

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

**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**

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

MAY 19, 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. 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.

5. 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.
6. 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**").
7. 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.
8. 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.
9. 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.
10. Prior to the NOI filing, the Company employed 16 employees.
11. On April 12, 2017, the Ontario Superior Court of Justice (the "**Court**") granted an order extending the time for the Company to file a proposal to May 27, 2017 (the "**First Extension Order**").

PURPOSE OF REPORT

12. The purpose of this report is to provide the Court with a report of the activities of the Company since the First Extension Order in support of its application for a further extension of time for filing a proposal to July 11, 2017, as permitted under s. 50.4(9) of the BIA.

COMPANY'S ACTIVITIES

13. During the post-NOI period, the Company has continued business operations.
Operating activities have included completing new sales, purchasing required inventory on a cash-on-delivery basis, realizing on outstanding accounts receivable balances and selling existing inventory.
14. When possible, the Company has endeavored to use existing inventory from the electronics sales division when completing jobs through the custom audio and video division in order to improve recoveries on the 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 (i.e. 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 jobs; and,
 - e. Reviewing operating alternatives for the DVD and custom audio and video businesses.
16. The Company has been attempting to divest or seek an investor for the DVD division. The Company had been in discussions with three interested parties to negotiate a sale of the DVD division as a turn-key transaction. However, none of these discussions resulted in a purchase offer.
17. In addition, the Company facilitated a walk-through with an auctioneer / appraiser to discuss *en bloc* and forced liquidation options. Per the opinion of the auctioneer / appraiser, the Company would receive a better return on the inventory through an orderly liquidation conducted by the Company rather than a forced liquidation conducted by the auctioneer.

18. Following the inability to sell the DVD Division as a going-concern, the Company is now preparing to liquidate the DVD Division inventory through a retail liquidation sale. The plan is for the liquidation sale to begin in early June 2017.
19. The Company and the Proposal Trustee have been in regular communications with the key stakeholders, including CIBC, Wells Fargo, Entertainment One, certain suppliers and 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.
20. 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

21. The initial 30-day stay period under the NOI expired on April 12, 2017. The stay period was extended by 45 days to May 27, 2017 pursuant to the First Extension Order.
22. The Company is seeking a further 45-day extension of the stay to complete profitable new contracts and to carry out an orderly liquidation sale of the DVD division, given that attempts to sell it as a going concern have not been successful. This alternative has the greatest chance of maximizing recoveries for the creditors.
23. If the requested extension is not granted, the Company will be automatically deemed bankrupt.
24. The Proposal Trustee has been monitoring the Company. Actual inflows have been comparable to the projections, however, reported new sales were significant and the commencement of the liquidation of existing electronics and DVD inventory have not occurred during the projection period. The cash outflows are approximately \$115,000 higher in the purchases category because the Company's orders for new custom projects have been significantly higher than anticipated. The Company estimates that there are approximately \$100,000 to \$150,000 of orders on-hand to complete by July, 2017.
25. The Company remains optimistic that when the Company completes its liquidation of inventory through its retail liquidation sales, actual net cash flows should be comparable to its previously submitted projected cash flow.

26. The Company's cash flow has been positive since the NOI date and according to their internal monthly financial statements, the Company has had EBITDA (excluding professional fees) of approximately (\$28,000) and \$4,000 for the months of March, 2017 and April, 2017, respectively. It is notable that the NOI filing occurred mid-March 2017, so a portion of the EBITDA relates to the pre-NOI filing period.
27. Enclosed as **Appendix "A"** is a copy of the Trustee's First Report dated April 5, 2017.
28. Enclosed as **Appendix "B"** is a comparison of the actual and budgeted cash flows of the Company for the nine weeks ended May 14, 2017.
29. Enclosed as **Appendix "C"** is a revised cash flow statement incorporating the actual results to date and projected results for the extended weeks up to the proposed 45-day extension period.

