

---

**Seventh Report of Duff & Phelps  
Canada Restructuring Inc.  
as CCAA Monitor of iMarketing  
Solutions Group Inc. and the  
Companies Referred to in  
Schedule “A”**

December 9, 2013

---

# Contents

	<b>Page</b>
1.0 Introduction.....	1
1.1 Purposes of this Report.....	2
1.2 Currency .....	3
1.3 Restrictions .....	3
2.0 Background .....	3
2.1 The Transaction .....	4
3.0 Company's Request for an Extension .....	4
3.1 Cash Flow .....	5
4.0 Company's Activities.....	5
5.0 Overview of the Monitor's Activities .....	6
6.0 Conclusion and Recommendation .....	7

---

COURT FILE NO.: CV-13-10067-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, C.C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
iMARKETING SOLUTIONS GROUP INC. AND THE COMPANIES REFERRED TO IN  
SCHEDULE "A"**

**SEVENTH REPORT OF  
DUFF & PHELPS CANADA RESTRUCTURING INC.  
AS CCAA MONITOR OF iMARKETING SOLUTIONS GROUP INC.  
AND THE COMPANIES REFERRED TO IN SCHEDULE "A"**

**December 9, 2013**

## **1.0 Introduction**

1. Pursuant to an Order of the Honourable Mr. Justice Newbould of the Ontario Superior Court of Justice (Commercial List) (the "Ontario Court") made on April 12, 2013 (the "Initial Order"), iMarketing Solutions Group Inc. ("IMSG") and the companies listed on Schedule "A" (together with "IMSG", the "Company") were granted protection under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") and Duff & Phelps Canada Restructuring Inc. ("D&P") was appointed as the monitor (the "Monitor").
2. Also on April 12, 2013, the United States Bankruptcy Court for the District of Delaware (the "US Court") made an interim Order recognizing the CCAA proceedings in the United States and granting the Company certain protections as contemplated by chapter 15 of title 11 of the *United States Code* ("Chapter 15").
3. On May 7, 2013, the Ontario Court made an Order extending the stay of proceedings to August 2, 2013 and approving a sale and investment process (the "SIP") to be carried out by Illumina Partners Inc., in its capacity as the Company's Chief Restructuring Officer (the "CRO"), under the supervision of, and with the assistance of, the Monitor.
4. On May 17, 2013, the US Court made a final Order recognizing the CCAA proceedings as a foreign main proceeding.

- 
5. On July 12, 2013, the Ontario Court made an Order, among other things, adding MLHL Marketing Inc. and MLHL Marketing LP to the CCAA proceedings.
  6. Shotgun Fund Limited Partnership III (the “DIP Lender”) has provided the Company with a \$1 million debtor-in-possession credit facility, of which \$650,000 has been drawn as at the date of this report (the “Report”).
  7. The Ontario Court has made orders dated August 2, 2013, October 3, 2013, October 11, 2013 and October 25, 2013 extending the stay of proceedings. The stay of proceedings currently expires on December 13, 2013.
  8. The principal purpose of these restructuring proceedings has been to create a stabilized environment in order to carry out the SIP to solicit investors, strategic partners or purchasers for the Company’s business and assets.
  9. On October 25, 2013, the Ontario Court approved a sale of substantially all of the Company’s business and assets (the “Transaction”) to IMKT Direct Solutions Corporation (“IMKT”) and iMarketing Solutions Acquisition, LLC (“iMarketing Acquisition” and together with IMKT, the “Purchaser”). The US Court approved the Transaction on November 20, 2013.
  10. Pursuant to amending agreement dated December 4, 2013, the Company and the Purchaser agreed, among other things, that the effective date of the Transaction’s closing would be 12:01AM (EST) on December 1, 2013. On December 6, 2013 (the “Closing Date”) the Company completed the Transaction.

