



Deloitte Restructuring Inc.

1190 Avenue des
Canadiens-de-Montréal
Suite 500
Montréal QC H3B 0M7
Canada

Phone: 514-393-7115
Fax: 514-390-4103
www.deloitte.ca

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL
DIVISION No.: 01-Montréal
COURT. No.: 500-11-052159-171
ESTATE. No.: 41-2223474

S U P E R I O R C O U R T
Commercial Division

**IN THE MATTER OF THE
PROPOSAL OF:**

BCBG MAX AZRIA CANADA INC., a legal person,
duly constituted under the *Canada Business
Corporations Act*, having its registered office at 1000
De La Gauchetière Street West, suite 2100, Montréal,
Quebec, H3B 4W5

Debtor/Petitioner

– and –

DELOITTE RESTRUCTURING INC.
(Martin Franco, CPA, CA, CIRP, LIT, designated
responsible person), having a place of business at
1190 Avenue des Canadiens-de-Montréal, suite 500,
Montréal, Quebec, H3B 0M7

Trustee

**REPORT OF THE TRUSTEE ON THE MONITORING OF THE DEBTOR'S BUSINESS AND
FINANCIAL AFFAIRS AND SALE OF ASSETS OUTSIDE THE ORDINARY COURSE OF BUSINESS
(Subparagraph 50.4(7)(b)(ii), Subsection 50.4(9) and Section 65.13 of the BIA)**

BACKGROUND

I, the undersigned, Martin Franco, CPA, CA, CIRP, LIT, with the firm of Deloitte Restructuring Inc., Trustee acting in the matter of the Notice of intention to make a proposal ("**NOI**") of BCBG Max Azria Canada Inc. ("**BCBG Canada**" or the "**Company**"), the Debtor, am hereby reporting my principal observations regarding the Debtor's business and financial affairs to the Court pursuant to Subparagraph 50.4(7)(b)(ii) of the *Bankruptcy and Insolvency Act* ("**BIA**").

1. The above-mentioned Debtor filed a NOI on March 1, 2017.
2. On March 3, 2017, the Honourable David R. Collier, JSC, granted the Order approving a DIP Financing and a DIP Charge, an Administration Charge, a D&O Charge, a Consulting Agreement and Sale Guidelines and granting ancillary relief (the "**First Order**"), as appears from Court record.
3. On March 29, 2017, BCBG Canada filed a petition for an extension of delay in accordance with Subsection 50.4(9) of the BIA. Said petition was granted, thereby extending the period in which to file a proposal until May 15, 2017 (the "**First Extension Period**").

4. On May 12, 2017, BCBG Canada filed a petition for an extension of delay in accordance with Subsection 50.4(9) of the BIA. Said petition was granted, thereby extending the period in which to file a proposal until June 29, 2017 (the "**Second Extension Period**").
5. On June 28, 2017, BCBG Canada filed a petition for an extension of delay in accordance with Subsection 50.4(9) of the BIA. Said petition was granted, thereby extending the period in which to file a proposal until August 11, 2017 (the "**Third Extension Period**").
6. In preparing this fifth report (the "**Fifth Report**"), the Trustee has relied upon unaudited financial information, BCBG Canada's records and its discussion with the management of BCBG Canada ("**Management**"), the chief Canadian restructuring advisor ("**CCRA**") and their advisors. While the Trustee has reviewed the information, he has not performed an audit or otherwise verified such information.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this report are as defined in the First Application, in previous Trustee's reports, in the application for approval of an asset sale, assignment of agreement, issuance of a vesting order and extension of time to file a proposal (the "**Application**").
8. BCBG Canada is an indirect wholly owned subsidiary of BCBG Max Azria Global Holdings, LLC ("**BCBG Global Holdings**"), a Delaware corporation, and the Canadian operating entity of the BCBG Max Azria group of companies (the "**BCBG Group**"), a fashion design, wholesale, and retail conglomerate specializing in women's apparel and accessories founded in 1989 and headquartered in California. The Company operated in Canada at the time of filing the NOI in 51 retail and factory stores (the "**Stores**") and 17 licensed partner shops within Hudson's Bay Company ("**HBC**") retail locations (the "**Partner Shops**").
9. As set out further below, the Debtor negotiated an asset purchase agreement to sell certain businesses and related assets, including BCBG Canada's Partner Shops and the assets relating thereto (the "**Canadian Assets**") (collectively, the "**Acquired Assets**") to GBG USA Inc. (the "**OpCo Purchaser**") and GBG Acquisition ULC (jointly with the OpCo Purchaser, the "**Purchasers**").
10. The purpose of this Fifth Report is to inform this Honourable Court on the:
 - a. Activities of the Debtor;
 - b. Sale of the Canadian Assets in accordance with the Application;
 - c. Cash flow projections;
 - d. Extension of the time limit to file a proposal; and
 - e. Trustee's recommendation.

