

RSM Richter Inc.

RSM Richter Inc.
2, Place Alexis Nihon
Montréal (Québec) H3Z 3C2
Téléphone / Telephone : (514) 934-3497
Télécopieur / Facsimile : (514) 934-3504
www.rsmrichter.com

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-041229-119
ESTATE NO.: 41-343008

**SUPERIOR COURT
(Commercial Division)**

IN THE MATTER OF THE RECEIVERSHIP OF:

M. HADDAD SPORTSWEAR INC., a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:
701-333 Chabanel W.
Montreal, Québec H2N 2E7

Debtor/Bankrupt

-and-

RSM RICHTER INC.

Receiver

INTERIM RECEIVER'S REPORT ON THE AFFAIRS OF THE DEBTOR/BANKRUPT (S. 246(1))

RSM Richter Inc. ("Richter"), in its capacity as Receiver to the assets of M. Haddad Sportswear Inc ("Company" or "Debtor" or "Bankrupt"), an insolvent person, hereby reports on the following:

A) Overview

- 1) The Debtor's business consisted of the importing and manufacturing of women's clothing, mainly with respect to swimwear.
- 2) Over the past few years, the Debtor's profitability greatly suffered pursuant to important changes in its business dealings with its main customers such as Wal-Mart, Sear's and The Bay.
- 3) On or about July 18, 2011, Management came to the conclusion that it was unable to maintain the viability of its operations. Consequently, most of the employees were terminated as at that date and the process of winding-down the operations was initiated.
- 4) However, Management only informed its primary secured lender, The Bank of Nova Scotia (the "Bank") of this situation one month later, namely, on or about August 20, 2011.
- 5) On August 24, 2011 the Bank, as the first ranking secured creditor on inventory and receivables, informed the Debtor of its intention to enforce its securities and as a result, issued its notice under Section 244 of the *Bankruptcy and Insolvency Act*.

- 6) On August 25, 2011, the Debtor filed a Notice of Intention to Make a Proposal.
- 7) During the stay period provided by the Notice of Intention, Management attempted to identify a potential purchaser to acquire its assets and pursue the operations of the business.
- 8) Unfortunately, these efforts were not successful and the Debtor filed for bankruptcy on September 19, 2011.
- 9) Richter accepted to act as Trustee to the bankruptcy of the Debtor (we refer you to Exhibit 1 for a copy of Trustee's report submitted at the first meeting of creditors).
- 10) As at the date of the bankruptcy, the books and records of the Debtor reflected indebtedness to the Bank of approximately \$2,000,000.
- 11) The Bank holds the following valid security:
 - (i) Conventional hypothecs without dispossession dated April 23, 2010 on inventories;
 - (ii) Security under section 427 of the *Bank Act*, covering inventories as well as accounts receivable.
- 12) Richter has obtained an independent legal opinion on the validity and opposability of the security held by the Bank.

B) Receivership

- 13) On October 7, 2011, Richter was appointed Receiver by the Bank to act as its Agent to collect the Debtor's accounts receivable (we refer you to Exhibit 2 for a copy of the Certificate of filing – Sec. 245(11)).
- 14) The Company's books and records indicated that the accounts receivable had a net book value of \$510,789.
- 15) Our review of the accounts receivable listing, revealed that the accounts receivable records were not up to date and that numerous customer payments had not been applied. Pursuant to our review, we estimated that the "good" accounts receivable were approximately \$82 K. In addition, further accounts, totaling \$428 K, were deemed of a doubtful nature.
- 16) Since October 7, 2011, Richter, as Receiver, has been dealing directly with the Company's clients to collect the outstanding amounts.
- 17) The results to date are summarized as follows:
 - (i) The most significant customers claimed credits and rebates that were due by the Debtor and denied any outstanding amounts that were due to the Company (\$260,337);
 - (ii) 55 customers had already paid their accounts to the Company or credit notes had been issued by the Company (\$129,618) and these payments and credits were not reflected on the books and records of the Debtor;
 - (iii) 14 accounts have been collected by the Receiver for a total of \$48,397.
- 18) On February 28 and 29, 2012, a letter of demand for payment was sent by the attorneys of the Bank to the outstanding accounts receivable.

