



---

**ESTATE FILE NO.: 31-2661908**

**IN THE MATTER OF THE BANKRUPTCY OF  
CHICO'S FAS CANADA, CO.  
OF THE CITY OF HALIFAX, IN THE PROVINCE OF NOVA SCOTIA**

**TRUSTEE'S REPORT TO CREDITORS ON  
PRELIMINARY ADMINISTRATION**

## **1.0 Introduction**

1. On July 31, 2020, Chico's FAS Canada, Co. (the "Company") made an assignment in bankruptcy and KSV Kofman Inc. was appointed its Licensed Insolvency Trustee (the "Trustee"), subject to affirmation at the first meeting of creditors.

### **1.1 Currency**

1. All currency references in this report ("Report") are to Canadian dollars unless otherwise noted.

### **1.2 Restrictions**

1. In conducting its review and preparing this Report, the Trustee has relied upon financial and other information supplied by representatives of Chico's FAS, Inc. ("Chico's US"), the Company's ultimate parent, and the Company's books and records.
2. The Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the financial information relied upon to prepare this report in a manner that complies with Canadian Auditing Standards ("CAS") pursuant to the Chartered Professional Accountants of Canada Handbook and, accordingly, the Trustee expresses no opinion or other form of assurance contemplated under the CAS in respect of such information. Any party wishing to place reliance on the financial information should perform its own diligence.
3. The Trustee accepts no responsibility for any reliance placed by any third party on the Company's financial information presented herein, nor for any information concerning potential recoveries, which are presently based on estimates and will be affected by various uncertainties, including those caused by the Covid-19 pandemic.

## 2.0 Background

1. The Company was incorporated in 2013 and is an indirect wholly-owned subsidiary of Chico's US.
2. The Company is a retailer of women's clothing and accessories. Prior to the government-mandated shutdown due to the Covid-19 pandemic, the Company operated 10 stores from leased locations in Southern Ontario under the "Chico's" (4 stores) and "White House Black Market" (6 stores) banners. All of the Company's retail stores were closed in March 2020 due to the COVID-19 pandemic. The Company furloughed all its employees at or around the date the stores were closed.
3. The Company's registered head office is in Nova Scotia. The Company's business was managed from the head office of Chico's US, including its "C-suite" function and administrative support (purchasing, marketing, accounting, payroll, etc.).
4. At the time the Company's operations were discontinued in March 2020, it had approximately 200 employees. Representatives of Chico's US have advised the Trustee that on their termination, the Company's employees received all accrued wages and salaries, including vacation pay.

### 2.1 Causes of the Company's Financial Difficulties

1. Similar to many other retailers, the performance of the Company's business has been affected by the general shift away from brick-and-mortar stores to online channels, operational challenges and a highly competitive retail environment. The economic impact of the global COVID-19 pandemic further significantly impaired the Company's business.
2. The Company's income statements for fiscal year 2019 and the four months ending May 2020 are presented in the following table.

(C\$, 000s)	Fiscal 2019 (unaudited)	4 months ending May 30, 2020 (unaudited)
Net sales	16,680	1,339
Cost of sales	12,574	1,918
Gross margin	4,106	(579)
Gross margin (%)	24.6%	(43.3%)
Selling, general and administrative	6,148	2,117
Operating losses	(2,042)	(2,696)

3. As reflected above, the Company incurred operating losses of approximately \$4.7 million since the start of fiscal 2019. These losses, Covid-19 and the high costs of operating in Canada all contributed to the Company's decision to file an assignment in bankruptcy.

### 2.2 Current Status

1. Immediately following the commencement of these proceedings, the Trustee launched a store closing sale from all of its retail locations. There was an urgent need to commence an orderly sale process before the first meeting of creditors for the following reasons:
  - a. The inventory in the retail stores is comprised of spring and summer merchandise. The saleability of this inventory is rapidly declining given it is now late summer;

- b. the sale process is likely to take approximately sixty days to complete, and as such, it was critical to re-open stores immediately to take advantage of the remaining summer season. Additionally, the Trustee is only entitled to occupy the stores for 90 days from the date of bankruptcy and the sale must be completed within this time period; and
  - c. the conduct of the sale involved significant logistics that required time to put in place before the sale could commence. This included arranging with Chico's US to provide back office support (accounting, point-of-sale and payroll support), calling back employees (all of whom had been furloughed), re-opening all the stores (including updating in-store accounting systems and addressing merchandising issues), cleaning the stores and preparing the stores for Covid-19 protocols, including sourcing and delivering personal protection equipment.
2. The largest creditors of the Company are subsidiaries of Chico's US and its landlords, Ivanhoe Cambridge Inc. ("Ivanhoe") and Oxford Properties Group ("Oxford"). The Trustee engaged extensively with Chico's US concerning the sale and Chico's US supported the immediate commencement of the sale process. The Trustee also consulted with legal counsel for Ivanhoe and Oxford and neither voiced objections to the commencement of the sale process.
  3. Tiger Asset Solutions Canada, ULC has been retained by the Trustee, in consultation with Chico's US, to assist with the store closing sale. Tiger is a US-based liquidator with extensive experience conducting retail liquidations.
  4. Stores were re-opened on August 8, 2020 for the purpose of conducting the store closing sale.

