

**IN THE MATTER OF THE BANKRUPTCY OF
616900 N.B. INC. (FORMERLY GYMBOREE, INC.)**

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

BACKGROUND

616900 N.B. Inc., formerly known as Gymboree, Inc., (“616900”, or the “**Company**”) is a corporation governed by the *Business Corporations Act* (New Brunswick), SNB 1981, c. B-9, and an indirect wholly-owned subsidiary of Gymboree Holding Corporation, a Delaware corporation (together with other affiliated U.S. entities, the “**Gymboree Group**”). As at January 2019, the Gymboree Group operated a portfolio of three children’s clothing and accessories brands; Gymboree®, Janie and Jack® and Crazy 8®, each with a distinct product offering to retail consumers across the United States, Canada and Australia. 616900 operated the Canadian retail business of the Gymboree® brand from 49 retail stores in Alberta, British Columbia, Manitoba, Ontario and Nova Scotia (the “**Stores**”).

The Company was operationally dependent on entities of the Gymboree Group, as nearly all management and office staff supporting 616900’s operations were employees of the Gymboree Group and located at the head office in San Francisco, California.

The Gymboree Group, including on behalf and in respect of 616900, engaged in significant efforts to pursue a restructuring, refinancing or sale outside of formal insolvency proceedings and conducted a comprehensive strategic review of its retail operations and store profile. To assist with this review, in October 2018, the Gymboree Group retained (a) Berkeley Research Group (“**BRG**”) as financial advisor and Chief Restructuring Officer, and (b) Stifel, Nicolaus & Co., Inc. (together with its affiliate Miller Buckfire & Co., LLC) as investment banker. Restructuring efforts included seeking new financing and marketing all of the Gymboree Group’s assets for sale, either individually or en bloc as a going concern.

The financial circumstances facing the Gymboree Group – including its debt load and operating losses – continued to place significant pressure on the Gymboree Group to address its liquidity issues. In addition, 616900 was financially dependent on the other entities in the Gymboree Group, which entities were financing the Company’s persistent operating losses.

Despite its restructuring and marketing efforts, the Gymboree Group, including on behalf and in respect of 616900, in consultation with BRG, concluded that no viable going concern transaction was available in respect of the Gymboree® brand, and that the best alternative was to engage in an orderly liquidation of all Gymboree® branded stores, including all of 616900’s stores in Canada. Additionally, in early December 2018, the Gymboree Group announced its intention to close all Crazy 8® branded store locations, and to further reduce its overall retail footprint.

In order to effect a restructuring of the Gymboree Group, including a liquidation of the Gymboree® branded stores, on January 17, 2019, the Gymboree Group commenced proceedings under Chapter 11 of the United States Bankruptcy Code, and concurrent with these proceedings, 616900 filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”). KPMG Inc. (“**KPMG**”) was appointed proposal trustee under the NOI proceedings (the “**Proposal Trustee**”).

The principal objective of the NOI proceedings was to conduct an orderly liquidation of 616900’s assets and ultimately a wind-down of its operations through a court-supervised process. On January 24, 2019, the Court granted an order (the “**Sale Order**”), among other things, approving the liquidation of 616900’s inventory, and furniture, fixtures and equipment (“**FF&E**”) located in the Stores and distribution centre (the “**Sale**”) pursuant to an agency agreement (the “**Agency Agreement**”) entered into on January 17, 2019 by and among the Company, Gymboree Group, Inc., and a contractual joint venture comprising GA Retail, Inc., Tiger Capital Group, LLC, Gordon Brothers Retail Partners, LLC, and Hilco Merchant Resources, LLC (collectively with their respective Canadian affiliate assignees, the “**Agent**”). The Sale was to terminate no later than April 30, 2019.

Without the support of the Gymboree Group, the Company would have been unable to conduct a stand-alone liquidation sale in a cost-effective manner. Accordingly, the Gymboree Group negotiated the Agency Agreement on behalf of 616900 and agreed to continue to provide managerial, operational, and financial support to the Company during the NOI proceedings in order to ensure the orderly conduct of the Sale (being the “**Post-Filing Intercompany Arrangements**”, and ultimately creating the “**Post-Filing Intercompany Debt**”). The Sale Order also approved the Post-Filing Intercompany Arrangements, and a charge and security in favour of the Gymboree Group (the “**Intercompany Charge**”) over the Company’s property.

As set out in more detail in the reports of the Proposal Trustee to the Court during the NOI proceedings, the Agency Agreement was the result of an extensive solicitation process for an agent to serve as exclusive independent liquidation service provider to the Gymboree Group and 616900. Liquidation sales pursuant to the Agency Agreement commenced in the U.S. on January 18, 2019, following court approval in the Chapter 11 proceedings. The Sale commenced in 616900’s retail locations on or about January 25, 2019, following the issuance of the Sale Order, and concluded on or before April 8, 2019.

