

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF
THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
STEVE'S T.V. & APPLIANCES LIMITED
OF THE CITY OF KITCHENER
IN THE PROVINCE OF ONTARIO**

**FIRST REPORT OF DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE**

APRIL 5, 2017

INTRODUCTION

1. Steve's T.V. & Appliances Limited (o/a Steve's TV and Audio) ("**Steve's TV**" or the "**Company**") operates an independent retail electronic business from two leased retail units in Kitchener, Ontario.
2. The Company operates 3 divisions: (1) the electronics sales division which is retail sales of video and audio equipment, (2) the DVD division which is retail sales and rentals of DVDs, BluRay, and (3) the custom audio and video division, which provides customized installation of home theatres, audio and home automation.
3. The Company's primary lender is the Canadian Imperial Bank of Commerce ("**CIBC**"). CIBC provided the Company with a revolving line of credit loan, secured by a first-ranking security over all of the Company's assets (the "**CIBC Loan**").
4. On March 13, 2017, Steve's TV, with advance notice to CIBC, filed a Notice of Intention to Make a Proposal ("**NOI**") pursuant to the Part III, Division I of the *Bankruptcy and Insolvency Act* ("**BIA**"). Deloitte Restructuring Inc. ("**Deloitte**") was appointed as the trustee (the "**Proposal Trustee**") under the NOI.

5. Over the past several years, Steve's TV has experienced declining sales due to lower sales volumes in its electronic division as a result of increased competition from 'big-box' stores and lower sales volumes for the DVD rental and sales division as a result of increased video-on-demand and streaming.
6. Prior to the NOI filing, the Company employed 16 employees.
7. Last year, on April 14, 2016, CIBC issued demand for payment to Steve's TV in respect of all indebtedness due under the CIBC Loan.
8. On May 11, 2016, CIBC entered into a forbearance agreement with Steve's TV which was later amended in August, 2016 and November, 2016 (collectively, the "**Original Forbearance Agreement**"). The Company continued to operate under the Original Forbearance Agreement until early 2017. The Company breached the conditions of the Original Forbearance Agreement in the early months of 2017 and entered into a revised forbearance agreement with CIBC on February 14, 2017 ("**Revised Forbearance Agreement**").
9. The Revised Forbearance Agreement contained terms that effectively entitled CIBC to fully enforce its credit agreement, security and guarantee in the event of a NOI filing.
10. The Proposal Trustee has been advised by CIBC that it has agreed not to exercise its enforcement rights at this time and has allowed the Company to continue with the NOI proceedings.
11. Attached hereto as **Appendix "A"** is a copy of the NOI notice to creditors, including the creditor listing and the Certificate of Filing an NOI.
12. On March 21, 2017, the Company filed a cash flow projection and related documents pursuant to s. 50.4(2) of the BIA (the "**Cash Flow Projection**"). Attached hereto as **Appendix "B"** is a copy of the Cash Flow Projection.

PURPOSE OF REPORT

13. The purpose of this report is to provide the Court with a report of the activities of the Company since the inception of the NOI in support of its application for an extension of time for proposal filing from the expiry of the initial 30-day period (i.e. from April 11, 2017) to May 26, 2017 pursuant to s. 50.4(9) of the BIA.

COMPANY'S ACTIVITIES

14. During the post-NOI period, the Company has continued business operations. Operating activities have included completed new sales, realizing on outstanding accounts receivable balances and sale of existing inventory.
15. The Company has undertaken certain operating cost reductions and restructuring activities during the NOI period in an attempt to restructure its business and maximize value for the creditors, including:
 - a. Reducing the operating workforce to (following the filing of the NOI, the Company terminated 8 employees);
 - b. Liquidating excess electronic inventories through the retail store;
 - c. Proposing and successfully negotiating a lower rent structure and exploring other premises options with the landlord;
 - d. Contacting prospective customers about custom audio and video opportunities; and
 - e. Reviewing operating alternatives for the DVD and custom audio and video businesses.
16. The Company and the Proposal Trustee has been in regular communications with the key stakeholders, including CIBC, Wells Fargo, Entertainment One, certain suppliers and former employees. To date, the Company advises the Proposal Trustee that there have been no objections to the Company's business plans and activities since the NOI proceedings.

17. To date, due to the relatively low secured debt levels and proactive steps taken by the Company, the secured creditors have not proposed any alternative enforcement remedies (e.g. receivership or bankruptcy).

DEBTOR'S REQUEST FOR AN EXTENSION

18. The initial 30-day stay period under the NOI expires on April 12, 2017. The Company is seeking a 45-day extension of the stay in order to continue reducing inventories and to provide additional time to explore available alternatives to maximize recoveries to the creditors. If the requested extension is not granted, the Company will be automatically deemed bankrupt.

19. The Proposal Trustee has been monitoring the Company and the actual cash flows have been comparable to the Cash Flow Projection.

20. Enclosed as **Appendix "C"** is a copy of actual cash flows of the Company.

21. Enclosed as **Appendix "D"** is a revised cash flow statement incorporating the actual results to date and projected results for the extended weeks up to and beyond the proposed 45-day extension period.

CONCLUSION

22. The BIA sets out criteria under s. 50.4 (9) for the Court to consider in granting the extension:

- a. The Proposal Trustee is satisfied that the Company has acted and is acting in good faith and with due diligence in these proceedings, which addresses s. 50.4 (9)(a) of the BIA .
- b. The Proposal Trustee's view is that it is difficult to predict the likelihood of creditors accepting a proposal from the Company as of the date of this report; however, a deemed bankruptcy after the initial stay would likely result in lower recoveries to creditors since net asset realizations in a bankruptcy liquidation are generally lower than asset realizations in a going concern or an orderly wind-down. This fact addresses s. 50.4 (9)(b) of the BIA.
- c. The Proposal Trustee is satisfied that none of the Company's creditors will be materially prejudiced by the extension of time sought by the Company to make a proposal in light of the supportive communications to date and the value enhancement opportunities currently being undertaken by the Company.

All of which is respectfully submitted this 5th day of April, 2017.

DELOITTE RESTRUCTURING INC.
in its capacity as the Proposal Trustee under NOI
filed by Steve's T.V. & Appliances Limited
and not in its personal capacity



Per: Rob Biehler, CPA, CA, CIRP, LIT
Senior Vice President