

Court File No. 08-CL-7841

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

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE  
OR ARRANGEMENT OF INTERTAN CANADA LTD.  
AND TOURMALET CORPORATION**

APPLICANTS

**THIRTEENTH REPORT OF THE MONITOR**

**ALVAREZ & MARSAL CANADA ULC**

**April 21, 2010**

**INTRODUCTION**

1. By Order of this Honourable Court dated November 10, 2008, as subsequently amended and restated on December 5, 2008 (the "Initial Order"), InterTAN Canada Ltd. ("InterTAN") and Tourmalet Corporation ("Tourmalet" and together with InterTAN, the "Applicants") obtained protection from their creditors under the *Companies' Creditors Arrangement Act* (the "CCAA") and Alvarez & Marsal Canada ULC ("A&M") was appointed monitor of the Applicants (the "Monitor"). These proceedings are referred to herein as the "CCAA Proceedings".
2. Concurrent with the commencement of the CCAA Proceedings, the Applicants' ultimate parent company, Circuit City Stores, Inc. ("Circuit City"), and certain of its U.S. affiliates (collectively, the "U.S. Debtors"), commenced proceedings under Chapter 11, Title 11 of the *United States Code* (the "U.S. Bankruptcy Code"). These proceedings are referred to herein as the "Chapter 11 Proceedings".
3. The Monitor will be bringing a motion returnable April 26, 2010, seeking, *inter alia*, (a) an Order extending the Stay Period, as defined in the Initial Order and as subsequently extended, from April 30, 2010 to August 31, 2010; (b) an Order approving a distribution

of proceeds to Thimens Industrial Development Corp. Ltd.; (c) an Order approving the proposed Cross-Border Insolvency Protocol (the "Protocol") filed by the Applicants with this Honourable Court and to be filed by the U.S. Debtors in the U.S. Bankruptcy Court; (d) an Order approving the appointment of Ms. Katie Bradshaw as Post-Closing Officer and extending the protection provided to the Post-Closing Officer in the June 29, 2009 Order of this Honourable Court to Ms. Bradshaw; (e) an Order approving this report (the "Thirteenth Report") and the actions and activities of the Monitor described herein; and (f) an Order approving the fees and disbursements of the Monitor for the period from October 30, 2009 to April 3, 2010, as well as its Canadian legal counsel, Goodmans LLP, for the period from October 26, 2009 to March 31, 2010.

4. The purpose of the Thirteenth Report is to provide the Court and the Applicants' stakeholders with information concerning the Monitor's motion. For the reasons discussed below, the Monitor respectfully recommends that the Court grant the relief requested by the Monitor.
5. All terms not otherwise defined herein shall have the meanings ascribed to them in the Monitor's previous reports.

#### **TERMS OF REFERENCE**

6. In preparing this report, the Monitor has relied upon unaudited financial information, InterTAN's books and records, financial information prepared by InterTAN and its advisors, and discussions with management of InterTAN and its advisors. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report.
7. Certain of the information referred to in this report may consist of or include forecasts and/or projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from

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the projections, even if the assumptions materialize, and the variations could be significant.

8. The Monitor has requested that the Applicants and Post-Closing Officer, Ms. Katie Bradshaw, bring to its attention any significant matters that were not addressed in the course of its specific inquiries. Ms. Bradshaw replaced Ms. Michelle Mosier as Post-Closing Officer on March 8, 2010. Accordingly, this report is based solely on the information (financial or otherwise) made available to the Monitor. The Monitor is seeking an Order approving the appointment of Ms. Bradshaw as Post-Closing Officer and extending the protection provided to the Post-Closing Officer pursuant to paragraph 9 of the June 29, 2009 Order to Ms. Bradshaw. A copy of the Order dated June 29, 2009 is attached hereto as **Appendix "A"**.
9. All references to dollars in this report are in Canadian currency unless otherwise noted.