## 3.0 Financial Position

### 3.1 Assets

1. A summary of the Company's assets is presented below.

Description	Amount (\$000s)
Cash	276 <sup>1</sup>
Inventory	2,326
Property and equipment	1,230
Right of use asset	5,230
Other assets	114
	9,176

- a) Inventory: represents the book value of inventory in the Company's stores.
- b) Property and equipment: primarily relates to computers, furniture, fixtures and leasehold improvements in the retail stores.
- c) Right of use asset: represents the Company's right to occupy its retail stores over the life of the leases. There will be no recovery on this asset.
- d) Other assets: largely comprised of prepaid expenses and other sundry items that have negligible realizable value.

<sup>1</sup> Cash balances as at July 31, 2020 were obtained from HSBC Bank Canada.

## 4.0 Creditors

### 4.1 Secured Creditors

1. A search of the Personal Property Security Registration System in Ontario as of August 17, 2020 did not identify any registrations against the Company. The Company's financial statements do not reflect any secured obligations.

### 4.2 Preferred Creditors

1. Landlords may have a preferred claim for three months' arrears and three months' accelerated rent, if provided for under their leases. The Trustee is not aware of any other potential preferred claims, including any amounts that may be payable to employees in respect of preferred claims.

### 4.3 Unsecured Creditors

1. According to the Company's books and records, amounts owing to unsecured creditors totaled approximately \$6.5 million as at the date of bankruptcy. These amounts are summarized below.

Creditor	Amount (\$000s)
Swiss Parrot, GmbH ("Swiss Parrot")	9,106
Chico's Retail Services Inc. ("Chico's Retail")	883
Oxford	439
Ivanhoe	362
Other trade creditors	5
	<hr/> 10,795

- a) Swiss Parrot:
  - i. The Company is party to an Intellectual Property License Agreement with Swiss Parrot, the Company's parent company, dated August 20, 2013 ("Licensing Agreement") pursuant to which, *inter alia*, the Company uses the Chico's and White House Black Market names and pays a royalty to this entity for doing so. The Company owes \$4.9 million under the Licensing Agreement, representing unpaid royalties.
  - ii. The Company is party to a Credit Agreement with Swiss Parrot dated February 2, 2014, pursuant to which Swiss Parrot provided a \$20,000,000 unsecured credit facility to the Company which provides that the debt is subordinated and junior in right of payment to all present and future creditors of the debtor. Amount owing under this facility is \$4.2 million.
- b) Chico's Retail is a subsidiary of Chico's US that purchases inventory for the Company. The inventory is then supplied to the Company. The balance owing represents unpaid invoices for the inventory.
- c) Oxford and Ivanhoe are landlords of the Company. The Trustee understands that the Company has not paid rent for its stores since the stores were closed in March.

#### **4.4 Property of the Bankrupt Not Divisible Amongst Creditors**

1. The Trustee is not aware of any property that would not be divisible amongst the Company's creditors by virtue of Section 67(1) of the BIA or otherwise.

#### **5.0 Books and Records**

1. The Trustee has taken possession of the books and records it requires to complete its duties and obligations under the BIA, including the bank statements for the year preceding the date of bankruptcy and the Company's minute books.

#### **6.0 Third Party Guarantee**

1. In consideration of KSV agreeing to act as Trustee in these bankruptcy proceedings, Chico's US guaranteed the Trustee's fees, expenses and costs of administration of the bankrupt estate, including the fees and costs of Paliare Roland Rosenberg Rothstein LLP, legal counsel of the Trustee. The terms of the guarantee are set out in a Guarantee and Indemnity Agreement between Chico's US and KSV dated July 28, 2020.
2. Recognizing that the gift cards and returned merchandise will constitute unsecured claims against the bankruptcy estate, Chico's US has agreed to indemnify and reimburse the Trustee, for the dollar value of any gift cards redeemed, and for returned merchandise accepted and refunded, by the Trustee during the store closing sale. There was approximately \$33,425 in outstanding gift card liabilities at the beginning of the sale.

#### **7.0 Preferences and Transfers Undervalue**

1. As part of its statutory duties, the Trustee conducted a preliminary review for preferences and transfers at undervalue by reviewing the Company's bank statements and accounting records, including payment registers and intercompany transactions, for the year preceding the date of bankruptcy.
2. Based on the Trustee's preliminary review, it appears that the payments made by the Company during that period appear to be for normal course operating expenses, including payroll, selling, general and administrative expenses, and payments to Chico's Retail for the purchase of inventory. The Trustee has not identified any transactions out of the normal course or that require further investigation.
3. The Trustee will advise the Inspectors should it become aware of any transaction(s), which require further investigation.

#### **8.0 Anticipated Realization and Projected Distribution**

1. The going-out-of-business sale commenced on August 8, 2020 and is expected to last approximately 60 days. The amount available for distribution to creditors, if any, is presently uncertain and is contingent on the results of the store closing sale.

## 9.0 Other Matters

1. There are no other matters to discuss at this time.

\* \* \*

DATED at Toronto, Ontario, this 19<sup>th</sup> day of August, 2020.

A handwritten signature in blue ink that reads "KSV Kofman Inc." in a cursive style.

**KSV KOFMAN INC.  
IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE OF  
CHICO'S FAS CANADA, CO.  
AND NOT IN ITS PERSONAL CAPACITY**