## **1.1 Purposes of this Report**

1. The purposes of this report are to:
  - a) provide background information about the Company and these proceedings;
  - b) provide an overview of the Monitor’s activities since October 22, 2013, the date of the Monitor’s sixth report to Court (the “Sixth Report”); and
  - c) recommend that the Ontario Court make an order:
    - granting the Company’s request for an extension of the stay of proceedings from December 13, 2013 to June 13, 2014; and
    - approving the Monitor’s actions and activities described in this Report.

---

## 1.2 Currency

1. Unless otherwise noted, all currency references in this Report are to Canadian dollars.

## 1.3 Restrictions

1. In preparing this Report, the Monitor has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records, discussions with management and discussions with the Company's advisors. The Monitor has not performed an audit or other verification of such information. An examination of the Company's cash flows and/or financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on the Company's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material.

## 2.0 Background

1. The Company is a provider of integrated direct marketing solution services for not-for-profit organizations, political organizations and professional associations.
2. IMSG and its predecessor corporations operated in the North American telemarketing and fundraising business for more than 25 years.
3. The Company occupied fifteen leased premises across Canada and the US as at the Closing Date.
4. As at the date of the Initial Order, the Company employed approximately 1,140 individuals, of which 480 individuals were laid off in March, 2013, prior to the commencement of these proceedings. The Company employed over 700 employees as at the Closing Date.
5. The Company's business is regulated and requires provincial and/or state licences and registrations to operate in Canada and the US.
6. The Affidavit of Andrew Langhorne, the Company's Chief Executive Officer, sworn April 11, 2013, and filed in support of the Company's initial CCAA application, describes, *inter alia*, the Company's background, including the reasons the Company determined it was necessary to commence these proceedings.

- 
7. Additional information concerning the Company is provided in the report of D&P as proposed monitor dated April 11, 2013 and in the Monitor's subsequent reports to Court filed in these proceedings. Materials filed in the CCAA and Chapter 15 proceedings can be found on the Monitor's website at:

<http://www.duffandphelps.com/intl/en-ca/Pages/RestructuringCases.aspx>.

## **2.1 The Transaction**

1. The marketing process leading to the Transaction is set out in detail in the Affidavit of Andrew Langhorne sworn October 18, 2013 and the Sixth Report, both of which are included in the Company's motion record filed in support of the Company's motion.
2. Since the date of the Ontario Court's approval of the Transaction, the Company and the Purchaser have been addressing closing issues. On closing, the Purchaser paid to the Monitor the balance of the cash proceeds of sale (\$4,907,116), which the Monitor has deposited into a trust account. The Purchaser previously paid a deposit of \$500,000. In addition to the cash proceeds, the Purchaser issued a \$500,000 convertible promissory note.
3. As part of the Transaction, the Company and the Purchaser entered into a Transition Services Agreement (the "TSA"). The TSA has a term of six months from the effective date of closing, December 1, 2013, during which period the Company is to assist the Purchaser with an orderly transition of the business to the Purchaser. Pursuant to the TSA, the Purchaser also paid the amount of \$100,000 to the Monitor on account of the deposit to secure the Purchaser's obligations under the TSA.

## **3.0 Company's Request for an Extension**

1. The Monitor supports the Company's request for an extension of the stay of proceedings to June 13, 2014 for the following reasons:
  - The Company is acting in good faith and with due diligence;
  - The extension will allow the Company to fulfill their obligations under the TSA;
  - The extension will provide the Monitor with the opportunity to prepare for a distribution in accordance with priorities; and

- 
- The extension is not opposed by the Company's primary secured creditors.
  2. The Monitor intends to file a report with the Ontario Court approximately three months prior to the expiry of the stay extension in order to advise the Ontario Court of the status of these proceedings.