## **BACKGROUND**

10. InterTAN was a leading specialty retailer of consumer electronics in Canada and was the operating Canadian subsidiary of the U.S.-based electronics retailer Circuit City. Tourmalet is a Nova Scotia unlimited liability company that is an indirect, wholly-owned subsidiary of Circuit City. Tourmalet is a non-operating holding company whose sole asset is the preferred stock of InterTAN, Inc., which is the sole shareholder of InterTAN. Circuit City is the Applicants' ultimate parent company. Further background to InterTAN, Tourmalet and Circuit City is contained in the materials filed relating to the Initial Order, including the Affidavit of Mark Wong sworn November 10, 2008. These documents, together with other information regarding the CCAA Proceedings, including the Initial Order and supporting affidavit, have been posted by the Monitor on its website at [www.alvarezandmarsal.com/intertan](http://www.alvarezandmarsal.com/intertan).
11. On November 10, 2008, the U.S. Debtors commenced the Chapter 11 Proceedings in the United States Bankruptcy Court for the Eastern District of Virginia (the "U.S. Bankruptcy Court"). The U.S. Debtors have subsequently commenced and substantially completed a liquidation of their assets and property in the Chapter 11 Proceedings. A

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hyperlink to information concerning the U.S. Debtors' restructuring and liquidation can be found at [www.kccllc.net](http://www.kccllc.net).

12. Additional background information can be found in the prior reports submitted by the Monitor to this Honourable Court.

#### **ADMINISTRATION AND WIND-DOWN OF THE APPLICANTS POST-CLOSING**

13. As previously reported by the Monitor, the Sale Transaction with the Purchaser closed with effect as of 12:01 a.m. on July 1, 2009.
14. By Order dated December 7, 2009 (the "First Distribution Order"), this Honourable Court authorized and directed the Monitor to distribute, from the proceeds of the Sale Transaction and other amounts received by or owing to InterTAN that were in the Monitor's possession, the total amount of \$11,672,749.48 to those creditors and in the amounts set forth in Schedule "A" to the First Distribution Order, which amounts included interest on such claims calculated at a rate of 5% per annum on the basis proposed in the Monitor's Eleventh Report.
15. As described in the Twelfth Report, the Monitor made the distributions authorized by the First Distribution Order by mailing cheques to those creditors on December 15, 2009. These distributions, together with the revisions and disallowances issued by the Monitor in the Claims Processes, resolved 527 of the total 598 Pre-Filing and Post-Filing Claims filed with the Monitor, leaving a total of 71 claims to be determined after the First Distribution.
16. By Order dated January 29, 2010 (the "Second Distribution Order"), a copy of which is attached hereto as **Appendix "B"**, this Honourable Court authorized and directed the Monitor to distribute the further amount of \$5,784,906.66 to those creditors and in the amounts set forth in Schedule "A" to the Second Distribution Order. These distributions were for payment of those claims that had been resolved since the First Distribution Order, which amounts included interest on such claims calculated at a rate of 5% per annum on the basis proposed in the Monitor's Twelfth Report.

- 17. The Monitor made the distributions to those creditors listed in Schedule "A" to the Second Distribution Order by mailing cheques on February 3, 2010.
- 18. Paragraph 5 of the Second Distribution Order also provided that the Monitor was authorized and directed to make distributions to pay the 17 then unresolved claims in the InterTAN estate provided that the payment was for an amount less than the high end of the range for each such claim contained in Schedule "B" to the Second Distribution Order and provided that InterTAN, the Purchaser and the claimant agreed in writing to the payment amount.

**UPDATE ON CLAIMS PROCESSES**

- 19. Since the Second Distribution Order was issued, 10 of the remaining claims have been settled and, with the agreement of the requisite parties, the Monitor has made the following payments pursuant to paragraph 5 of the Second Distribution Order:

<b>Claimant</b>	<b>Admitted Principal</b>	<b>Interest (5%)</b>	<b>Total</b>
<b>Pre-Filing POCs</b>			
Fidelity Electronics Inc.	\$33,060.94	\$2,232.75	\$35,293.69
Garmin USA, Inc.	\$3,159,587.44	\$213,380.36	\$3,372,967.80
Kodak Canada Inc.	\$165,131.77	\$11,808.05	\$176,939.82
Lexmark Canada Inc.	\$0	\$0	\$0
Monster Cable International Limited	\$381,680.14	\$25,776.48	\$407,456.62
Monster Technology International Limited	\$11,050.41	\$746.28	\$11,796.69
Motorola Canada Limited	\$558,304.30	\$39,922.58	\$598,226.88
Syntax-Brilliant Corporation	\$437,488.26	\$31,283.41	\$468,771.67
Verbatim Americas, LLC	\$146,953.41	\$9,924.39	\$156,877.80