ACTIVITIES OF THE DEBTOR

11. On March 3, 2017, following the granting of the First Order, BCBG Canada commenced a liquidation sale of all of its inventory and furniture, fixtures, and equipment at its Stores (the "**Liquidation Sale**"), with the assistance of its consultants, Gordon Brothers Canada ULC and Merchant Retail Solutions ULC.
12. As of May 31, 2017, the liquidation and wind-down of BCBG Canada's Stores was completed.
13. BCBG Canada has continued to operate the Partner Shops business in the ordinary course since the date of the NOI, and continues to do so.
14. On March 28, 2017, an Order was granted in the United States in the context of the larger restructuring proceedings of the BCBG Group under Chapter 11 of the Bankruptcy Code (the

"Chapter 11 Proceedings"). The Order approved the commencement of a thorough sales and solicitation process (the **"Sales Process"**) for the assets of the BCBG Group, including the Partner Shops business.

15. As part of the Sales Process, 137 potentially interested parties were approached. The Sales Process solicited different types of potential purchasers, namely sponsors, strategic buyers, brand buyers, and other buyers like liquidators. In total, 67 parties executed a non-disclosure agreement for purpose of accessing a data room.
16. By the bid deadline of May 19, 2017, a number of bids had been received.
17. On June 9, 2017, BCBG Global Holdings, BCBG Canada, and certain of their affiliates (the **"Sellers"**) entered into an asset purchase agreement (the **"Asset Purchase Agreement"**) with the OpCo Purchaser for the Acquired Assets. A copy of the Asset Purchase Agreement is filed in support of the Application as Exhibit P-2.
18. Also on June 9, 2017, certain Sellers other than BCBG Canada entered into a separate asset purchase agreement with Marquee Brands, LLC (the **"IPCo Purchaser"**).
19. The Purchasers are not related parties to BCBG Canada under Subsection 65.13(6) of the BIA.
20. The IPCo Purchaser will purchase the BCBG Global Holdings' intellectual property and certain other assets. The IPCo Purchaser will not be acquiring any of the Canadian Assets.
21. The Purchasers negotiated a transfer, assignment, and assumption agreement (the **"Transfer Agreement"**) with BCBG Canada to fully document the sale of the Canadian Assets, which is in final form and ready to be executed, subject to the approval of this Court.

SALE OF THE CANADIAN ASSETS

22. As mentioned in the First Report, in order to ensure liquidity throughout the NOI proceedings, the Debtor entered into an agreement (the **"DIP Agreement"**) with the ABL Lenders to continue to provide the revolving facility of up to \$15.0M to the Debtor (the **"DIP Facility"**).
23. The DIP Facility is secured by an \$18.0M priority charge over all of the assets and undertakings of BCBG Canada.
24. As of July 19, 2017, the outstanding amount due under the DIP Facility is approximately \$0.8M.
25. The Canadian Assets are mainly composed of the inventory located in the Partner Shops (the **"Inventory"**) and the agreement between BCBG Canada and HBC pursuant to which the Partner Shops operate (the **"HBC Agreement"**). The furniture and fixtures in the Partner Shops belong to HBC.
26. The purchase price for the Acquired Assets is US\$23.0M (the **"Purchase Price"**). The portion of the Purchase Price which is payable to BCBG Canada as consideration for the Canadian Assets is US\$0.5M (converted to C\$0.63M) (the **"Canadian Purchase Price"**).
27. As it appears in the Transfer Agreement, the Canadian Assets are sold on an "as is, where is" basis and GBG Acquisition ULC will offer continued employment to all remaining employees of BCBG Canada working in the Partner Shop operations.

