



ESTATE FILE NO.: 31-2655988

**IN THE MATTER OF THE BANKRUPTCY OF
LUCKY BRAND DUNGAREES CANADA INC.
OF THE CITY OF FREDERICTON, IN THE PROVINCE OF NEW BRUNSWICK**

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

1.0 Introduction

1. On July 6, 2020, Lucky Brand Dungarees Canada Inc. (the "Company") made an assignment in bankruptcy and KSV Kofman Inc. was appointed the Licensed Insolvency Trustee of the Company (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 Lucky Brand Dungarees, LLC ("Lucky Brand US"), the Company's parent.
2. The Trustee has not audited, or otherwise attempted to verify, the accuracy or completeness of the financial information relied on 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 2011 and is a wholly-owned subsidiary of Lucky Brand US ("Lucky Brand US", which together with the Company are defined herein as the "Lucky Brand Group"). On July 3, 2020, Lucky Brand US filed for protection under Chapter 11 of the *United States Code*. A purpose of the Lucky Brand US Chapter 11 proceedings is to conduct a sale process of its US operations. The Company is not a debtor in those proceedings.

2. The Lucky Brand Group is a retailer of men’s and women’s denim products and accessories. The Company’s merchandise is marketed as “Lucky Brand” and is sold at retailers across Canada, including nine Lucky Brand stores. All of the Company’s retail stores were closed in March 2020 due to the COVID-19 pandemic. The Company terminated all its employees at or around the date the stores were closed.
3. The Company’s registered head office is in New Brunswick. The Company’s business was managed from the head office of Lucky Brand 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 130 employees. Representatives of Lucky Brand US have advised the Trustee that on termination, the Company’s employees received all accrued wages and salaries, including vacation pay. The Trustee has also been advised that some or all employees also received termination pay.

2.1 Causes of the Company’s Financial Difficulties

1. Similar to many other retailers, prior to the pandemic crisis, the performance of Lucky Brand Group’s business had been hindered by the general shift away from brick-and-mortar stores to online channels and the accompanying departure of anchor mall tenants, a highly promotional and competitive retail environment and a shift in customer demand away from apparel to technology and personal experiences. The Lucky Brand Group’s restructuring efforts were further disrupted by a combination of the economic impact of the global COVID-19 pandemic, which resulted in extended closures of its retail stores, and limited liquidity, which diminished access to new inventory from its vendors. As part of its restructuring efforts, the Lucky Brand Group decided to discontinue its business in Canada.
2. The Company’s income statements (in US dollars) for fiscal years 2018 and 2019 and the four months ending April 30, 2020 are presented in the following table.

(US\$; 000s)	Fiscal 2018 (unaudited)	Fiscal 2019 (unaudited)	4 months ending April 30, 2020 (unaudited)
Net sales	20,909	18,417	2,960
Cost of sales	11,220	12,630	1,854
Gross margin	9,689	5,787	1,106
Gross margin (%)	46.3%	31.4%	37.4%
Selling, general and administrative	11,292	10,427	2,252
Operating losses	(1,603)	(4,640)	(1,146)

3. As reflected above, the Company incurred operating losses of approximately US\$7.4 million between fiscal 2018 and April 2020. The income statement excludes “other income” in the period referenced in the table of approximately US\$8.66 million related to transfer pricing policies that require the Company to have a certain level of net income. The “other income” amounts were not paid by Lucky Brand US to the Company but were accrued and recorded as a payable owing to the Company.

2.2 Current Status

1. The Company's stores are presently closed. The book value of the inventory in the Company's stores and a warehouse it leases totals approximately \$4.7 million.
2. Since the commencement of these proceedings, the Trustee has been considering various options to realize on the Company's business and assets. The options include a potential going-concern sale of the business, a liquidation of the inventory through the Company's stores and an *en bloc* sale of the inventory.

3.0 Financial Position

3.1 Assets

1. The Company's unaudited balance sheet as at the date of bankruptcy is summarized below.

Description	Amount (\$000s)
Cash	1,300
Accounts receivable	143
Intercompany receivable due from Lucky Brand US	5,427
Inventory	4,672
Other assets	282
Fixed assets	2,215
	<hr/> 14,039

- a) Accounts receivable: these amounts are largely due from Hudson's Bay Company and Canadian Tire. These receivables are substantially aged. The Trustee is pursuing collection.
- b) Intercompany receivable: the receivable is owed by Lucky Brand US and the realizable value is expected to be immaterial. The receivable relates to the "other income" discussed in section 2.1 (3) above and is partially offset by expenses incurred on behalf of the Company by Lucky Brand US. Additionally, this amount represents an unsecured claim from Lucky Brand US and is therefore likely uncollectible.
- c) Inventory: represents the book value in the stores and at the warehouse.
- d) Other assets: largely comprised of prepaid assets.
- e) Fixed assets: primarily relates to furniture, fixtures and leasehold improvements at the retail stores.

4.0 Creditors

4.1 Secured Creditors

1. SCI Logistics Ltd. ("SCI") provides logistics services to the Company, including warehousing and distribution services. SCI has asserted a lien under the *Repairs and Storage Lien Act* of approximately \$240,000 against the inventory stored in its warehouse for unpaid invoices for the period April 1 to June 30, 2020. The Trustee has advised SCI that it believes that only a portion of its arrears is lienable. The Trustee and SCI are attempting to negotiate a resolution.
2. No other creditors have advanced a secured claim against the Company and the Trustee is not aware of any other secured creditors. 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.

4.3 Unsecured Creditors

1. According to the Company's books and records, unsecured creditors totaled approximately \$7 million as at the date of bankruptcy¹, representing amounts owing to trade creditors and landlords for rent and other incentives. The Trustee understands that the Company has not paid rent to its landlords since the stores were closed.

4.4 Property of the Bankrupt Not Divisible Amongst Creditors

1. The Trustee is not aware of any property that would not be divisible among 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 Company's minute books and bank statements for the year preceding the date of bankruptcy.

6.0 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 for the year preceding the date of bankruptcy.
2. Based on the Trustee's preliminary review, it appears that most of the payments made by the Company during that period were for normal course operating expenses, including payroll and other selling, general and administrative expenses. The Trustee also identified certain payments to Lucky Brands US. . The Trustee has requested supporting documentation from Lucky Brands US for these payments.
3. The Trustee will advise the Inspectors should it become aware of any transaction(s), which require further investigation.

7.0 Anticipated Realization and Projected Distribution

1. The termination of the Company's operations, including all of its employees, as well as the current pandemic crisis have created challenges selling the Company's business and assets. The Trustee has made progress in this regard, and as noted, is pursuing multiple realization avenues. The amount available to distribute to creditors is presently uncertain and is contingent on the results of the realization process.

¹ The asset balances in section 3.1 are as of April 30, 2020; however, the Trustee was able to obtain the creditors' list as of the date of bankruptcy.

8.0 Other Matters

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

* * *

DATED at Toronto, Ontario, this 23rd day of July, 2020.

A handwritten signature in blue ink that reads "KSV Kofman Inc". The signature is written in a cursive, flowing style.

KSV KOFMAN INC.

**IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE OF
LUCKY BRAND DUNGAREES CANADA INC.
AND NOT IN ITS PERSONAL CAPACITY**