The only other significant assets of 616900 which were excluded from the Sale and of which the Proposal Trustee was aware, were the Store leases (the “**Store Leases**”). During the NOI proceedings, the Proposal Trustee and the Company received certain unsolicited inquiries from third parties expressing interest in certain of the Store Leases. Following consideration of these inquiries (and follow-up communications with the potential interested parties), the Company, in consultation with its advisors and the Proposal Trustee, determined that there would likely be no net benefit to the estate in pursuing these opportunities, particularly considering the costs in undertaking a court process to monetize the Store Leases. Accordingly, during the NOI proceedings, the Company issued disclaimer notices in respect of all Store Leases, effective following the conclusion of the Sale.

The proceeds from the Sale were insufficient to satisfy the Post-Filing Intercompany Debt, and therefore no funds were available to support a proposal to the Company’s unsecured creditors. During the NOI proceedings, the time during which 616900 had to file a proposal was extended by the Court up to April 12, 2019. As 616900 failed to present a proposal to its unsecured creditors and no further extension was

sought, on April 13, 2019, 616900 was deemed to have made an assignment in bankruptcy. KPMG was appointed trustee in bankruptcy (the “Trustee”) of the bankrupt estate.

On April 23, 2019, notice of the first meeting of creditors, a list of creditors with claims in excess of \$25, proof of claim form and proxy were sent to all known creditors of 616900 and on April 25, 2019, a notice of the bankruptcy and the first meeting of creditors was published in the National Post.

The activities of the Trustee since its appointment have primarily consisted of taking possession and control of the Company’s cash on hand at the bankruptcy date, and statutory work in accordance with the provisions of the BIA.

CAUSES OF BANKRUPTCY

In the 18 months preceding the NOI proceedings, the business of the Gymboree Group had experienced a significant decline in brick-and-mortar retail performance, profitability and general market uncertainty, which made it increasingly difficult for the Gymboree Group to support its cost and capital structure, including 616900’s operations. Like other Canadian retail businesses, 616900 had faced financial challenges and declining product sales resulting in operating losses in the past few years. As a result of the Company’s persistent losses, 616900 was entirely financially dependent on the other entities in the Gymboree Group, and at the date of the NOI filing, the vast majority of its liabilities were owed to the Gymboree Group.

In October 2018, the Gymboree Group, including on behalf and in respect of 616900, engaged in significant efforts to pursue a restructuring, refinancing or sale outside of a formal insolvency proceeding but were ultimately unsuccessful in doing so. In consultation with its legal and financial advisors, Gymboree Group concluded that no viable going concern transaction was available in respect of the Gymboree® brand, and that the best alternative was to engage in an orderly liquidation of all Gymboree® retail stores, including 616900’s stores.

As previously noted, during 616900’s NOI proceedings, the Court made an order, among other things, approving the Sale. Ultimately the proceeds from the Sale were insufficient to satisfy the Post-Filing Intercompany Debt and, accordingly, no proposal was made to 616900’s unsecured creditors. On April 13, 2019, the Company was deemed to have made an assignment in bankruptcy.

FINANCIAL POSITION/ASSETS

Cash

As noted above, substantially all of the assets of 616900 were liquidated in connection with the Sale. In order to provide sufficient funding for the bankruptcy proceedings, the Gymboree Group agreed that \$142,372.92 of the Company’s cash be left to form part of the estate’s property, rather than taken to reduce the Post-Filing Intercompany Debt, that is secured by the Intercompany Charge.

Certain other bank accounts in the name of the Company (the “**Designated Deposit Accounts**”) were designated as Agent’s collateral and excluded from the Company’s property by virtue of the Sale Order and the terms of the Agency Agreement. Accordingly, the Trustee did not take possession of the Designated Deposit Accounts.

Potential Recoverable Amounts

As part of the Post-Filing Intercompany Arrangements, the Company contributed \$2.0 million towards various letters of credit issued by the Gymboree Group, representing its allocable share to ensure the orderly conduct of the Sale. The Trustee is in discussions with BRG to understand the portion of that amount, if any, that is likely to be recoverable by the estate.

BOOKS AND RECORDS OF THE BANKRUPT

As at the date of this report, the Trustee is working with the Gymboree Group to identify books and records of 616900 in possession of the Gymboree Group. Additionally, on May 2, 2019 the Trustee sent a letter of direction to the offices of Baker Mackenzie in Toronto, Canada regarding books and records which the Trustee has been advised by the Gymboree Group are being held on the Company's behalf.

SECURED CREDITORS

The Company's Statement of Affairs indicates that there were no known secured creditors as at the date of bankruptcy.

During the NOI proceedings, in addition to – and in priority over – the Intercompany Charge, the Sale Order also granted a charge (the “**Administration Charge**” and collectively with the other charges granted by the Court in the NOI proceedings, the “**Charges**”) over the Company's property in favour of the Proposal Trustee and its counsel, Osler, Hoskin & Harcourt LLP (“**Osler**”), and the Company's counsel, Norton Rose Fulbright Canada LLP (the “**NOI Professional Fees**”). Pursuant to section 39 of the Sale Order, the Charges shall be binding on the Company and any trustee in bankruptcy appointed in respect of the Company notwithstanding, among other things, any bankruptcy that may result from the NOI proceedings or the provisions of any federal or provincial statute.