<b>Restructuring POCs</b>			
Gaetan Gagnon	\$7,000.00	\$366.30	\$7,366.30
<b>Total</b>	<b>\$4,900,256.67</b>	<b>\$335,440.59</b>	<b>\$5,235,697.26</b>

20. In addition to the claims settled and paid under paragraph 5 of the Second Distribution Order, a settlement has been reached with Thimens Industrial Development Corp. Ltd. (“Thimens”), although the claim has been settled at an amount higher than the range set out for the Thimens claim in Schedule “B” to the Second Distribution Order. Specifically, Schedule “B” to the Second Distribution Order provides for a high end payment of \$114,297.81. However, the Monitor is recommending a distribution of \$197,815.83, plus interest to Thimens, for the reasons set out below.
21. Thimens filed a Restructuring Claim as a result of the repudiation of a lease for a service centre in Montreal which occurred post-filing. The claim was initially submitted by Thimens for \$114,297.81. However, the Monitor requested that Thimens revisit its claim after learning that a portion of the premises had since been leased to a new tenant. The response received from Thimens was that the claim should actually be increased to \$197,815.83 – in calculating and applying the reduction for the new tenant, Thimens had also identified an error in its initial calculation of the base rent. Thimens submitted a revised claim on January 29, 2010, which the Monitor reviewed and ultimately agreed with. Each of InterTAN and the Purchaser have agreed to the revised claim as well. Accordingly, the Monitor advised Thimens that it would seek the Court’s approval to make this distribution.
22. Accordingly, the Monitor recommends that it be authorized and directed by this Honourable Court to make payment to Thimens, by cheque to be issued no later than April 30, 2010, of \$207,706.62, representing the revised claim amount together with interest thereon at a rate of 5% per annum for the period from May 1, 2009 to April 30, 2010.

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23. Therefore, as of April 15, 2010, the remaining unresolved claims consist of 4 Pre-Filing Claims in the total amount of \$3,329,764.67 and 2 Restructuring Claims in the total amount of \$620,210.04. The Applicants and the Monitor are continuing to work with the claimants and the Purchaser to reconcile and resolve these remaining claims.
24. The Monitor recommends that it be authorized and directed to retain all funds remaining after payment of the Thimens claim, not to be further distributed unless in connection with the settlement of remaining claims in accordance with paragraph 5 of the Second Distribution Order or by further order of this Court.

#### **SETTLEMENT WITH THE PURCHASER**

25. As reported in the Tenth Report, the Eleventh Report and the Twelfth Report, there was an ongoing dispute between InterTAN and the Purchaser over the calculation of the Closing Date Financial Statement under Section 2.7 of the APA. InterTAN and the Purchaser have reached a settlement with respect to this dispute and have finally determined the Closing Date Financial Statement. Pursuant to the settlement reached between the parties, on March 9, 2010, the Monitor released the amount of \$9,301,000 to the Purchaser and the amount of \$25,649,000 to InterTAN (with the funds being held in trust by the Monitor) from the \$34,950,000 that it was holding as escrow agent pursuant to the escrow agreement dated February 23, 2009. Interest on the escrowed amount was apportioned between the Purchaser and InterTAN pro rata on the same basis.
26. As at April 15, 2010, the Monitor was holding, in trust, the total amount of CDN\$9,534,444.84 and US\$93,818,647.67, representing the balance of the proceeds of the Sale Transaction and other amounts received by or owing to InterTAN following the distributions authorized by the First Distribution Order and the Second Distribution Order, and after taking into account the further payments set out in paragraph 19 above.

