

**ONTARIO
SUPERIOR COURT OF JUSTICE**

B E T W E E N:

DOUG SNOW AND W. WARD SPENCER

Applicants

- and -

CENTRAL REPRODUCTIONS LIMITED

Respondent

**FIRST REPORT TO COURT
OF PADDON + YORKE INC.
IN ITS CAPACITY AS RECEIVER OF THE RESPONDENT**

September 12, 2012

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APPENDICES

1. Appointment Order of The Honourable Madam Justice Snowie dated August 7, 2012.
2. Notice of Receiver – Sub-sections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act*
3. PressClean Sales LLC Purchase Agreement dated July 19, 2012 and Addendum to Purchase Agreement dated July 27, 2012
4. Letter of Receiver to PressClean Sales LLC dated August 13, 2012
5. Appraisal conducted by Asset Appraisal dated August 15, 2012
6. Infinity Asset Solutions – Purchase and Sale Agreement dated July 25, 2012
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**FIRST REPORT TO COURT OF PADDEN + YORKE INC. IN ITS CAPACITY AS
RECEIVER OF THE RESPONDENT**

September 6, 2012

INTRODUCTION AND PURPOSE OF THE FIRST REPORT

1. On August 7, 2012, The Honourable Madam Justice Snowie issued an Order (the "**Appointment Order**") appointing Paddon + Yorke Inc. ("**P+Y**") as receiver (the "**Receiver**") of all assets, undertakings and properties of Central Reproductions Limited ("**CRL**" or the "**Company**"). A copy of the Appointment Order is attached as **Appendix 1**.

2. This first report (the "**First Report**") is filed by the Receiver in connection with a Motion being made to the Ontario Superior Court of Justice seeking an Order:

- (a) approving this First Report and the actions and activities of the Receiver set out in this First Report;
- (b) approving both an interim distribution to the Company's principal secured creditor, Royal Bank of Canada ("**RBC**"), and any further distributions to RBC, Doug Snow and W. Ward Spencer, of net recoveries realized in the receivership, up to the amount of the Company's indebtedness to RBC, Snow and Spencer, in accordance with the priority of their security and subject to an appropriate reserve for the fees and disbursements of the Receiver and its counsel.

3. In preparing this First Report, the Receiver has been provided with, and in making comments herein, has relied upon unaudited financial information, the Company's books and records and other information provided by the representatives of the Company and discussions with certain of the Company's employees. The Receiver has not audited, reviewed, or otherwise attempted to verify the accuracy and completeness of such information and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of such information contained in this First Report.

RECEIVER'S ACTIVITIES

4. The Receiver's actions since the Appointment Order related primarily to the activities detailed below:

- (i) CRL operated from leased premises at 4524 Eastgate Parkway, Mississauga, Ontario. CRL provided printing and reproductions services to a wide variety of customers. On the 7th day of August, the Receiver took possession of the Company's facility consisting of approximately 60,000 sq ft of warehouse and office space. The operations were discontinued immediately. The Receiver engaged the services of Reliable Lock & Safe to change the locks to ensure the safety and security of the assets. Additionally, the Receiver contacted Chubb Edwards Security Systems to change the alarm codes for security purposes and to provide contacts within the Receiver's office in the event of an alarm occurrence.
- (ii) The Receiver immediately met with all of the 42 employees of CRL and explained to them that their jobs had been terminated by the Company. The Receiver furthermore outlined their entitlements within the receivership process and the claims available to them through the provisions of the *Wage Earner Protection Program Act* ("WEPPA"). The Receiver also advised that arrangements would be made to ensure that Ceridian Payroll Services would process their final pay and the Records of Employment within the requirements of section 81.4 of the *Bankruptcy and Insolvency Act*.
- (iii) The Receiver with the assistance of the company controller reviewed the payroll records and calculated unpaid wages, unpaid vacation, unpaid commissions,

unpaid sick pay, notice and termination for all employees. The Receiver then compared the amounts owing to the amounts required/allowed to be paid as a super priority under Section 81.4 to determine the amounts payable to employees on the final payroll.