BCBG MAX AZRIA CANADA INC.	
Projected DIP Facility Surplus (Deficit) from Sale Transaction	
(Unaudited, in C\$000)	
	Amount
RECEIPTS	
Canadian Purchase Price (US\$500, converted @ 1.26)	630
	630
OBLIGATIONS	
Outstanding DIP Facility Balance (July 19, 2017)	(795)
	(795)
PROJECTED DIP FACILITY DEFICIT	(165)

28. As indicated above, after taking into consideration the Canadian Purchase Price and even though the totality of the Canadian Purchase Price is remitted to the ABL Lenders, they will have a projected deficit of approximately \$0.2M. The projected deficit considers the Debtor will pay its outstanding obligations post transaction and, as a consequence, the cash on hand will be spent as presented in Appendix B.
29. BCBG Canada retained the services of Hilco Valuation Services, LLC (“**Hilco**”) to provide an appraisal of the net orderly liquidation value (“**NOLV**”) of the Inventory. The NOLV of the Inventory is estimated to be approximately \$0.5M, before consideration of professional fees other than Hilco’s that would be required to conduct and monitor the liquidation, which is lower than the Canadian Purchase Price of approximately \$0.63M. A copy of the Hilco report is filed in support of the Application as Exhibit P-4.
30. The Canadian Assets also include the HBC Agreement. The HBC Agreement has a minimal value on a standalone basis given that said agreement may be canceled or terminated at any time upon with a minimum one hundred eighty (180) days written notice to the other party.
31. As appears in the Application, BCBG Canada has requested the assignment of the HBC Agreement to the OpCo Purchaser. Based on the Trustee’s discussions with the Debtor, it is understood that HBC does not object to the assignment.
32. Based on the above, the trustee is of the opinion that it is unlikely that a liquidation of the Inventory will allow BCBG Canada to generate a realization value that would allow a full repayment of the DIP Facility to the ABL Lenders and as a result, it is unlikely BCBG Canada would generate a surplus for its unsecured creditors. Furthermore, the Sale Transaction, as defined below, offer more certainty in respect to the amount to be received and is likely to be less expensive in professional fees than a liquidation of the Inventory. The ABL Lenders are supportive of the sale of the Canadian Assets.
33. The sale to the Purchasers and the IPCo Purchaser (“**Sale Transaction**”) is forecasted to close on or about July 31, 2017, subject to certain closing conditions as set forth in the Application, including this Court’s issuance of approval of the sale of the Canadian Assets and vesting order sought therein.

CASH FLOW PROJECTIONS

Period from June 19 to July 16, 2017

34. When the Application for the Extension was filed on June 28, 2017, the Debtor submitted to the Official Receiver a projected cash flow statement covering the extension period from June 19 to August 13, 2017, together with the report by the Debtor and the Trustee’s report,

pursuant to Subsection 50.4(2) of the BIA.

35. Since the filing of the NOI, the Debtor is paying its suppliers in the ordinary course of business based on negotiated terms or on a cash-on-delivery basis. The Debtor advises that it is working to pay all unpaid liabilities since the filing.
36. Appendix A provides the comparative cash flow statement for the 4-week period ended July 16, 2017. Net cash flow of approximately \$(0.5M) for the 4-week period was approximately \$1.1M greater than initially forecasted:
- a. Total receipts for BCBG Canada were approximately \$1.0M, or approximately \$0.5M greater than initially forecasted due to the closure and deposit from an idle savings account held in the Debtor's name, which was not swept into their operating accounts until the end of June.
 - b. Total disbursements were approximately \$1.5M or approximately \$0.6M less than initially forecasted. This is primarily due to the following:
 - i. Trade vendor payments (third party) were \$0.2M less than initially forecasted due to timing.
 - ii. Sales taxes on expenses were \$0.1M less than initially forecasted.
 - iii. Sales taxes on remittance were \$0.1M less than initially forecasted.
 - iv. Liquidation fees and expense were \$0.2M less than initially forecasted primarily due to timing.

37. At the time of writing this Fifth Report, BCBG Canada advised the Trustee that it was in compliance with the conditions under the Canadian Forbearance Agreement, including its compliance with the Borrowing Base Calculation, with the exception of two Events of Default. The Company was provided a waiver for both of the Events of Default; however in weeks subsequent to the Events of Default, waivers were not provided for the continued negative variance defaults. The ABL Lenders were informed. The Trustee was provided with a copy of the Borrowing Base Certificates duly signed by the CCRA since the commencement of these proceedings.