C) Statement of Receipts and Disbursements

- 19) The Receiver's Statement of Receipts and Disbursements for the period from October 7, 2011 to April 11, 2012, is submitted as Exhibit 3.

DATED AT MONTRÉAL, this 12th day of April 2012.

RSM Richter Inc.

Receiver

Yves Vincent, FCA, CIRP
Administrator




EXHIBIT 1

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-041229-119
ESTATE NO.: 41-1532467

SUPERIOR COURT
(Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY OF:

M. Haddad Sportswear Inc.

a duly incorporated legal person having its head office
and principal place of business at 701- 333, Chabanel,
Montréal, Quebec H2S 1L6

Debtor

and

RSM Richter Inc.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

The purpose of this Report is to apprise the Creditors as to the affairs of the bankrupt as well as to the current status of the administration of the M. Haddad Sportswear Inc. Estate (hereinafter the "Debtor"). We caution the readers that certain information contained in this Report is based upon Management representations as well as the data reflected in the unaudited books and records of the Debtor. The Trustee has not conducted an audit and has not reviewed in detail the books and records of the Debtor. Consequently, the Trustee expresses no opinion whatsoever with respect to the reliability or completeness of such information.

1. Events Leading to the Bankruptcy

- (1) The Debtor's business was the importing and manufacturing of women's clothing, mainly with respect to swimwear.
- (2) Over the past few years, the Debtor sustained important financial pressures from its clients. Some of the clients, including Walmart decided to purchase their goods directly from Asia, others such as Sears imposed increased rebates or as in the case of The Bay, transferred all of the credit risk to the Debtor by changing the supply terms and conditions to sales on consignment.
- (3) On or about July 18, 2011, Management came to the conclusion that it was unable to maintain the viability of its operations under such stringent financial terms. Consequently, most of the employees were terminated as at that date.

- (4) However, Management only informed its primary secured lender, Scotia Bank ("Bank") of this situation one month later, namely, on or about August 20, 2011.
- (5) On August 24, 2011 the Bank, as the first ranking secured creditor on inventory and receivables, informed the Debtor of its intention to enforce its securities and as a result, issued its notice under Section 244 of the *Bankruptcy and Insolvency Act*.
- (6) On August 25, 2011, the above-mentioned Debtor filed a Notice of Intention to Make a Proposal.
- (7) During the stay period provided by the Notice of Intention, Management attempted to interest a potential purchaser to acquire the assets and pursue the operations of the business.
- (8) Unfortunately, these efforts were fruitless and the Debtor had no choice but to declare bankruptcy on September 19, 2011.
- (9) The Trustee promptly instituted a formal sales process ("Sales Process") to dispose of the Debtor's assets.
- (10) As a result, 69 potential purchasers across Canada and the US were identified by the Trustee. This included auctioneers, suppliers and competitors.
- (11) Through this process, 10 parties demonstrated an interest and proceeded in performing a due diligence verification.
- (12) Finally, two offers were submitted to the Trustee by liquidators.
- (13) Both offers are insufficient to pay in full the secured debt, therefore not allowing for the payment of a dividend to Unsecured Creditors.
- (14) No offer has yet been accepted for the sale of the assets. The Trustee is awaiting the feedback and consent of the Bank and other secured lenders.
- (15) The Trustee has obtained an independent legal opinion on validity of the security held by the Bank. This opinion confirms that its securities are valid and opposable to the Trustee.