- (iv) The Receiver met again with all of the employees on the 14th day of August 2012 at which time each employee was given their final Pay Stub, their Record of Employment, and a letter setting out the amounts owing to them, but not paid, together with the appropriate Proof of Claim form. Each employee was invited to review the Proof of Claim and, if in agreement, to sign and return the form to the Receiver.
- (v) The Receiver collected 40 of the 42 employee Proofs of Claim, and registered the Receivership and each of those Proofs of Claim with Service Canada. The employees who filed Proofs of Claim were then sent via regular mail a letter setting out the process by which they could apply for WEPPA benefits directly with Service Canada.
- (vi) The Receiver arranged with Ceridian payroll services to prepare draft T4's for all employees for 2012. The Receiver has also requested Canada Revenue Agency to conduct a trust audit of the Company payroll. The draft T4's will be amended if necessary at the conclusion of the trust audit, and final T4's for all CRL employees for 2012 will be issued at that time.
- (vii) The Company had a quantity of large printing presses, printers, copiers, laminators, warehouse racking, pallet trucks, office furniture, fixtures, and computer equipment. The Receiver photographed the assets and took an inventory of the tangible personal property of the CRL, including goods that were believed to belong to third parties.
- (viii) The Receiver accessed the financial records of CRL with the assistance of the Company's controller, the accounts payable coordinator, and the accounts receivable coordinator. The Receiver reviewed certain of the books and records of

CRL for an approximate twelve-month period preceding the date of receivership. No apparent anomalies or items out of the ordinary course of business, such as transfers at undervalue, were noted.

- (ix) The Receiver met with the Landlord of CRL's premises to inform him of the receivership and to discuss generally the nature and timing of the events that the receiver expected to occur over the period of occupancy by the Receiver. The Receiver obtained a copy of the lease agreement. The Receiver has also continued to meet with the landlord from time to time and provide him access the premises.
- (x) The Receiver has had numerous telephone and email communications with creditors, parties inquiring about the availability of the assets, and the various utilities.
- (xi) A search was conducted under the Personal Property Security Registration System. All registrations, other than those of the RBC and the Applicants, were then systematically dealt with by the Receiver by contacting each of the respective parties. Arrangements were then made to return the various pieces of printing equipment and copiers in which the secured party had a proprietary right.
- (xii) The Receiver contacted RBC and arranged for the CRL's bank accounts to be frozen to the extent that no further debit transactions should be honoured by the bank without prior approval of the Receiver. In this regard, the Receiver authorized the bank to honour two debits: one to cover the payroll which had been processed on the prior Friday and the second for rent for the month of August. It was furthermore consider by the Receiver prudent in the circumstances to request that RBC cap the Company's line of credit at a reduced amount of \$500,000.00, thereby still providing sufficient room to cover the two important debits. Additionally, as many of CRL's customers pay their accounts receivable via electronic funds transfer, the Receiver elected to keep the operating bank accounts in place to ensure that there would be a seamless manner in which to continue to collect certain receivables. Additionally, the Receiver also opened a trust account

for accounts receivable payments received by cheque or method other than an electronic funds transfer.

- (xiii) The Receiver contacted Canada Post and requested that the mail of CRL be redirected to the Receiver's address.
- (xiv) For security purposes, the Receiver arranged to have all of the computer hard drives wiped clean to protect all sensitive information from unauthorized access. Additionally, all of the corporate books and records were carefully inspected and any records requiring statutory retention were turned over to Ward Spencer as a former officer and Director of the Company.
- (xv) On the 15th day of August 2012, the Receiver gave notice by ordinary mail to every known creditor of the Notice of Receiver pursuant to sections 245(1) and 246(1) of the *BIA*, a copy of which is attached as Appendix 2.
- (xvi) All relevant documentation relating to the proceedings has been posted on the Receiver's website at <http://www.paddonyorke.com/current-insolvency-assignments/>
- (xvii) The Receiver has prepared final stub-period returns for HST, WSIB, and EHT. Arrangements have been made with CRA to conduct a trust audit as soon as possible.
- (xviii) The Receiver engaged the services of Bennett Jones LLP as legal counsel ("Counsel") to the Receiver. Counsel reviewed the security held by the Royal Bank of Canada, Doug Snow and Ward Spencer on the property and assets of CRL and has provided a written opinion confirming that security to be valid and enforceable, subject to the usual assumptions and qualifications.
- (xix) The Receiver contacted Lackner McLennan Insurance Ltd. to notify them of the Receivership, and to seek their confirmation to maintain the existing insurance coverage until the leased premises could be returned to the landlord.

ACCOUNTS RECEIVABLE

5. The accounts receivables which were listed on the books and records of the Company as at the date of receivership were \$999,370.12.
6. The Receiver sought the assistance of CRL's accounts receivable coordinator and obtained customer statements of all accounts receivable owing to CRL as at the date of Receivership.
7. The Receiver has made extensive efforts to collect accounts receivable, including numerous calls and e-mails to the Company's account debtors. These collection efforts have resulted in collections of \$584,230.99, representing 58% of the outstanding balance of accounts receivable as at the date of receivership.

