 1983 and operated as a retailer of shoes and related accessories from 17 stores and a warehouse located in the Lower Mainland of British Columbia, as well as Kelowna, BC and Victoria, BC. A search of the British Columbia Registry dated March 16, 2020 indicates that Anthony J. S. Aronson ("**Mr. Aronson**") was the sole director of Ronsons at that time. Mr. Aronson managed the Company's operations.
2. The Toronto-Dominion Bank ("**TD**") advanced funds to Ronsons in the form of a demand operating facility, which was secured by general security agreements dated February 7, 1997 and May 29, 1997, as well as Section 427 *Bank Act* security dated June 25, 2001. TD is the Company's largest creditor.
3. In March 2020, Ronsons was required to cease operations due to the COVID-19 pandemic. Further, Ronsons informed TD that, notwithstanding the duration of the COVID-19 pandemic, it no longer intended to carry on business. We understand that Ronsons had seen a decrease in revenues in recent years and its cash-flow issues were compounded by the pandemic-related closure of its physical storefronts.
4. TD issued a formal demand and notice of intention to enforce security under Section 427 of the *Bankruptcy and Insolvency Act* ("**BIA**") on March 31, 2020 and the Company waived the 10-day notice period.
5. On April 17, 2020 TD filed a Petition to the Court at the Supreme Court of British Columbia (the "**Court**") seeking the appointment of a Receiver. Pursuant to an Order pronounced on April 20, 2020 by the Honorable Madam Justice Fitzpatrick, MNP Ltd. was appointed Receiver and Manager (the "**Receiver**") of all the assets, undertakings and property of Ronsons.

6. The Receiver took possession of the property over which it was appointed, undertook various conservatory and protective measures. The Receiver also took possession of various books and records of Ronsons.
7. On August 14, 2020, TD filed an application for a Bankruptcy Order against Ronsons. On September 4, 2020, the Court granted an Order adjudging Ronsons bankrupt and appointing MNP Ltd. as Licensed Insolvency Trustee (the "**Trustee**") of the bankrupt Estate, subject to creditor affirmation at the First Meeting of Creditors.

OPERATIONS

8. As set out above, Ronsons had ceased operations in March 2020, and the Receiver did not carry on the operations of Ronsons following the pronouncement of the Receivership Order. The Receiver advised one hundred and forty-six (146) employees of their termination of employment and arranged for Records of Employment and T4 slips to be issued.

ASSETS

9. At the date of receivership, the Company's assets included inventory for resale, warehouse equipment, pallet racking, warehouse shelving, office furniture and equipment, three (3) vehicles, accounts receivable and certain intangible assets.
10. Ronsons' inventory consisted of approximately 108,000 pairs of shoes and approximately 3,000 accessories. The Receiver arranged for the inventory to be removed after the pronouncement of the Receivership Order and stored in two (2) third-party warehouses.
11. The Company owned various warehouse equipment, racking and shelving, and office furniture and equipment which were located at the retail stores, office and warehouse.
12. Ronsons also owned certain intangible assets including the Company's website domain name, website address, registered trademarks, and the *Ronsons* brand.
13. The Receiver undertook a sales process and offered the vast majority of assets for sale on an en bloc basis. The Receiver received a total of ten (10) Offers to Purchase or Auction Proposals from various auction houses and retailers. The highest and best offer in the amount of \$1,125,000 was accepted by Receiver and approved by the Court. The Receiver completed the sale, and the sale proceeds were deposited to the Receiver's trust account.
14. The Receiver sold the three vehicles separately by way of private sale, and the sale proceeds were deposited to the Receiver's trust account.
15. We are advised by the Company's legal counsel that Mr. Aronson resigned as Director sometime prior to the bankruptcy. The Statement of Affairs, which was prepared by the Receiver on behalf of Ronsons, reports the Company's assets at the date of bankruptcy which include Accounts Receivable of \$41,737 and Cash held in the Receiver's trust account of \$730,000.

Accounts Receivable

16. The Company's books and records indicated accounts receivable at the date of receivership of approximately \$41,737. However, after conducting a review of the accounts receivable, the Receiver estimates total collectable accounts receivable to be approximately \$20,000.

Funds Held by Receiver

17. The Statement of Affairs reports that funds held by the Receiver in trust, total approximately \$730,000 and these funds remain in the Receiver's trust account pending distribution to priority and secured creditors.
18. These funds represent the balance of the sale proceeds after payment of various costs of the receivership incurred to date.

