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CV-12-9656-0000

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CITATION: PCAS Patient Care Automation Services Inc. (Re), 2012 ONSC 2714
COURT FILE NO.: CV-12-9656-00CL
DATE: 201200505

SUPERIOR COURT OF JUSTICE – ONTARIO

COMMERCIAL LIST

RE: 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 PCAS
Patient Care Automation Services Inc. and 2163279 Ontario Inc., Applicants

BEFORE: D. M. Brown J.

COUNSEL: S. Babe and I. Aversa, for the Applicants

M. Wasserman, for the Monitor, Pricewaterhouse Coopers Inc.

R. Thornton and A. Shepherd, for 2320714 Ontario Inc., the DIP Lender

D. Bulas, for Castcan Investments

R. Slattery, for Royal Bank of Canada

HEARD: May 4, 2012

REASONS FOR DECISION

I. Request for extension of CCAA stay of proceedings and increase in DIP Lending Facility

[1] PCAS Patient Care Automation Services Inc. and 2163279 Ontario Inc. move under the *Companies' Creditors Arrangement Act* for an extension of the Stay Period and an increase in the DIP Facility. Yesterday I granted and signed the order sought. These are my reasons for so doing.

II. Events since April 20, 2012

[2] The history of this matter is set out my Reasons of April 20, 2012 (2012 ONSC 2423).

[3] The applicants report that the national pharmacy retail chain in the United States with which it had entered a MOU (the "Potential Customer") was not prepared to commit to a definitive contract with PCAS until the company secures sufficient funding to complete the deliverables under any such contract and the chain knows who will gain or retain control of

PCAS in these proceedings. As a result, whereas on April 20 the applicants had hoped the extension of the stay of proceedings then granted would provide them with time to enter into a definitive contract with the Potential Customer, events have not unfolded in that manner.

[4] However, the applicants report that prospects exist for enhanced DIP Lending which, if committed, would enable them to develop and seek approval for a sale and investor solicitation process ("SISP"). As put by Mr. Loreto Grimaldi in his May 4, 2012 affidavit:

The DIP Lender has advised that, since the date of the April 20 Order, it has received commitments and/or funding sufficient to increase the DIP Facility to \$4,525,000. The Applicants are therefore seeking to have their authorized borrowing under the DIP Facility increased to \$4,525,000 in the aggregate.

The DIP Lender has also advised that it has a firm, but conditional commitment from a strategic financier for an additional \$3,000,000 in funding for the DIP Facility. The most significant hurdle among the conditions to this new financing is that the DIP Lender must have an additional \$1,000,000 available to commit to the DIP Facility. There are a number of other parties who have made less firm commitments ranging from \$500,000 to \$4,950,000. Some of these are conditional on the DIP Lender receiving a significant investment like the \$3,000,000 commitment it just received, and some are so recent (received within the past 24 hours) that they simply need time to be firmed up. The DIP Lender has been working hard to firm up those other commitments to satisfy the main condition on the \$3,000,000. The Applicants are hopeful that this can be done prior to May 8.

I believe that the Applicants will not be able to continue their operations, finalize the funding required to conduct the SISP or initiate any restructuring efforts without an increase in the amount of the DIP Facility to \$4,525,000.

[5] The applicants therefore seek an extension of the Stay Period until, and including, May 8, 2012 and an order increasing the amount the Applicants are currently authorized to borrow under the DIP Facility from 2320714 Ontario Inc. (the "DIP Lender") from \$4,370,000 to \$4,525,000.

[6] The Monitor recommends that the Court grant such orders. In its Third Report dated May 3, 2012 the Monitor reported:

Subject to the increase in the limit on the DIP Facility...the Company should have sufficient liquidity to continue to fund its operations during the extension of the Stay Period...

Notwithstanding that the Company does not have sufficient liquidity to implement a SISP, based on the commitment of \$3 million in contingent DIP funding and the continued efforts of the DIP lender and the Company, the Monitor supports the Company's request for an extension of the Stay period to May 8, 2012.

An extension of the Stay Period to May 8, 2012 will provide the DIP Lenders and the Company with additional time to attempt to secure the additional \$1 million of committed DIP funding which, subject to the other conditions, will enable it to access the

\$3 million commitment referred to above. If these commitments are secured, the Company should have funding to implement a SISP. Termination of the stay of proceedings against the Applicants would likely lead to the Company making an assignment in bankruptcy which would have a significant adverse effect on stakeholders.

The Monitor is of the view that the Applicant have acted and are acting in good faith and with due diligence.

The Monitor also reported:

The Monitor has advised the Company and counsel to the DIP Lender that the Monitor will not be in a position to support a further extension to the stay of proceedings, unless: (i) funds are committed by May 8, 2012 that are sufficient to provide the Company with the liquidity needed to implement a SISP, or (ii) the Company has sufficient liquidity and there exists additional information or facts which enable the Monitor to support such an extension.

III. Request for an extension of the stay of proceedings

[7] In its Third Report the Monitor expressed the view that the applicants have acted, and are acting, in good faith and with due diligence. I agree that the evidence supports such a conclusion: *CCAA*, s. 11.03(b). Although the prospects for concluding an immediate definitive long-term contract with the Potential Customer are not what they were at the time of the last motion, the applicants continue to pursue that opportunity. The DIP Lender has received a commitment from a third party to provide \$3 million in DIP financing, conditional upon the applicants raising an additional \$1 million in financing. If secured, that financing may enable the applicants to begin a SISP process, although the Monitor noted in its Report that a cash flow forecast would have to be developed to determine the liquidity required to run such a process. The Monitor is satisfied that with the increased DIP Facility for which approval is sought, the applicants will have sufficient liquidity to continue to fund its operations during the extended stay period.

[8] Given those circumstances, I was satisfied that an extension of the stay period until May 8, 2012 should be granted pursuant to *CCAA* s. 11.01(2) and (3).

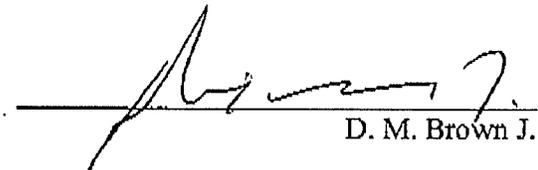
IV. Request for an increase in the DIP Lending Facility

[9] Pursuant to the Initial Order the DIP Lender's Charge ranked in priority to all other interests "with the exception of valid, enforceable and perfected Encumbrances existing as at the date of filing". The proposed increase in the amount of the DIP Lending Facility will not affect those priorities. The two general secured creditors, RBC and Castcan, do not oppose the increase in the DIP Lending Facility. In the circumstances disclosed in the evidence an increase in the DIP Lending Facility is necessary in order to continue the operations of the applicants. Taking into account the factors set out in *CCAA* s. 11.2(4), I approved the increase in the DIP Lending Facility to \$4.525 million.

V. Conclusion

[10] By way of summary, for those reasons I granted the orders extending the Stay Period until May 8, 2012 and increasing the DIP Facility to \$4,525,000. I approved the Third Report of PricewaterhouseCoopers Inc., in its capacity as the Court-appointed monitor of the Applicants dated May 3, 2012 and approved the actions of the Monitor described therein.

[11] The next return date of this matter will be before me no later than 6 p.m. on May 7, 2012. Counsel for the applicants shall inform the Commercial List Office of the desired time for an appearance as soon as counsel is in a position to do so.



D. M. Brown J.

Date: May 5, 2012