Golden Rock Inc.

Golden Rock Inc. ("GR") operates 3 retail jewelry stores in Toronto. GR began operations 50 years ago and is now being operated by the founder's son. GR is owned through various holding companies and trusts on behalf of family members. The stores operate out of major malls in the GTA area. Mall traffic is significant however, the mall operating costs are also significant. The original store has been converted to the back-office location and is owned by a related company. The only retail activity is for watch and jewelry repairs.

Recent changes in consumer spending, the closing of several significant national jewelry chains and on-line shopping have contributed to lower margins and the GR having to use the maximum line of credit available to it.

You receive a call from BNS who has recognized the shift in the market place and is asking your firm to provide advice.

Question 1

What information would you like to see from GR or BNS before you could provide any advice?

You have received various pieces of information and the key points are as follows:

- There are 30 staff, wages are current, 15 are part time;
- Mall hours must be maintained in order not to breach the various leases;
- All leased premises have over 3 years remaining on each lease;
- The company uses the services of a bookkeeping firm that works remotely in Hamilton and this consultant works for several other entities;
- The insurance coverage requires 2 staff to be in the store always;
- The accounting records are not well organized. Your initial review of the records appears to indicate the bank accounts have not been balanced for the last several months, there are GL accounts on the balance sheet for AR and various inter-company liabilities that are not reconciled;
- There are specific store opening and closing procedures that must be followed;
- The Company is not current with HST and Source;
- HST is 3 months behind on filings and there is arrears of $125,000;
- Payroll is not done through a service, and based on what is provided to you they owe approximately $75,000 for source;
- The inventory between the 3 stores is $13 million retail, cost being 50%;
- The owner tells you there is no AR;
- There are various pieces that have been sent away for customer repairs;
- There are various customers who have placed deposits on various pieces. The owner is not certain as to what that dollar value is, but they have segregated the items and leave them in the safe;

- BNS provides margining on the inventory and has a GSA, currently at the maximum level of $4 million;
- GR advises they have found a new partner who is attempting to secure financing from another lender NBC. It is now June 2017 and the plan is to have BNS repaid at the end of September 2017.
- You become aware that when the company closed one of its 4 stores they claimed inventory went missing. They have contacted the insurance company and have made a claim for $2.3 million of missing diamonds and various rings;
- The owner has asked that BNS not report this to NBC and the potential new partner as he fears this will end any chance for him to raise funds to clear BNS.

Question 2

BNS would like you to explain what options are available?

Question 3

What are the issues in this situation?

It is now the end of September and GR has not been able to close the deal with the new partner and NBC. It is not clear when that deal will happen. You are aware the holiday season is likely the best time to liquidate the inventory. There has been no change in the margin account and GR has not purchased any new inventory although they continue to sell product over the summer and fall.

Question 4

What are the steps for the lender to appoint you as Receiver?

Question 5

How would you manage the employees, inventory control and the customer deposits?

Question 6

What are the operational considerations?