COMPLETION OF MATERIAL PRE-RECEIVERSHIP TRANSACTIONS

8. As set out in detail in the Application Record and Supplementary Application Record, both filed on the Application for Appointment of the Receiver and both attached to the Motion Record on this motion, the Receiver was appointed for the limited purpose of completing the orderly and cost-effective wind down of CRL. In this regard, prior to the Receiver's appointment, the Company had engaged in three sales transactions for its significant assets, which sales transactions were disclosed to the Court prior to appointment of the Receiver. To confirm the commercial reasonableness of these asset sale transactions, the Receiver has obtained independent appraisals of the major assets sold that confirm they have been sold for fair market value.

Sale of 2005 Heidelberg Model XL105 6+LX Printing Press

9. Prior to the appointment of the Receiver, a Purchase and Sale Agreement had been entered into by CRL and PressClean Sales LLC ("PressClean") on the 19th day of July, 2012, and amended on the 27th day of July, 2012, for the sale of a 2005 Heidelberg Model XL105-6+LX printing press in the amount of CAD\$1,140,000.00. A copy of that that Agreement and the Addendum are attached hereto as Appendix 3. It was confirmed by the Receiver that the deposit

in the amount of CAD\$114,000.00 had been paid by PressClean and deposited to CRL's operating account on or about July 19, 2012.

10. Prior to the Receiver confirming to PressClean that it would complete the transaction which CRL had entered into prior to the commencement of the receivership, the Receiver sought the advice and input of an independent appraiser, Asset Appraisal Inc. ("Asset Appraisal"), who opined that the appraised value was believed to be an amount of approximately \$1,100,000.00. Accordingly, the Receiver was of the view that it would be a commercially reasonable transaction to complete. The Receiver was further of the view that there would be a high risk of a significantly lower realization in the circumstances if the Receiver declined to complete the transaction and attempted to market and sell this printing press anew. With the benefit of the advice from Asset Appraisal, on August 13, 2012 the Receiver wrote to PressClean to confirm its intention to complete the transaction. A copy of that letter is attached as Appendix 4. Asset Appraisal subsequently confirmed its appraisal value in writing, a copy of which is attached thereto as Appendix 5.

11. On August 13, 2012, PressClean wire transferred the balance of the purchase price being a sum of CAD\$1,026,000.00 to the Receiver's trust account. The Receiver monitored the dismantling and removal of the Heidelberg printing press from the premises, a process which required specialized equipment and highly trained technicians and a period of seven days to complete, and which required five, 53' trailers to transport to the USA. The monitoring by the Receiver was felt to be particularly important to safeguard the building and the other assets of the receivership.

Sale of Remaining Assets

12. On July 25, 2012 prior to the commencement of the receivership, the Company had entered into a Purchase and Sale Agreement for the sale of all of the physical assets remaining to Infinity Asset Solutions Inc. ("Infinity"), excluding the Heidelberg XL Press, two Heidelberg Digimaster 9110 Printers, and three leased office photocopiers. A copy of this agreement is attached hereto as Appendix 6.

13. The purchase price offered by Infinity was an amount of \$257,500.00 in respect of which a deposit in the amount of \$75,000.00 was paid to CRL and deposited to the Company's operating account on or about July 25, 2012. The Receiver contacted Infinity to confirm its intention to complete the transaction which it had entered into. However, as a precautionary measure, the Receiver satisfied itself that the transaction entered into by CRL for the sale of the remaining assets was commercially reasonable. Included in the appraisal of Asset Appraisal (Appendix 5) is a valuation in the amount of \$257,060 for the same bloc of remaining assets included in the sale to Infinity

14. The balance of the purchase price on the sale to Infinity in the amount of \$182,500.00 was received by the Receiver on September 11, 2012 and has been deposited in the Receiver's trust account.

Sale of Toronto Maple Leafs Personal Seat License

15. The Receiver was informed by CRL that a Purchase and Sale Agreement had been entered into by CRL and S.A.F. Management Ltd. ("SAF") on the 23rd day of July, 2012, for the sale of a Toronto Maple Leafs Personal Seat License ("PSL"). The price negotiated for the PSL was a sum of \$60,000.00 in respect of which CRL had received a deposit from SAF prior to the receivership. It is the Receiver's intention to complete the transaction which the Receiver is advised will take a period of approximately eight weeks to complete. Given the widely understood market value of such seat licenses, the Receiver is of the view the transaction is commercially reasonable.