The Administration Charge is limited to \$750,000. As at the date of this report, the Trustee understands that certain NOI Professional Fees remain unpaid in the amount of approximately \$140,000. During the NOI Proceedings, the Gymboree Group paid the NOI Professional Fees directly on behalf of the Company, and such payments were added to the amount of the Post-Filing Intercompany Debt.

BRG has informed the Trustee that, based on known amounts as of May 1, 2019, the amount of the Post-Filing Intercompany Debt covered by the Intercompany Charge is approximately \$1.5 million, excluding the unpaid NOI Professional Fees. The Trustee understands that the Gymboree Group will be paying the unpaid NOI Professional Fees on the Company's behalf, in connection with the Post-Filing Intercompany Arrangements.

SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Trustee is in the process of reviewing 616900's records to determine what amounts, if any, are owed to the Company's terminated employees that would rank as secured claims pursuant to section 81.3 of the BIA. During the NOI proceedings, the Proposal Trustee had been advised by Gymboree Group that all wages and vacation pay due to employees prior to the NOI filing date were paid in full.

The Trustee is complying with the requirements of the *Wage Earner Protection Program Act* and will be advising Service Canada of all amounts owed by 616900 to its terminated employees, including any amounts owed for termination and severance pay.

PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there were no known preferred creditors as at the date of bankruptcy.

UNSECURED CREDITORS

The Company's Statement of Affairs indicates that there are 92 unsecured creditors with claims totaling approximately \$9.5 million, excluding unsecured amounts that may be owed to the Company's former landlords in respect of disclaimed leases, and the Company's terminated employees (which amounts were not calculated at the time of preparing the Statement of Affairs).

The Gymboree Group entities account for approximately 95% (\$8.9 million) of the total unsecured creditor claims as represented on the Company's Statement of Affairs.

PROVABLE CLAIMS

As at 5:00 p.m. on the date of this report, the Proposal Trustee has recorded Proof of Claims filed, as follows:

	Notes	Claims Filed (#)	Amount (\$)	Proxies in Favour of Trustee (#)	Amount (\$)
Secured		Nil	Nil	Nil	Nil
Unsecured	<i>1</i>	5	15,183,596.87	2	275,874.11
Total		5	15,183,596.87	2	275,874.11

Note 1: The Trustee received a total of five (5) proof of claim against 616900. The Trustee received four (4) proofs of claim containing unsecured claims, three (3) of these proofs of claim also included preferred claims. The Trustee received one (1) proof of claim containing a preferred claim.

PREFERENCE PAYMENTS AND TRANSFERS AT UNDER VALUE

As outlined below, the Trustee has taken preliminary steps toward a review of the Company's books and records with respect to potential fraudulent preferences, settlements, or transfers at undervalue, as defined in the BIA.

The Trustee has performed a preliminary trending analysis of disbursements made to third parties in the period from three (3) months prior to the date of the NOI filing, as compared to the same period in the prior year, in order to obtain a directional indication of payments which may be trending outside of the ordinary course of business. Based on this preliminary review, the Trustee found no indication of unreasonable payments in the reviewable period. Further, the Trustee identified 8 payments above \$100,000 for a total of \$2.1 million, which appear to have been made to logistics, and repairs and maintenance service providers used in the ordinary course of business.

As at the date of this report, the Trustee has obtained certain information in order to begin a preliminary review of disbursements and transactions with the Gymboree Group entities in the twelve (12) months prior to the date of the NOI filing. While the transactions reviewed to date appear to relate primarily to inventory purchases as the Trustee understands was customary practice, this analysis is ongoing.

It is the intention of the Trustee to discuss the scope of its review with the Inspectors to be appointed at the first meeting of creditors.

TRUSTEE'S FEES

In consideration for consenting to act in the proposal proceedings and ultimately the bankruptcy proceedings, the Company provided a deposit to the Proposal Trustee in the amount of \$75,000 (the "**Trustee Deposit**") to guarantee payment of the Proposal Trustee's (or the Trustee's) fees and disbursements. The Trustee Deposit is being held by the Trustee in an account segregated from the funds of the estate.

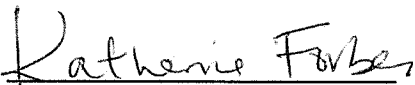
Additionally in connection with the proposal proceedings, the Company provided a deposit to the Proposal Trustee's counsel, Osler, in the amount of approximately \$50,000 (the "**Trustee's Counsel Deposit**"), to guarantee payment of fees and disbursements incurred acting in its capacity as counsel to the Proposal Trustee, or the Trustee. The Trustee's Counsel Deposit is being held by Osler.

OTHER

Further information related to 616900's NOI or bankruptcy proceedings may be obtained from KPMG's website at www.kpmg.com/ca/616900

Dated at Toronto, Ontario this 2nd day of May, 2019

KPMG Inc.,
in its capacity as Trustee of the estate of
616900 N.B. Inc.
and not in its personal capacity

Per: 
Katherine Forbes
Senior Vice President