Period from July 17 to September 3, 2017

38. In support of its fourth application for an extension of the time limit to file a proposal, the Debtor revised and extended its cash flow projections for the period from July 17 to September 3, 2017 (refer to Appendix B and summary below).

BCBG MAX AZRIA CANADA INC.	
Summary Cash Flow Forecast	
For the 7-week period ending September 3, 2017	
(Unaudited, in C\$000)	
	Amount (\$)
Receipts	714
TOTAL RECEIPTS	714
DISBURSEMENTS	
Liquidation fees and expenses	(195)
Sales taxes on expenses and remittances	(173)
Trade vendor payments (third party)	(225)
Payroll and related payments	(160)
Professional fees	(250)
Credit card and bank fees	(4)
TOTAL DISBURSEMENTS	(1,007)
NET CASH FLOW FROM OPERATIONS	(293)

39. The projections reflect the following general assumptions:
- a. Granting of the extension to file a proposal to August 31, 2017;
 - b. Continuation of the Partner Shops until the sale of the Canadian Assets; and
 - c. Compliance with the conditions under the Canadian Forbearance Agreement, including its compliance with the Borrowing Base Calculation.

EXTENSION OF THE TIME LIMIT TO FILE A PROPOSAL

40. The Debtor advised the Trustee of its intention to file a fourth application for the granting of the extension of the time limit to file a proposal to its creditors pursuant to Subsection 50.4(9) of the BIA to August 31, 2017.
41. The Company requires additional time to (i) complete the sale of the Canadian Assets, including this Court's approval of the Application and conclusions sought therein and any deal with any post-closing issues, and (ii) potentially formulate a proposal.

TRUSTEE'S RECOMMENDATION

42. The Trustee is supportive of the sale of the Canadian Assets based on the following:
- a. The Asset Purchase Agreement represents a bona fide offer resulting from a process to maximize the value of the Canadian Assets, which was conducted by the BCBG Group in connection with the Chapter 11 Proceedings through a lengthy Sales Process where 137 potential purchasers were approached;
 - b. The Canadian Purchase Price is greater than the appraised NOLV of the Inventory;
 - c. The ABL Lenders are supportive of the sale of the Canadian Assets despite the projected deficit of \$0.2M;
 - d. The creditors will not suffer greater losses as compared to a bankruptcy; and
 - e. The contemplated sale will enable the continuation of the operations and the preservation of approximately 100 jobs at the Partner Shops located in Ontario, Quebec, British Columbia, and Alberta.

43. Given the reasons noted above, the Trustee is therefore of the view that the sale of the Canadian Assets provides the greatest benefit to BCBG Canada's stakeholders.
44. The Trustee is of the opinion, based on the requested relief in the Application, that:
- a. It is in the creditors' best interest that an extension of the stay proceedings be granted in order to allow BCBG Canada additional time for the reasons detailed in paragraph 41;
 - b. BCBG Canada has acted, and is continuing to act, in good faith and with due diligence; and
 - c. No creditor will be materially prejudiced by the granting of the extension.
45. The Trustee is therefore supportive of the Application and the conclusions sought therein.

DATED AT MONTREAL, this 21st day of July,
2017.

DELOITTE RESTRUCTURING INC.
Trustee in re: the proposal of
BCBG Max Azria Canada Inc.



Martin Franco, CPA, CA, CIRP, LIT
Senior Vice president

APPENDIX A

BCBG Max Azria Canada Inc.
Weekly Cash Flow Forecast
For the 4-week period ended July 16, 2017
(Unaudited, in C\$000)

