



No. S117081
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985,
c. C-36, AS AMENDED

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*,
R.S.C. 1985, c. C-44

AND

IN THE MATTER OF STERLING SHOES INC. and STERLING SHOES GP INC.

FIFTEENTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

November 21, 2014



ALVAREZ & MARSAL

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED
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1.0 INTRODUCTION

- 1.1 Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Monitor**”) was appointed as Monitor pursuant to the Order (the “**Initial Order**”) pronounced by this Honourable Court on October 21, 2011 on the application of Sterling Shoes Inc. and Sterling Shoes GP Inc. (“**Sterling GP**”, and together with Sterling Shoes Inc., the “**Petitioners**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings brought by the Petitioners under the CCAA will be referred to herein as the “**CCAA Proceedings**”. The Petitioners and Sterling Shoes Limited Partnership (the “**Partnership**”) collectively will be referred to herein as the “**Petitioner Parties**” or the “**Company**”.
- 1.2 On April 2, 2012, on the application of the Petitioner Parties, this Honourable Court made an Order (the “**Claims Process Order**”) approving, among other things, a claims process (the “**Claims Process**”) for the determination of the nature and quantum of claims against the Petitioner Parties.
- 1.3 On December 12, 2012, on the application of the Petitioner Parties, this Honourable Court made an Order permitting the Company to make one or more distributions to the creditors of Sterling GP and the Partnership (the “**Distribution Order**”).
- 1.4 On January 23, 2013, this Honourable Court ordered that the Monitor be fully authorized and empowered to manage and carry on all aspects of the business, financial affairs and operations of the Company, including by taking any steps as, in the sole opinion of the Monitor, are necessary and appropriate to complete the Claims Process, to make distributions to creditors in accordance with the Distribution Order, and to allow the Monitor to discharge or exercise its rights, powers or duties, or to complete the administration of the CCAA Proceedings.
- 1.5 On June 27, 2013, this Honourable Court approved an extension of the stay of proceedings provided in the Initial Order and subsequent orders to August 30, 2013.
- 1.6 On July 31, 2013 the Monitor obtained an order approving the activities of the Monitor, approving the Monitor’s fees and disbursements (including those of its legal counsel), authorizing the Monitor to distribute all remaining funds to the creditors, discharging the Monitor, and releasing the Monitor (and its directors, officers and employees) from any liability in respect of the Monitor’s acts or omissions in its capacity as monitor in the CCAA Proceedings (the “**Discharge Order**”).
- 1.7 On November 21, 2014, the Monitor’s legal counsel filed a notice of application (the “**Notice of Application**”) to be heard on November 28, 2014 seeking orders approving the Monitor’s fees

and disbursements, the final distribution to creditors and releasing the Monitor from any liability as well as an order authorizing the Monitor to file corporate income tax returns on behalf of the Petitioners.

- 1.8 The Initial Order, together with the Notice of Application dated November 21, 2014, this report and other documentation filed in the CCAA, will be posted on the Monitor's website at www.alvarezandmarsal.com/sterling.

2.0 PURPOSE OF REPORT

- 2.1 This is the Monitor's fifteenth report (the "**Fifteenth Report**") and it has been prepared to provide this Honourable Court and the Company's stakeholders with the following:
- a) a summary of the Monitor's activities from July 26, 2013 (the date of the Monitor's Fourteenth Report) to November 20, 2014;
 - b) information on the Monitor's discussions with Canada Revenue Agency ("**CRA**") relating to the filing of corporate income tax returns;
 - c) details of the proposed final distribution to creditors in or around late November 2014;
 - d) a review of the Company's statement of receipts and disbursements for the period from July 26, 2013 up to and including payment of the proposed final distribution. The statement of receipts and disbursements includes the final professional fees to complete the Monitor's obligations;
 - e) information on the Monitor's final professional fees and disbursements as well as the fees and disbursements of the Monitor's legal counsel, Fasken Martineau DuMoulin LLP ("**Fasken**"); and
 - f) the Monitor's recommendation with respect to the Notice of Application.