#### **POTENTIAL FRENCH TAX LIABILITY**

27. As reported in the Twelfth Report, InterTAN has a subsidiary company located in France that has not operated for more than 10 years. The Monitor learned on April 16, 2010 that there was also a branch office of InterTAN in France. It is not clear whether either the

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subsidiary or the branch were formally wound up after operations ceased. In connection with the winding up of the Applicants' operations, InterTAN may need to wind-up its French branch and subsidiary, which may result in potential tax liabilities to the French taxing authorities. The Monitor has been advised that InterTAN has received legal advice that it could be held directly liable under French tax law for any taxes assessed by the French authorities if the subsidiary or the branch were not previously wound up. The Applicants have been working with PricewaterhouseCoopers ("PwC") and their counsel to conduct an analysis of the potential tax implications. PwC has advised that the amount of the potential tax exposure will depend on how certain matters are finally determined. Also on April 16, 2010, the Monitor was advised that, as a result of new information provided by InterTAN to French counsel and their assessment of the matter, the potential liability could be significantly higher than the Monitor was originally advised would be the case.

28. PwC and the Applicants' counsel are working together with French counsel to attempt to resolve this matter. Given these recent developments, the Monitor may engage its own French tax advisors to review the matter. The Monitor will report further as this matter is addressed.

#### **ISSUES CONCERNING POTENTIAL DISTRIBUTION TO THE SHAREHOLDER**

29. Until the extent of any French tax liability is determined, the Monitor will not know the amount of funds potentially available to make a distribution to the shareholder of InterTAN.
30. In the event that a distribution to the shareholder of InterTAN is to be made, for the reasons described below it will be necessary to seek the authority of the Canadian Court and the U.S. Bankruptcy Court to enter into certain transactions to ease the tax burden of a distribution.
31. InterTAN was acquired by the Circuit City group in May 2004. If a distribution to the current shareholder was to take place, there could be adverse tax consequences. PwC, InterTAN's counsel, counsel for the U.S. Debtors and counsel for the unsecured

creditors' committee in the Chapter 11 Proceedings have been working together to request an advance tax ruling from Canada Revenue Agency ("CRA") which would authorize a series of corporate transactions that would result in the shares of InterTAN once again being held by the party which had made the original investment to acquire InterTAN, so that the distribution of equity would in fact be a return of capital and not a capital gain. The Monitor has been involved in certain of these discussions. The timing and mechanics of any potential ruling from CRA are not yet clear, but it is likely that the series of transactions contemplated would necessitate hearings in both the Canadian Court and the U.S. Bankruptcy Court to ensure a coordinated approach in dealing with these issues. In fact, it may be that the most efficient manner in which to address those issues would be to hold a joint hearing, at which the Canadian and U.S. Courts would be separately requested to authorize various components of the series of transactions required to more tax effectively distribute funds to the equity holder of InterTAN.

- 32. The Monitor continues to consult with the Applicants' counsel, PwC and the U.S. Debtors' counsel in connection with the rulings sought from CRA. The Monitor will report further on this matter as events unfold.

**EXTENSION OF STAY PERIOD**

- 33. The Stay Period currently expires on April 30, 2010 and the Applicants are proposing that the Stay Period be extended to August 31, 2010.
- 34. As detailed above, the Monitor has made substantial progress in reviewing, reconciling and administering the Proofs of Claim filed in the Claims Processes. However, six claims still remain to be determined. As well, there remain issues with respect to the French subsidiary, as well as issues concerning the most tax efficient manner in which to have a return of equity effected to InterTAN's shareholder.
- 35. The Monitor believes that the Applicants have been and continue to act in good faith and with due diligence in these CCAA Proceedings. The extension as sought is necessary in order to complete the final stages of the Claims Processes and other matters in order to

allow for the expeditious distribution of the monies held by the Monitor to the remaining creditors and shareholder of InterTAN.