2. STATEMENT OF AFFAIRS

The Debtor by its president has declared his assessment of the "actual" value of the Debtor's assets and liabilities. The following summarizes the information contained in the Debtor's Statement of Affairs:

Liabilities	
Secured Creditors (book value \$2,625,870)	\$ 446,933
Deemed Trusts	43,040
Preferred Creditors	23,361
Unsecured Creditors	<u>3,462,908</u>
	<u>3,976,242</u>
 Assets	
Inventory	329,500
Accounts receivable	82,433
Other assets	<u>35,000</u>
	<u>446,933</u>
 Deficit	 \$ <u>3,529,309</u>

3. ASSET (net book value)

a) Inventories (\$1,668,152)

Inventories consisted of piece-goods and finished goods, having an initial apparent book value of \$1,668,512. However, the foregoing amount was not substantiated as the Debtor had no perpetual inventory system. The valuation of \$329,500, reflected above, was the "net estimated realizable value" based on a physical count allegedly performed by the Debtor but it was impossible to determine the date on which the count was performed. Moreover our cursory review of the inventory indicated that quantities and descriptions of the items on the inventory list which had been provided to us were erroneous. Accordingly, a new count was performed between September 21 and September 26, 2011 by a representative of the Trustee.

The "finished goods" inventory reflected the necessity for substantial downward adjustments. The "raw material" inventory consisted in rolls of fabric, for which, we were unable to determine the cost.

As discussed above both categories of inventory were subject to a Sale Process, the offers received with respect thereto pale in comparison to the alleged "book value and/or net estimated liquidation value reflected in the Statement of Affairs.

b) Accounts Receivable (\$510,789)

Our review of the accounts receivable listing, indicated that the accounts receivable records were not up to date and that numerous customer payments had not been applied. Pursuant to our review, we have estimated the "reliable" accounts receivable at \$82 K. We have further identified accounts, totaling \$428 K, of a doubtful nature.

RSM Richter Inc., as Agent for the Bank is presently endeavoring to collect the receivables.

c) Other Assets (\$63,000)

Other assets include manufacturing equipment and shelving and a used vehicle, namely a 2007 Cadillac SRX. The foregoing is subject to the security of Investissement Quebec.

4. LIABILITY

a) Secured Creditors

Scotiabank:

As at the date of bankruptcy, the books and records of the Debtor reflected indebtedness to Scotiabank, of approximately \$2,000,000. The Bank holds the following valid security:

- (i) Conventional hypothecs without dispossession dated April 23, 2010 on inventories;
- (ii) Security under section 427 of the *Bank Act*, covering inventories as well as accounts receivables.

As previously stated, the Trustee has obtained a legal opinion on the validity and opposability of the security from the firm of Woods s.e.n.c.r.l.

Investissement Quebec

Investissement Québec holds first ranking security on all other assets of the Debtor. As at the date of bankruptcy, the books and records of the Debtor reflected indebtedness to Investissement Québec of \$391,250. Investissement Québec holds the following valid security:

- (i) Conventional hypothec without dispossession dated March 4, 2005;
- (ii) Conventional hypothec without dispossession dated December 6, 2007;
- (iii) Conventional hypothec without dispossession dated November 25, 2008.

Business Development Bank of Canada

Business Development Bank of Canada holds security that ranks after Investissement Quebec. As at the date of bankruptcy, the books and records of the Debtor reflected indebtedness to Business Development Bank of Canada of \$234,620 owing. The Business Development Bank of Canada holds the following valid security:

- (i) Conventional hypothec without dispossession dated November 4, 2005;
- (ii) Conventional hypothec without dispossession dated November 26, 2007.

b) Deemed Trusts

The books and records reflect unremitted deductions at source, totaling \$43,040.

c) Preferred Creditors

The books and records reflect amounts owing to the landlord, Groupe Dayan, totaling \$23,362.

d) Unsecured Creditors

The books and records reflect amounts owing to unsecured creditors totaling \$1,283,971 (excluding the unsecured portion of the secured claim). The Trustee has not yet received sufficient proofs claims to determine the accuracy of this amount.