### **3.1 Cash Flow**

1. A cash flow projection has not been prepared for the stay extension period as the Company's operations were discontinued with the closing of the Transaction. Pursuant to the terms of the TSA, the benefits and obligations of operations from and after the effective date of closing are to the account of the Purchaser. Accordingly, other than the receipts and disbursements referred to in paragraph 2 below, a cash flow projection would reflect nominal receipts and disbursements over the course of the stay extension period.
2. The Company anticipates that it will receive certain refunds and has certain outstanding obligations attributable to the period prior to the closing of the Transaction which are to be paid in the coming weeks. These obligations, as well as professional fees and CRO fees, are to be funded from the sale proceeds. The net available funds after payment of these obligations will be distributed to the Company's creditors pursuant to a further order of the Ontario Court.

### **4.0 Company's Activities**

1. A summary of the Company's activities since the date of the Sixth Report include:
  - Operating the business;
  - Working extensively with the Purchaser to close the Transaction, including negotiating the working capital adjustment payable on closing;
  - Corresponding with Canada Revenue Agency ("CRA") regarding the Company's sales tax accounts;
  - Reporting to the DIP Lender pursuant to the terms of the DIP Term Sheet;
  - Reporting weekly to the Purchaser;
  - Corresponding with and reporting to Canadian Imperial Bank of Commerce ("CIBC");

- 
- Corresponding with American Express regarding the Company's credit card accounts;
  - Preparing monthly internal financial statements;
  - Continuing to review and implement cost-cutting opportunities; and
  - Reporting receipts and disbursements.

## **5.0 Overview of the Monitor's Activities**

1. Since the date of the Sixth Report, the Monitor's activities have included:
  - Corresponding extensively with the CRO regarding the Transaction;
  - Attending at the Ontario Court on October 25, 2013;
  - Reviewing and commenting on US Court materials in connection with the sale approval motion;
  - Corresponding with the DIP Lender;
  - Corresponding with CIBC's counsel;
  - Reviewing correspondence between the Company and CRA;
  - Monitoring the Company's receipts and disbursements;
  - Assisting the Company to prepare its weekly reporting to the DIP Lender, including its weekly variance analysis and rolling cash flow projection;
  - Reviewing the Company's internal financial statements for September and October, 2013;
  - Reviewing matters pertaining to the allocation of sale proceeds;
  - Reviewing a working capital adjustment schedule prepared by the CRO and corresponding regarding same;
  - Dealing with issues related to closing;
  - Reviewing correspondence between the Company and American Express and corresponding with the Company regarding same;



- 
- Corresponding with the Company and its legal counsel;
  - Corresponding with the Monitor's US counsel regarding the Company's Chapter 15 proceedings;
  - Responding to calls and enquiries from creditors and shareholders regarding the Company's CCAA proceedings;
  - Preparing this Report; and
  - Other matters pertaining to the administration of this mandate.

## 6.0 Conclusion and Recommendation

1. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make the Order(s) granting the relief detailed in Section 1.1 of this Report.

\* \* \*

All of which is respectfully submitted,

*Duff & Phelps Canada Restructuring Inc.*

**DUFF & PHELPS CANADA RESTRUCTURING INC.  
IN ITS CAPACITY AS CCAA MONITOR OF  
iMARKETING SOLUTIONS GROUP INC. AND THE  
COMPANIES REFERRED TO IN SCHEDULE "A"  
AND NOT IN ITS PERSONAL CAPACITY**

**SCHEDULE "A"**

**LIST OF APPLICANTS**

iMarketing Solutions Group Inc.  
The Responsive Marketing Group Inc.  
GWE Consulting Group (USA) Inc.  
Direct Contact Strategies Inc.  
Front Line Support Inc.  
iMark Events Inc.  
RMG General Partner Inc.  
Cabot Call Centre Inc.  
Engage Interactive Inc.  
RMG Smiths Falls LP  
RMG Thunder Bay LP  
MLHL Marketing Inc.  
MLHL Marketing LP  
Xentel Inc. (Delaware)  
Wellesley Corporation Inc. (Delaware)  
US Billing Inc. (Delaware)  
American Graphics & Design Inc. (Wisconsin)  
Courtesy Health Watch Inc. (Delaware)  
Target Outreach Inc. (Nevada)  
Engage Funding Inc. (Delaware)