### **CROSS-BORDER INSOLVENCY PROTOCOL**

36. As referenced above, in the event there is to be an equity distribution, it is likely that both the Canadian Court and the U.S. Bankruptcy Court will be asked to make rulings and potentially conduct a joint hearing with respect to the implementation of a series of transactions designed to more tax effectively make a distribution to InterTAN's equity holder. In order to ensure coordination between the Courts and for a joint hearing to be held, a Protocol is needed between the Courts, but it would be for the limited purpose of dealing with matters related to the potential equity distribution.
37. The Protocol filed by the Applicants with this Honourable Court, and to be filed by the U.S. Debtors in the U.S. Bankruptcy Court, is designed to facilitate cooperation and potentially a joint hearing in connection with the potential equity distribution. A copy of the Protocol is attached hereto as **Appendix "C"**. The U.S. Bankruptcy Court's approval of the Protocol will be sought at a later date. The Protocol is not effective until approved by an Order of each of the U.S. Bankruptcy Court and this Honourable Court.
38. The Monitor and its counsel have reviewed the Protocol and the Monitor is satisfied that the Protocol is appropriate in the context of the CCAA Proceedings and is consistent with cross-border insolvency protocols implemented in other large cross-border restructurings.
39. The Monitor believes that the implementation of basic administrative procedures is necessary to coordinate any joint hearing in connection with the potential equity distribution, and to best maintain the Courts' respective independent jurisdictions and to give effect to the doctrine of comity.
40. The Monitor believes that the Protocol will promote the following mutually desirable goals and objectives in the CCAA Proceedings and the Chapter 11 Proceedings:
  - i. harmonize and coordinate activities between the Courts in the CCAA Proceedings and the Chapter 11 Proceedings with respect to the equity distribution;

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- ii. promote and facilitate an orderly and efficient equity distribution in the CCAA Proceedings and avoid a duplication of efforts, for the benefit of all of the Debtors' creditors, their estates, and other interested parties, wherever located;
- iii. honour the respective independence and integrity of the Courts and all other Courts and tribunals of the United States and Canada; and
- iv. promote international cooperation and respect for comity among the Courts, the Debtors, the professional advisors, and all creditors and other interested parties in the CCAA Proceedings and the Chapter 11 Proceedings.

#### **APPROVAL OF THE MONITOR AND GOODMAN'S LLP'S FEES**

- 41. Pursuant to paragraph 27 of the Initial Order, the Monitor was authorized to engage independent legal counsel (among others) to assist with the exercise of its powers and the performance of its obligations.
- 42. In accordance with paragraphs 32 and 33 of the Initial Order, the Monitor and its legal counsel are to be paid their reasonable fees and disbursements at their standard rates and charges, and are required to pass their accounts from time to time. The Monitor and its counsel have passed their accounts in this matter on two prior occasions. The most recent was by Order dated December 7, 2009, a copy of which is attached hereto as **Appendix "D"**, wherein the fees and disbursements of the Monitor and Goodmans LLP, the Monitor's Canadian counsel, were approved for the periods set out in paragraphs 39 to 40 of the Monitor's Eleventh Report.
- 43. During the period from October 30, 2009 to April 3, 2010, the Monitor expended a total of 1,432.4 hours in connection with this matter, giving rise to fees and disbursements totalling \$666,499.77 (inclusive of GST). Details of the hours spent, the hourly rates and total fees and disbursements of the Monitor for the period from October 30, 2009 to April 3, 2010 are included in the Affidavit of Douglas R. McIntosh sworn April 16, 2010.
- 44. During the period from October 26, 2009 to March 31, 2010, Goodmans LLP expended a total of 334.1 hours in connection with this matter, giving rise to fees and disbursements

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totalling \$244,880.42 (inclusive of GST). Details of the hours spent, the hourly rates and total fees and disbursements of Goodmans LLP for the period from October 26, 2009 to March 31, 2010, are included in the Affidavit of Jay Carfagnini sworn April 14, 2010.

#### **MONITOR'S RECOMMENDATION**

45. For the foregoing reasons, the Monitor respectfully requests that:
- (i) the Stay Period be extended to August 31, 2010;
  - (ii) the distribution to Thimens proposed herein be approved;
  - (iii) the proposed Cross-Border Insolvency Protocol be approved;
  - (iv) Ms. Katie Bradshaw be approved as Post-Closing Officer and that the protections provided to the Post-Closing Officer pursuant to paragraph 9 of the June 29, 2009 Order be extended to Ms. Bradshaw;
  - (iv) this Thirteenth Report and the activities of the Monitor described herein be approved; and
  - (v) the professional fees and disbursements of the Monitor and Goodmans LLP be approved.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED** at Toronto, Ontario this 21<sup>st</sup> day of April, 2010.

**ALVAREZ & MARSAL CANADA ULC**  
in its capacity as Court appointed Monitor of  
InterTAN Canada Ltd. and Tourmalet Corporation

Per: \_\_\_\_\_



Name: Douglas R. McIntosh

Title: Managing Director

I have the authority to bind the corporation