INTERIM RECEIPTS AND DISBURSEMENTS (August 7 to September 12, 2012)

16. The receipts in the estate for the period from August 7 to September 12, 2012 were \$1,854,475.45. Disbursements during the period (excluding any professional fees and costs of the Receiver and Bennett Jones) were \$229,137.75. Payments to the first secured creditor to date total \$390,080.86, leaving a balance in the Receiver's trust account of \$1,235,256.84. A copy of the Statement of Receipts and Disbursements is attached hereto as Appendix 6.

PROPOSED INTERIM DISTRIBUTION

17. The Company's senior secured creditor is RBC. The security held by RBC is described in the affidavit of Doug Snow sworn August 1, 2012 (the "Snow Affidavit"), which was filed in support of the application for the appointment of a Receiver and is attached to this brief of materials.

18. The indebtedness of CRL to RBC as at August 7, 2012 (immediately prior to the commencement of the receivership) was a sum of \$1,420,000.86 of which an amount of \$976,156.86 represents four separate equipment loan contracts. The balance of \$443,844.00 represents the balance of the operating line.

19. Bennett Jones has opined on the validity and enforceability of the security granted by the Company to RBC and has advised the Receiver that, subject to the usual assumptions and qualifications, the security granted by the Company to RBC is valid and enforceable.

20. Certain of the Company's customers pay their account through direct deposits to CRL's operating account. Throughout the receivership, RBC has periodically debited the operating account as funds become available and applied these against the operating line. RBC has done so on the basis that it is entitled to continue to exercise a right of set off. These setoffs have reduced the amount owing to RBC on account of the operating line to a sum of approximately \$68,343.09 as at September 12, 2012 after having applied by way of set off an amount of \$380,000.00 as against the operating line and \$10,080.86 as against outstanding Visa account balances. The total amount still outstanding to RBC, including the four separate equipment loans, appears to be a sum of approximately \$1,044,499.95.

21. The second ranking secured creditors of CRL are Snow and Spencer. The security held by Snow and Spence is described in the Snow Affidavit.

22. The indebtedness of the Company to Snow and Spencer as at August 7, 2012 is \$141,440.07 and \$95,000.58, respectively.

23. Bennett Jones has opined on the validity and enforceability of the security granted by the Company to Snow and Spencer and has advised the Receiver that, subject to the usual

assumptions and qualifications, the security granted by the Company to Snow and Spencer is valid and enforceable.

24. The Receiver estimates the total claim under the Wage Earners Protection Program ("WEPP") ranking in priority to all creditors is approximately \$1,208.96 in respect of one employee who has claimed a carryover of a vacation pay amount and with which we concur is correct.

25. Other than the foregoing claim from WEPP, the Receiver is not aware of any creditor having a claim which ranks in priority to the security of RBC, including any deemed trust claims.

26. The Receiver therefore recommends an interim distribution to RBC in the amount of approximately \$1,044,499.95 which will pay out the indebtedness of CRL to RBC in full. The receiver further recommends an interim distribution to Snow and Spencer in the amount of \$14,144.00 and \$9,500.00, representing approximately 10% of their claim. With the collection of the accounts receivables remaining, the book value of which is not enough to satisfy the indebtedness of Snow and Spencer, the Receiver also recommends that any additional recoveries realized by the Receiver and funds on hand, net an appropriate reserve for the fees and disbursements of the Receiver and its counsel, may be distributed to them up to the amount of their indebtedness and in accordance with the priority of their security, as further distributions without further Order of this Court.

27. Accordingly, the Receiver seeks approval from this Honourable Court for the following interim distribution of funds currently on hand:

| | |
|--|-------------------------|
| Funds on hand as at September 12, 2012 | \$1,235,256.84 |
| Less: Provision for WEPPA | 1,208.96 |
| Interim distribution to RBC | 1,044,499.95 |
| Interim distribution to Snow | 14,144.00 |
| Interim distribution to Spence | 9,500.00 |
| Balance of Funds on Hand after Proposed Distribution | <u>\$165,903.93</u> |


CONCLUSION

28. Subject to further recoveries on the accounts receivable and the pre-receivership sales, and a small number of other administrative matters, such as the turnover of the vacant premises to the landlord, the administration of this receivership is, for the most part, complete.

29. Accordingly, for reasons set out in this First Report, the Receiver respectfully requests an Order of this Honourable Court:

- (i) approving this First Report and the actions and activities of the Receiver set out in this First Report; and
- (ii) approving both an interim distribution to the Company's principal secured creditor, RBC, to Snow and Spencer, and any further distributions to Snow and Spencer of net recoveries realized in the receivership, up to amount of the Company's indebtedness to RBC, Snow and Spencer, in accordance with the priority of their security and subject to an appropriate reserve for the fees and disbursements of the Receiver and its counsel;

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 12th day of September, 2012


Lambert Huizingh, CRP