5. SUMMARY OF THE PRELIMINARY ADMINISTRATION

a) Books and Record

The books and records of the Debtor were not up-to-date at the date of bankruptcy. These have not been updated since April 2011. The Trustee took possession of the books and records of the Debtor for future references.

b) Security and protective measures

Since September 19, 2011, the Trustee has performed the following:

- Inventory of the assets;
- Changing of locks on doors giving access to the premises;
- Insured the assets of the Estate;
- Occasional presence of a representative of the Trustee on the premises.

c) Reviewable Transactions and Preferential Payments

The Trustee is presently reviewing the books and records to determine whether payments were made that could be considered as a reviewable transaction and shall report its findings to the inspectors of the Estate.

6. EXPECTED REALIZATION AND PLANNED DISTRIBUTION

Based upon the information on hand, the realization will be insufficient to provide a dividend to unsecured creditors. It is apparent that the secured creditors will suffer a shortfall in this matter.

DATED AT MONTRÉAL, this 5th day of October, 2011

RSM Richter Inc.
Trustee


Per: 
Gilles Robitard, CA, CIRP
Administrator of the Bankruptcy

EXHIBIT 2



Bureau du surintendant
des faillites Canada

Office of the Superintendent
of Bankruptcy Canada

Un organisme
d'Industrie Canada

An Agency of
Industry Canada

District of Quebec

Division no.: Montreal

Court no.: 500-121-041229-119

Estate no.: 41-343008

IN THE MATTER OF THE RECEIVERSHIP OF:

*M. HADDAD SPORTSWEAR INC.
Insolvent person*

*RSM RICHTER INC.
Receiver acting behalf of:*

*BANK OF NOVA SCOTIA
Secured creditors:*

*DATE OF NOTICE: October 17, 2011
DATE OF APPOINTMENT: October 7, 2011
DATE OF TAKING OF POSSESSION OR CONTROL: October 7, 2011
AMOUNT OWED: \$2,000,000.00*

CERTIFICATE OF FILING – SEC. 245(1)

The undersigned, representing the Superintendent of Bankruptcy for this bankruptcy and insolvency district, certifies that:

- The above-mentioned receiver filed a notice pursuant to section 245(1) of the Bankruptcy and Insolvency Act:

Said receiver must:

- Forthwith after his taking possession or control, prepare a statement pursuant to section 246(1);
- Prepare further interim reports relating to the receivership at least once every six (6) months, pursuant to section 246(1);
- Forthwith after completion of his duties as receiver, prepare a final report and a statement of accounts, in accordance with section 246(3);
- Provide a copy of said report and statement to the Superintendent, to the insolvent person or his trustee, and to any creditor who requests a copy of thereof.

Claire Blake
Séquestre officiel

October 18, 2011

Date

5, Place Ville Marie, 8th floor, Montreal, (Quebec), H3B 2G2 / Telephone: 1-877-376-9902 / Facsimile (514) 283-9795

Canada



Protéger l'intégrité
du système
d'insolvabilité

Protecting the
integrity of the
insolvency System

EXHIBIT 3

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
DIVISION NO : 01-MONTREAL
NO COUR : 500-11-039401-100
NO DOSSIER : 41-342447

SUPERIOR COURT
(Commercial division)

In the matter of the receivership of M. Haddad Sportswear Inc.

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at
701-333 Chabanel W, Montreal, Quebec, H2S 1L6

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD FROM OCTOBER 7, 2011 TO APRIL 11, 2012**

Receipts

1 Collection of Accounts Receivable	\$	48,397	
			\$ <u>48,397</u>

Disbursements (Note 1)

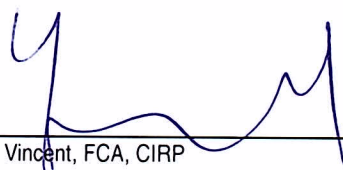
2 Filing fees		70	
3 Written communications		1,366	
4 Legal fees		1,152	
5 Taxes on disbursements		348	
6 Others	\$	<u>41</u>	<u>2,977</u>
			<u>2,977</u>

7 Funds on deposit to be remitted to Scotia Bank			\$ <u><u>45,420</u></u>
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Note 1: The Receiver fees for services rendered have been paid directly by the Bank.

Montreal, April 12, 2012

Date



Yves Vincent, FCA, CIRP