	Cumulative Period: 4 Weeks Ended July 16, 2017		
	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>
TOTAL RECEIPTS	495	1,013	518
DISBURSEMENTS			
Payroll & related payments	(150)	(179)	(29)
Trade vendor payments (third party)	(300)	(72)	228
Sales taxes on expenses	(153)	(97)	56
Sales taxes remittance	(448)	(384)	64
Operating leases, credit card and bank fees	(4)	(3)	1
Liquidation fees and expenses	(926)	(731)	195
Professional fees	(50)	-	50
TOTAL DISBURSEMENTS	(2,031)	(1,466)	565
NET CASH FLOW FROM OPERATIONS	(1,536)	(453)	1,083
Beginning cash balance	2,039	2,039	-
Net cash flow	(1,536)	(453)	1,083
Net Revolver draw / (repayment)	(403)	(639)	(236)
ENDING CASH BALANCE (COMPANY)	100	947	847
Add: outstanding checks	-	24	24
ENDING CASH BALANCE (BANK)	100	923	823
CONTINUITY OF FINANCING			
Canadian Revolver			
Opening balance	1,391	1,391	(0)
Pre-filing repayment	-	-	-
Net Post-filing repayment	(495)	(1,013)	518
Post-filing draws	92	374	(282)
ENDING REVOLVER BALANCE	988	752	236

APPENDIX B

BCBG MAX AZRIA CANADA INC.
Weekly Cash Flow Forecast
For the 7-week period ending September 3, 2017
(Unaudited, in C\$000)

<i>Week Ended >>>></i>	Note	23-Jul-17	30-Jul-17	06-Aug-17	13-Aug-17	20-Aug-17	27-Aug-17	03-Sep-17	Total
Receipts	1	84	-	630	-	-	-	-	714
TOTAL RECEIPTS		84	-	630	-	-	-	-	714
DISBURSEMENTS									
Payroll and related payments	2	-	(75)	(85)	-	-	-	-	(160)
Trade vendor payments (third party)	3	(50)	(75)	(75)	(25)	-	-	-	(225)
Sales taxes on expenses	4	(42)	(10)	(23)	(10)	-	-	-	(85)
Sales taxes remittance	4	-	-	(50)	-	-	(38)	-	(88)
Credit card and bank fees	5	-	(4)	-	-	-	-	-	(4)
Liquidation fees and expenses	6	(195)	-	-	-	-	-	-	(195)
Professional fees	7	(75)	-	(125)	(50)	-	-	-	(250)
TOTAL DISBURSEMENTS		(362)	(164)	(358)	(85)	-	(38)	-	(1,007)
NET CASH FLOW FROM OPERATIONS		(278)	(164)	272	(85)	-	(38)	-	(293)
Beginning cash balance		923	645	481	123	38	38	-	923
Net cash flow		(278)	(164)	272	(85)	-	(38)	-	(293)
Net Revolver draw / (repayment)		-	-	(630)	-	-	-	-	(630)
ENDING CASH BALANCE		645	481	123	38	38	-	-	-
CONTINUITY OF FINANCING									
Canadian Revolver									
Opening balance		752	795	795	165	165	165	165	752
Pre-filing repayment		-	-	-	-	-	-	-	-
Post-filing repayment		(84)	-	(630)	-	-	-	-	(714)
Post-filing draws		127	-	-	-	-	-	-	127
ENDING REVOLVER BALANCE		795	795	165	165	165	165	165	165

To be read in conjunction with the attached Notes and Summary of Assumptions.

Notes and Summary of Assumptions

1. *Receipts* include product sales from Partner Shops and the proceeds from the sale of the Canadian Assets. Forecast product sales from Partner Shops are net of all partner fees (including credit card fees) and are based on historical sales patterns on a weekly basis.
2. *Payroll and related payments* include Partner Shops, corporate-related payroll, and fringe benefits. Amounts are Management's estimate based on current average payrolls of hourly, temporary and salaried employees.
3. *Trade vendor payments (third party)* include payments to suppliers as well as amounts for security, maintenance and equipment based on historical expense patterns. Amounts exclude sales tax.
4. *Sales taxes on expenses and remittance* include sales taxes on remittance which reflect the net PST, HST, and GST amounts remitted (collected) to (from) the provinces and federal government in line with the prior month's activity. Sales taxes on expenses are calculated based on the amount disbursed (paid weekly/biweekly). Amounts are Management's best estimate based on historical results.
5. *Credit card and bank fees* include credit card fees which are forecast at 1.6% of all credit sales and monthly bank fees determined based on historical expense patterns.
6. *Liquidation fees and expenses* include the unpaid Consultant Fee, supervision fee, and advertising and

freight costs related specifically to the Liquidation Sale.

7. *Professional fees* include estimated fees for the Trustee, its legal advisors, the CCRA and the Company's legal counsel to be incurred by the Company for its restructuring.