PROVABLE CLAIMS

19. It is the duty of the Trustee to examine and satisfy itself as to the validity and priority of all claims filed in the Estate. Claims filed with the Trustee to date are as follows:

| | Statement of Affairs | Filed |
|---------------------|---------------------------------|------------------|
| Secured Creditors | \$ 750,000 | 557,000 |
| Preferred Creditors | 17 | 10,395 |
| Unsecured Creditors | 2,621,395 | 1,311,886 |
| Total | <u>3,371,412</u> | <u>1,879,281</u> |

SECURED CREDITORS

Canada Revenue Agency ("CRA")

20. From a review of the Company's records, the Receiver determined that Ronsons had failed to remit payroll deductions withheld from employees' wages to CRA for the last two pay periods prior to the date of receivership.
21. CRA has not yet completed a trust exam and timing for the trust exam is unknown, due to protocol and procedure changes for CRA during the COVID-19 pandemic.
22. The amount of payroll deductions withheld from employees' wages and not remitted to CRA is the basis of a deemed trust claim and will come in priority to the claims of all other creditors, including secured creditors.
23. At the date of this report, CRA has not yet filed a proof of claim with the Trustee, but we anticipate that the deemed trust claim could be in the range of \$50,000.

Claims of Wage Earners

24. Pursuant to Section 81.3(1) of the BIA, claims of employees who are owed wages, vacation pay, and other compensation for services rendered in the six-month period preceding the date of bankruptcy are secured, to the extent of \$2,000, by security over the Company's current assets. The BIA also provides security for unpaid wages, vacation pay, and other compensation for services rendered in the six-month period preceding the date of receivership in Section 81.4(1).
25. The Receiver determined that there were 146 employees who were owed wages, vacation pay and/or severance/termination pay totaling approximately \$543,000, and of this amount, approximately \$76,000 is eligible for security under the BIA. With the exception of a deemed trust claim asserted by CRA, the secured claim under Section 81.3(1) and 81.4(1) comes in priority to the claims of all creditors, including secured creditors.

Toronto-Dominion Bank ("TD")

26. As previously reported, Ronsons executed various security agreements with TD, and TD is the Company's largest creditor.
27. That Statement of Affairs reports TD as being owed approximately \$1 million. TD subsequently filed a proof of claim with the Trustee indicating that at the date of bankruptcy, \$1,023,415.10 was outstanding, with daily interest and costs accruing thereafter.
28. Prior to the bankruptcy, the Receiver obtained an independent written legal opinion that the security held by TD is valid and enforceable as against Ronsons and the Trustee.

PREFERRED CREDITORS

Employees

29. Employees are afforded priority for wages and compensation that are not paid by virtue of Section 81.3(1). As there are sufficient current assets (accounts receivable) to cover these claims, it is not anticipated that there are any priority claims for employee wages.

UNSECURED CREDITORS

30. The Statement of Affairs indicates unsecured creditors with claims totaling approximately \$2,621,395.
31. Ultimately the amounts owing to unsecured creditors will be based on proofs of claim filed and admitted by the Trustee.

SALE OF ASSETS

32. As previously reported, the Receiver conducted a sales process for the Company's assets. An offer was accepted and approved by the Court on July 2, 2020. The Receiver received all of the sale proceeds which were deposited to the receivership trust account.

OTHER

Books and Records

33. The Receiver took possession of the Company's books and records at the date of receivership, and the Trustee has access to all of these records during the administration of the receivership. Once the receivership is concluded, the Trustee will maintain the records as required by the *BIA*.

Insurance

34. The Receiver insured the Company's property through the insurance broker who had been providing insurance to Ronsons prior to the receivership proceedings. The Receiver cancelled the insurance coverage after the sale of assets had completed.

Legal Proceedings

35. The Trustee has not commenced any legal proceedings.

Conservatory and Protective Measures

36. As the Receiver had already taken possession of the Company's assets at the date of receivership, the Trustee did not take any further conservatory measures at the date of bankruptcy.

Settlements, Preferential Payments, and Transfers at undervalue

37. The Trustee will review the books and records preceding the date of bankruptcy in order to ascertain whether or not any settlements, preferential payments and/or improper transfers have occurred within the last three months or, where related parties are involved, within the last twelve months.
38. From the Receiver's review of the Company's books and records, the Receiver has identified a potential preference payment in the approximate amount of \$34,000. The Trustee will also review this matter.

Directive 5R – 3rd Party Guarantee

39. Given the ongoing receivership proceedings, TD has agreed to permit the Trustee its reasonable fees and expenses incurred in administering the bankruptcy in priority to TD's security.

ESTIMATED REALIZATION

40. Given the amount of secured debt; which includes CRA, claims of wage earners and TD, the Trustee does not anticipate there will be funds available for the claims of unsecured creditors in the Bankrupt Estate.
41. Further information with respect to these proceedings will be made available on the Trustee's website <https://mnpdebt.ca/en/corporate/corporate-engagements/ronsons-shoe-stores-ltd-oa> as it becomes available.

This concludes the Trustee's Preliminary Report to Creditors.

Dated at Vancouver, BC this 25th day of September, 2020

MNP Ltd.
In its capacity as Trustee of the Estate of
Ronsons Shoe Stores Ltd.
And not in its personal capacity



Julie Kennedy, CIRP, LIT
Vice President