

COMPREHENSIVE CASE I – Solution
RECEIVERSHIPS CQP 2018

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

- last external accountant prepared financial statement;
- most recent internal prepared FS
- last reporting to BNS
- most recent payroll, detailed
- most recent source and HST filings
- AR detailed
- AP detailed
- inventory reporting by store
- sale by store for the last couple of years

2) What options are available in this situation?

- Informal option, voluntary liquidation:
 - The company could also retain you as informal monitor to report on the liquidation process to the secured creditor
 - Timing is critical to take advantage of holiday season, discounts would need to be significant to liquid inventory
 - This option is viable; however, it would be best to obtain an engagement letter from the secured creditor with details on deliverables, and payment/guarantee of fees
 - Does not provide for exit out of leases unless malls consent
 - The amount of AP is not known, to see what settlements can be reached
- BIA options:
 - Division 1 proposal:
 - the company files a proposal to the unsecured creditors, generally. A proposal can be made to secured creditors, however, if the secured creditor does not vote for the proposal, the secured creditor is not bound by the proposal. There is a significant potential for BNS to suffer a loss on this file, they might support a restructuring plan
 - If you assume customer deposits are unsecured, this could create problems in the store
 - Proposals generally are made when the business is viable. Given the case facts, GR is not profitable, can the company make decisions to be profitable
 - Could reduce the number of stores by terminating leases
 - Would need BNS support for an extended period while they liquidate inventory
 - Division I liquidation proposal:
 - Provides for stay and allows the company to liquidate in a more orderly manor
 - Can get out of leases as required
 - Bankruptcy:
 - Formal liquidation process whereby the Trustee liquidates assets of the company to pay claims as per the priorities set out in the BIA (secured, preferred, and unsecured claims)
 - Court Appointed Receiver, before holiday season starts.

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3) What are the issues in this situation?

- Losing money, can it stop?
- Why so many stores, what can be done to reduce?
- Concerning about the inventory loss and comments not to disclose, goes to character and puts BNS in a difficult situation
- Are you now sure diamonds are really diamonds or fakes, should independent party go in and certify stores inventory?
- Books and records are a mess, it will take time to likely reconcile source and HST
- Management of customer deposits and layaways could have negative impact if public is aware BNS appointed receiver
- Likely specialize staff, if receiver is appointed, can key staff be retained to work, will reduce their WEPP claim, potentially
- How to manage the work sent out, needs to be paid to get back to the store, need to determine who has it, will they complete the work and send it back to the store.
- Overall running of the stores will be complicated and expensive

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

- Issue demands and BIA notices, Section 244
- Prepare engagement letter for private appointment
- For court appointment need to provide consent to act to Banks lawyer
- Lawyers need to arrange for a court date for court appointed
- PPSA notices need to be issued. Some lawyers issue at the same time, some wait
- You should have a meeting with the lender and their lawyer to ensure you review the pros and cons for both options
- Private appointments are being fewer and fewer

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

- Employees
 - Identify key staff members by store
 - Determine what the arrears are in payroll and see what WEPP claim would be
 - Need to offer them more to stay
 - Balance, ensure you have accurate payroll information to complete WEPP
 - Ensure all alarm codes are cancelled
- Inventory Control
 - Hire a third party to count and reconcile
 - Hire an appraiser to look at all diamond pieces to confirm the diamond in the setting is what is being offered for sale
 - Continue alarm company
 - Change safe combination and alarm code (to avoid smoke machine1)
 - Adjust online inventory if going to maintain that service
 - Have liquidation firms submit proposals once you have a complete list
 - Tie inventory adjustments to insurance claim filed

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- Take photos, video of stores upon appointment
- Customer deposits
 - Obtain a list
 - Determine if product is in store
 - If coming from supplier, can we pay for it and still make money or do we reject the shipment and advise customer there are out of luck
 - If we can make money to complete a transaction, we should

6) What are the operational considerations?

- Staffing
- Inventory control
- One, two or three stores
- Need to comply with mall hours, or decide with mall manager(s)
- Hire a liquidation firm, need a net minimum, will you get it with nature of goods?
- Liquidation firm should ensure all inventory is reported on
- Crowd management
- Get open before holiday rush
- Stay open post-holiday rush, how long
- Insurance
- Alarm company
- Do you need to go back to court for direction?
- How do you deal with the insurance claim?
- Warranty, ensure bills of sale state “Final, no returns or exchanges accepted”
- Can you use the third party accountant to keep the records up to date