

Court File No.: 35-2655472

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE
PROPOSAL OF
EDUCATOR SUPPLIES LIMITED

SECOND REPORT TO THE COURT
SUBMITTED BY MNP LTD.
AS PROPOSAL TRUSTEE

October 15, 2020

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1.0

Introduction and Purpose of Report

- 1.1.1** Educator Supplies Limited o/a Scholar's Choice ("**ESL**" or the "**Company**") operates as a distributor and retailer of educational toys and teaching materials to parents, teachers, early childhood educators and daycares across Canada.
- 1.1.2** The Company has been in business for over 80 years. The Directors are Scott and Cindy Webster.
- 1.1.3** ESL is an Ontario Corporation with its head office in London, Ontario. The Company has two lines of business: a retail business (the "**Retail Business**") formerly carried on from 16 leased retail locations in Ontario, Manitoba, New Brunswick and Alberta and an internet-based catalogue business (the "**Catalogue Business**").
- 1.1.4** The Company has been challenged by:
- i. the changing retail landscape and shift to online retail has hurt the Retail Business;
 - ii. The Ontario teacher's dispute in early 2020 had a negative impact on sales in the current fiscal year;
 - iii. The Canadian rail blockade in early 2020 delayed delivery of needed inventory; and,
 - iv. The Covid-19 pandemic required ESL to temporarily shut down its retail stores and caused the closure of its primary customers (schools and daycares) which severely impacted ESL's revenues and cash flow.
- 1.1.5** ESL lost almost \$1.0 million in the previous fiscal year ended December 31, 2019. As a result of the above the situation has deteriorated further in 2020. On June 30, 2020 ESL filed a Notice of Intention ("**NOI**") to file a proposal under s. 50.4 of the *Bankruptcy and Insolvency Act* (the "**BIA**"). MNP Ltd. consented to act as trustee under the NOI and proposal (the "**Trustee**").
- 1.1.6** As approved in the order of Justice Gorman dated July 15, 2020 (the "**July 15 Order**"), attached hereto as **Appendix A**, ESL liquidated the inventory and disclaimed the leases at 13 of its 16 leased retail locations. Going forward, ESL will operate from three retail store locations in London, Winnipeg and Moncton (the locations will also function as regional distribution centres) and online through the Catalogue Business.
- 1.1.7** The July 15 Order also extended the deadline for the Company to file a proposal to September 14, 2020.
- 1.1.8** On September 14, 2020 the Company filed a proposal (the "**Proposal**") under Division One Part III of the BIA. A copy of the Proposal is attached as **Appendix B**.
- 1.1.9** A copy of the filing certificate from the Office of the Superintendent confirming filing of the Proposal is attached as **Appendix C**.
- 1.1.10** The Trustee has filed one previous report with the Court in this matter dated July 9, 2020 (the "**First Report**"). A copy of the First Report is attached hereto as **Appendix D**.

1.1.11 The purpose of this, the Trustee's Second Report, is to:

- i) Provide the Court with a copy and summary of the Proposal;
- ii) Summarize the Results of the Meeting of Creditors held on October 14, 2020 to consider and vote on the Proposal;
- iii) Provide the statutory disclosure required under Sections 58(d) and 59(1) of the BIA; and
- iv) Recommend that the Court make an order approving the Proposal.

1.1.12 All currency references in this report are to Canadian dollars.

1.2 Restrictions

1.2.1 In preparing this Report the Trustee has relied upon unaudited financial information prepared by the Company's management, their books and records and discussions with management. The Trustee has not audited, reviewed or otherwise verified the accuracy or completeness of the information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants of Canada Handbook*.

1.2.2 The Trustee expresses no opinion or other form of assurance with respect to the financial information presented in this Report or relied upon by the Trustee in preparing this Report.

2.0 Assets and Liabilities

2.1.1 According to the records of ESL, the assets and their estimated realizable values as at the date of the NOI are as follows:

Inventory	\$2,337,000
Accounts Receivable	\$373,000
Insurance Claim	\$500,000
Furniture and Warehouse Equipment	\$136,000
Total	\$3,346,000

2.1.2 The known liabilities of the Company, as at the date of the NOI, are as follows:

<u>Secured Creditors</u>	
Accord Financial	\$2,518,099
Business Development Bank of Canada	\$562,500
Kegar Enterprises	\$1,252,594
Scott Webster	<u>\$842,198</u>
Total Secured Creditors	\$5,175,391
<u>Preferred Creditors</u>	\$nil
<u>Unsecured Creditors</u>	
Ordinary Unsecured Claims (as defined in the Proposal)	\$2,993,033
Landlord Claims (as defined in the Proposal)	<u>\$3,478,486</u>
Total Unsecured Creditors	<u>\$6,471,519</u>
Total Liabilities	\$11,646,910