3.0 TERMS OF REFERENCE

- 3.1 Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars.
- 3.2 Capitalized terms used but not defined in this report shall have the meanings ascribed to them in prior Monitor's reports and/or other materials filed with respect to the CCAA Proceedings.

4.0 SUMMARY OF THE MONITOR'S ACTIVITIES

- 4.1 During the period from July 26, 2013 to November 20, 2014, the principal activities of the Monitor have included the following:

- a) finalizing various documents and matters relating to the second distribution to creditors paid in September 2013 (the “**Second Distribution**”);
- b) dealing with various enquiries from creditors, shareholders and debenture holders;
- c) discussions with Town Shoes Inc. (“**Town Shoes**”) on various outstanding issues; including its potential claim against the directors of Sterling Shoes Inc.;
- d) dealing with CRA in relation to its claim and the filing of corporate income tax returns and various other matters;
- e) dealing with funds held in trust accounts held by various lawyers;
- f) dealing with banking matters including outstanding cheques, bank reconciliations, reissuance of cheques, and other matters;
- g) collection of remaining amounts due to the Company and arranging for payment of outstanding amounts owed by the Company;
- h) preparing regular GST returns;
- i) discussions with the Company’s payroll services provider with respect to the issuance of 2013 T4s to employees and directors;
- j) follow up with creditors on outstanding cheques; and
- k) preparing for a final distribution to creditors and concluding the administration of this matter, including the preparation of this Fifteenth Report.

5.0 INCOME TAX RETURNS

- 5.1 The last complete income tax returns filed by the Petitioners and the Partnership were for the year ended December 31, 2011.
- 5.2 CRA has issued notices to Sterling Shoes Inc. of the requirement to file corporate income tax returns for the years ended December 31, 2012, and December 31, 2013 which was the final year of operations.
- 5.3 CRA has confirmed that there is no requirement to file any additional income tax returns for Sterling GP Inc. or the Partnership.
- 5.4 The Monitor is in a position to prepare and file the 2012 and 2013 income tax returns for Sterling Shoes Inc., and holds sufficient funds to cover the associated costs. However, having been discharged under the Discharge Order, the Monitor currently has no authority to file corporate income tax returns for 2012 and 2013 and therefore seeks this Honourable Court’s approval to file these returns.

6.0 DISTRIBUTION OF REMAINING FUNDS

- 6.1 At the time of the Fourteenth Report, the Monitor had anticipated that the Second Distribution would be the final distribution to creditors in the CCAA Proceedings. However, since that time, the Monitor has collected further amounts (including refunds from landlords in respect of common area charges and funds held on trust for the Company by various lawyers).
- 6.2 As at October 31, 2014 the Monitor had cash in its possession in the amount of approximately \$162,000 before taking into account outstanding cheques (i.e. cheques which have been issued but not cashed) of approximately \$31,000.
- 6.3 The Monitor plans to utilize the remaining funds as follows:

Sterling Shoes Limited Partnership and Sterling Shoes GP Inc. Distribution of Remaining Funds (\$000's)		
Bank balances	\$	162
Less:		
Professional fees		75
Replacement of outstanding cheques		31
Bank charges and other administrative costs		3
Distribution costs		3
		<u>112</u>
Balance available for final distribution	\$	<u>50</u>

- 6.4 The Monitor estimates that \$50,000 will be available for a final distribution to creditors, representing a distribution of 0.22% of all creditors' Allowed Claims. The Monitor estimates that creditors with claims of \$4,600 or less would receive a distribution payment of less than \$10 each. Of a total of 608 creditors, 272 creditors hold individual claims of \$4,600 or less, and the aggregate final distribution to those creditors (if made) would be approximately \$800, or \$3 per creditor on average.
- 6.5 Given the costs of preparing and distributing cheques to creditors and following up on uncashed cheques, the Monitor proposes that the final distribution be made only to the 336 creditors with individual claims greater than \$4,600, i.e. those creditors entitled to distributions of \$10 or more. The Monitor proposes to effect the final distribution before the end of 2014.
- 6.6 A summary of the creditor claims classified by those greater than and less than \$4,600 and the proposed final distribution is set forth in the following table:

Sterling Shoes Limited Partnership and Sterling Shoes GP Inc.
Distribution to Creditors
(\$000's)

	Claims greater than \$4,600		Claims less than \$4,600		Total	
	\$	%	\$	%	\$	%
Total Allowed Claims:						
Pre-filing claims	\$ 14,645	63.2%	\$ 262	1.1%	\$ 14,907	64.3%
Restructuring claims						
Landlords	5,276	22.8%	-	0.0%	5,276	22.8%
Employees	2,865	12.4%	118	0.5%	2,983	12.9%
Total Allowed Claims	\$ 22,786	98.4%	\$ 380	1.6%	\$ 23,166	100.0%
Distribution #1 paid February 2013	8,857	38.9%	152	40.0%	\$ 9,009	38.9%
Distribution #2 paid September 2013	4,716	20.7%	74	19.5%	4,790	20.7%
Proposed distribution #3	50	0.2%	-	0.0%	50	0.2%
Total Distribution to Creditors	\$13,623	59.8%	\$ 226	59.5%	\$13,849	59.8%

- 6.7 After payment of the final distribution, the total distribution to creditors receiving the final distribution (i.e. those with individual claims greater than \$4,600) will be 59.8%. For all other creditors the total distribution is 59.5%.

7.0 PROFESSIONAL FEES

- 7.1 In its Fourteenth Report, the Monitor estimated that the Monitor and Fasken would incur additional fees and disbursements of approximately \$90,000 (exclusive of applicable taxes) from and including July 1, 2013 to make what was expected to be the final distribution to creditors, deal with various queries and to complete the administration of the CCAA Proceedings. Up to the date of this report, the Monitor and Fasken have billed and collected professional fees of approximately \$75,000, and have incurred but not billed fees and disbursements of more than the remaining \$15,000 (of the total \$90,000 referred to in the Monitor's Fourteenth Report and previously approved by the Court).
- 7.2 Based on the Monitor's activities set out in section 4.0, the Monitor and Fasken now estimate that the professional fees to complete the administration of the CCAA Proceedings will be approximately \$60,000 (exclusive of applicable taxes) over and above the amounts already approved by this Honourable Court. As set out in section 6.3, the final payments for professional fees will be \$75,000 comprising the incurred but unbilled remaining \$15,000 and \$60,000 for which the Monitor is seeking this Honourable Court's approval.
- 7.3 The professional fees to complete the CCAA Proceedings are higher than the \$90,000 originally estimated at the date of the Fourteenth Report due to the additional time required to deal with the following matters (which were not anticipated at the time of the Fourteenth Report):

- a) issues which arose relating to Town Shoes' potential claim against the Former Directors and the return of payroll remittances incorrectly remitted to Town Shoes' payroll account;
- b) dealing with remaining administrative issues such as the collection of refunds from landlords for common area maintenance charges and issuing replacement pre-filing cheques to creditors which did not deposit their original cheques;
- c) dealing with CRA in relation to its claim and its requirement that Sterling Shoes Inc. file corporate income tax returns for 2012 and 2013; and
- d) preparing for another distribution of remaining funds which was not contemplated at the date of the Monitor's discharge on July 31, 2013.

8.0 STATEMENT OF RECEIPTS AND DISBURSEMENTS

- 8.1 A statement of the Company's cash receipts and disbursements for the 159 week period from October 16, 2011 to October 31, 2014 including forecast professional fees, the proposed final distribution to creditors and other expenses associated with finalizing the administration of the CCAA Proceedings, is attached as Appendix A.
- 8.2 In summary, since the commencement of the CCAA Proceedings, the Company had total receipts of \$96.8 million from sales of goods, liquidation proceeds and the sale of the assets to Town Shoes. The total operating expenses (including vendor, payroll and rent expenses) were \$62.7 million resulting in a net cash flow from operations of \$34.2 million. After payment of:
- (a) the opening bank indebtedness of \$14.3 million and other bank fees of \$0.9 million;
 - (b) total professional fees of \$5.1 million (which include the fees of the Monitor, its legal counsel, the Company's legal counsel, Capital West and BMO's legal and financial advisors);
 - (c) previous distributions to creditors of \$13.8 million; and
 - (d) any other expenses,

the remaining balance of \$50,000 will be distributed to creditors as detailed in section 6.0 above.