CONCLUSION

30. 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 19th day of May, 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

APPENDIX “A”

**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

APPENDIX "B"

Steve's T.V. & Appliances Limited
Comparison of Projection to Actuals
For the nine weeks ended May 14, 2017

(all amounts in CDN dollars)

	<u>Projection</u>	<u>Actual</u>	<u>Variance</u>
Opening Cash Balance	\$ 24,000	\$ 24,000	\$ -
Cash Receipts			
Sales	351,000	392,785	41,785
Collection of receivables	31,250	-	(31,250)
	<u>382,250</u>	<u>392,785</u>	<u>10,535</u>
Cash Disbursements			
Purchases	76,500	191,480	(114,980)
Payroll	80,085	83,466	(3,381)
Advertising	4,300	589	3,711
Vehicle	4,300	4,567	(267)
Supplies	3,250	1,438	1,812
Building	12,440	14,499	(2,059)
Professional fees	19,775	11,300	8,475
HST remittance (recovery)	10,000	7,945	2,055
Telephone	1,950	2,800	(850)
Interest and bank charges	4,000	3,709	291
Miscellaneous	1,900	4,571	(2,671)
	<u>218,500</u>	<u>326,364</u>	<u>(107,864)</u>
Net Cash Flow	<u>163,750</u>	<u>66,421</u>	<u>(97,329)</u>
Closing Cash Balance	<u>\$ 187,750</u>	<u>\$ 90,421</u>	<u>\$ (97,329)</u>

APPENDIX "C"

Steve's T.V. & Appliances Limited
Cash Flow Projection
For the eighteen weeks ended July 16, 2017

(all amounts in CDN dollars)

	Actual 3 weeks ended weeks ended April 2/17	Actual 6 weeks ended May 14/17	Week (ended)														Total		
			10	11	12	13	14	15	16	17	18								
			(May 21/17)	(May 28/17)	(Jun 4/17)	(Jun 11/17)	(Jun 18/17)	(Jun 25/17)	(Jul 2/17)	(Jul 9/17)	(Jul 16/17)								
Opening Cash Balance	\$ 24,000	\$ 73,000	\$ 90,422	\$ 74,282	\$ 97,409	\$ 100,036	\$ 141,312	\$ 151,364	\$ 173,141	\$ 169,367	\$ 177,677								
Cash Receipts																			
Sales	152,000	240,785	29,000	29,000	49,000	52,000	47,000	41,000	19,000	19,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	694,785	
Collection of receivables	-	-	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	7,167	43,000
	152,000	240,785	29,000	36,167	56,167	59,167	54,167	48,167	26,167	19,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	737,785	
Cash Disbursements																			
Purchases	60,500	130,980	1,000	1,000	12,900	12,900	12,900	12,900	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	266,680	
Payroll	25,800	57,666	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	19,250	175,316	
Advertising	100	489	1,000	2,500	2,500	1,500	-	-	-	-	-	-	-	-	-	-	-	8,089	
Vehicle	1,500	3,067	600	600	600	200	200	200	200	200	200	200	200	200	200	200	200	7,567	
Supplies	400	1,038	475	475	475	475	475	475	475	475	475	475	475	475	475	475	475	5,713	
Building	1,100	13,399	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	31,509	
Professional fees	11,300	-	10,000	5,650	-	-	8,475	-	-	-	-	-	-	-	-	-	-	43,900	
HST remittance (recovery)	-	7,945	10,000	-	-	-	-	10,000	-	-	-	-	-	-	-	-	-	27,945	
Telephone	-	2,800	325	325	325	325	325	325	325	325	325	325	325	325	325	325	325	5,725	
Interest and bank charges	1,000	2,709	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	8,209	
Wells Fargo PMSI	-	-	-	-	15,000	-	-	-	-	-	-	-	-	-	-	-	-	15,000	
Miscellaneous	1,300	3,271	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	5,471	
	103,000	223,362	45,140	13,040	53,540	17,890	44,115	26,390	29,940	10,690	34,015	34,015	34,015	34,015	34,015	34,015	34,015	601,122	
Net Cash Flow	49,000	17,422	(16,140)	23,127	2,627	41,277	10,052	21,777	(3,773)	8,310	(17,015)								
Closing Cash Balance	\$ 73,000	\$ 90,422	\$ 74,282	\$ 97,409	\$ 100,036	\$ 141,312	\$ 151,364	\$ 173,141	\$ 169,367	\$ 177,677	\$ 160,662								