3.0 The Proposal

- 3.1.1** The Proposal calls for payment of \$1.0 million (the “**Proposal Funds**”) to the unsecured creditors. The Proposal Funds are to be received from a third-party (employee) loan and proceeds of an insurance claim. The Proposal splits the unsecured creditors into two classes, i) the landlords under the disclaimed leases (the “**Landlord Class**”) and ii) the remaining unsecured creditors (the “**Ordinary Creditor Class**”). The Proposal Funds are to be split in two baskets, \$650,000 for distribution to the Ordinary Creditor Class and \$350,000 for distribution to the Landlord Class.
- 3.1.2** Creditors in the Ordinary Creditor Class will receive payment in full for proven claims up to \$750. The balance will be split on a pro rata basis.
- 3.1.3** The Proposal Funds are to be paid to the Trustee on the later of i) December 15, 2020 and ii) five business days following the issuance of an Order of this Court approving the proposal and expiry of the appeal period.
- 3.1.4** Paragraph 4.1(c) of the Proposal calls for all crown claims as described in section 60(1.1) of the BIA to be paid in full in priority to the claims of other unsecured creditors within six months after court approval of the Proposal. According to the records of the company these crown claims are \$nil.
- 3.1.5** Paragraph 4.1(d) of the Proposal calls for any preferred claims to be paid in full within six months of the Proposal. There are no known preferred claims.
- 3.1.6** The complete terms of the Proposal were detailed in the Trustee’s Report to Creditors on the Proposal (“**Trustee’s Report on Proposal**”), attached hereto as **Appendix E**, and are not repeated herein.

4.0 Statutory Disclosure

- 4.1.1** On September 15, 2020, notice of the Proposal (the “**Notice**”), a copy of the Proposal, and the Trustee’s Report on Proposal were sent to the Company, the Office of the Superintendent of Bankruptcy and to every known creditor affected by the Proposal. A copy of the Notice, including a list of creditors, is attached hereto as **Appendix F**.
- 4.1.2** The following items were included with the Notice and are appended to this report as part of Appendix F:
- a) List of creditors with claims of \$250 or more according to the Company’s records;
 - b) Condensed statement of the estimated assets and liabilities of the Company;
 - c) Proof of claim form and proxy; and,
 - d) Voting letter.
- 4.1.3** On or about September 20, 2020 the Notice and all the above documents were also posted to the Trustee’s website.
- 4.1.4** In order to attend the meeting of creditors and vote on the Proposal, creditors were required to submit a proof of claim and request login information for the virtual meeting from the Trustee.

5.0 Creditor Meeting

- 5.1.1** The meeting of creditors (the “**Meeting**”) to consider the proposal was held on October 14, 2020 and was presided over by the Trustee. The Trustee reported to the creditors on the matters required pursuant to the BIA, including reviewing the Trustee’s Report on Proposal and the terms of the Proposal.
- 5.1.2** Including votes cast by voting letter prior to the Meeting and votes cast at the meeting, the results of the vote were:

	# of votes	\$ value
Ordinary Creditors		
Total votes cast	62	\$1,173,852
Votes For	60	\$1,162,802
% in favour	96.7%	99.1%
Landlords		
Total votes cast	11	\$2,379,525
Votes For	11	\$2,379,525
% in favour	100%	100%

- 5.1.3** A copy of the detailed voting summary is attached as **Appendix G**.
- 5.1.4** A copy of the minutes of the Meeting are attached as **Appendix H**.

6.0 Recommendation

6.1.1 The Trustee recommends that the Court issue an order approving the Proposal for the following reasons:

- a) The Proposal was accepted by more than the required majority in number and two-thirds in dollar value of creditors in both the Landlord Class and Ordinary Creditor Class;
- b) All statutory terms set out in the BIA have been complied with;
- c) Acceptance and implementation of the Proposal is expected to result in the highest and best result for the unsecured creditors; and,
- d) There does not appear to be any benefit to a bankruptcy in the circumstances.

All of which is respectfully submitted on this 15th day of October 2020.

MNP Ltd.
Solely in its capacity as Trustee under
The Proposal of
Educator Supplies Limited

Per:



Robert Smith CA, CPA, CIRP, LIT
Senior Vice-President