9.0 OUTSTANDING MATTERS

- 9.1 The Monitor will continue to work with CRA to file the corporate income tax returns for 2012 and 2013 and will deal with minor residual issues after the final distribution has been made.

10.0 RELEASE OF THE MONITOR

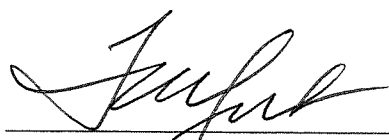
- 10.1 Except for the matters addressed herein, all matters pertaining to the Initial Order have been attended to by the Monitor and there are no apparent outstanding issues in the CCAA Proceedings.
- 10.2 On July 31, 2013, the Monitor obtained a release and discharge from any and all liabilities arising out of its activities as Monitor during the pendency of the CCAA Proceedings but will be seeking a final release to include the Monitor's activities summarized herein.


11.0 MONITOR'S RECOMMENDATIONS

- 11.1 The Monitor recommends that this Honourable Court grant the following:
- a) an order authorizing the Monitor to file corporate income tax returns on behalf of Sterling Shoes Inc. with CRA;
 - b) an order approving the final Monitor's fees and disbursements and those of its legal counsel;
 - c) approving the final distribution to creditors with individual claims in excess of \$4,600; and
 - d) an order releasing the Monitor from any liability in respect of the Monitor's acts and omissions in its capacity as Monitor in the CCAA Proceedings.

All of which is respectfully submitted to this Honourable Court this 21st day of November 2014.

**Alvarez & Marsal Canada Inc.,
in its capacity as Monitor of Sterling Shoes Inc.
and Sterling Shoes GP Inc.**



Per: Todd M. Martin
Senior Vice President

Per: Callum D.M. Beveridge
Senior Director

Sterling Shoes Limited Partnership and Sterling Shoes GP Inc.
Actual Consolidated Cash Flow including Forecast to the Final Distribution
For the 159 Week Period from October 16, 2011 to October 31, 2014

(\$000's)	October 16, 2011 to October 31, 2014 (Cumulative)
Gross sales receipts	\$ 53,020
Cash received on behalf of liquidators (Note 1)	12,870
Inventory liquidation	12,540
Sale of assets	18,323
Other	94
Receipts (incl. taxes)	96,847
Disbursements	
Vendors	(19,066)
Payroll	(13,300)
Rent	(8,866)
Sales tax	(2,731)
Deposits	(213)
Pre-filing related payments	(1,117)
Other	(5,269)
Amounts paid to liquidators (Note 1)	(12,089)
Total Disbursements	(62,651)
Cash Flow from Operations	34,196
CAPEX	(55)
Professional fees	(5,138)
Interest / Forbearance fee	(884)
Term Loan	-
Cash Flow before Distributions to Creditors	28,119
Distributions to Creditors	
Distribution #1 payments to creditors (Note 2)	(9,009)
Distribution #2 payments to creditors (Note 3)	(4,790)
Proposed final distribution payments to creditors (Note 4)	(50)
Total Distributions to Creditors	(13,849)
Net Cash Flow	14,270
Bank Position	
Opening bank exposure	(14,270)
Closing Bank Position	-
Opening balance	\$ (2,344)
(Opened) / Cancelled	(721)
Drawn	3,065
LCs	-
Total Bank Position	\$ -

Notes:

- (1) Cash received on behalf of liquidators and amounts paid to liquidators relate to receipts at stores being liquidated under agency agreements.
- (2) Amounts paid to creditors for an interim distribution in February 2013.
- (3) Amounts paid to creditors for a distribution in September 2013.
- (4) Estimated final distribution to be paid to creditors by the end of 2014.