

Court File No. CV-13-10370-00CL

**SHS Services Management Inc. /  
Gestion des Services SHS Inc.  
SHS Services Limited Partnership**

**SECOND SUPPLEMENTARY REPORT TO THE  
RECEIVER'S ELEVENTH REPORT TO THE COURT**

**April 21, 2015**

Court File No. CV-13-10370-00CL

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

**IN THE MATTER OF THE RECEIVERSHIP OF SHS SERVICES MANAGEMENT  
INC. / GESTION DES SERVICES SHS INC. AND SHS SERVICES LIMITED  
PARTNERSHIP**

**SECOND SUPPLEMENTARY REPORT TO THE  
ELEVENTH REPORT TO THE COURT  
SUBMITTED BY PRICEWATERHOUSECOOPERS INC.  
IN ITS CAPACITY AS RECEIVER**

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- A. First Report of the Interim Receiver dated December 20, 2013 (selected pages)
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**NOTICE TO READER:** The prior reports of the Receiver and related materials filed with the Court are available on the Receiver's website at [www.pwc.com/car-shs](http://www.pwc.com/car-shs). Links to key documents are contained in the footnotes of this report.

## INTRODUCTION

1. The purpose of this supplement (the **"Second Supplementary Report"**) to the Receiver's Eleventh Report to the Court dated February 6, 2015 (the **"Eleventh Report"**) is to update the Court on the Receiver's motion to obtain an order against a group of the Company's licensees (the **"Licensee Respondents"**) to compel payment of amounts owed to the Receiver for work completed during the Interim Receivership Proceedings and Receivership Proceedings, pursuant to certain license agreements (the **"License Agreements"**) with SHS.

## DISCLAIMER AND TERMS OF REFERENCE

2. In preparing this report and conducting its analysis, the Receiver has obtained and relied upon certain unaudited, draft and/or internal financial information of the Company, the Company's books and records, and discussions with various parties including former SHS employees retained on an interim basis by the Receiver (collectively, the **"Information"**).
3. Except as otherwise described in this report:
  - a) The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards pursuant to the Chartered Professional Accountants Canada Handbook - Assurance;
  - b) The Receiver has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Chartered Professional Accountants Canada Handbook - Assurance.
4. The Second Supplementary Report should be read in conjunction with the Eleventh Report and the first Supplementary Report to the Eleventh Report dated April 6, 2015 (the **"Supplementary Report"**). Capitalized terms not otherwise defined are as defined in the Receivership Order or the Eleventh Report.

## APPLICATION FOR LICENSEE RESPONDENT ORDER – RESPONDENT FACTUM

5. On April 17, 2015, the Licensee Respondents filed a factum (the “**Respondent Factum**”) in respect of the Receiver’s application for the Licensee Respondent Order. The factum contains certain inaccuracies which the Receiver wishes to address.
6. The First Report of the Interim Receiver dated December 20, 2013 (the “**First Report**”), the Second Report of the Interim Receiver dated January 7, 2014 (the “**Second Report**”) and the Third Report of the Receiver dated January 28, 2014 (the “**Third Report**”), discuss the actions taken by the Interim Receiver (and subsequently the Receiver) to pursue the limited resumption of certain business activities of SHS<sup>4</sup>. These activities included the work previously performed by the Licensee Respondents. As indicated in those reports:
  - a) On December 27, 2013, SHS and Sears entered into an agreement (the “**Backstop Agreement**”), which provides support to SHS and the Interim Receiver from Sears for the completion of orders for services that had not been completed as of the Date of Appointment, and for managing the Licensees in connection with the services performed by them (the “**PSP Jobs**”);
  - b) Pursuant to the Backstop Agreement, SHS was to use commercially reasonable efforts to re-commence the carpet/upholstery cleaning and duct cleaning businesses previously provided by the Licensees, including the Licensee Respondents. The Backstop Agreement included specific provisions for financial support in respect of the estate’s administrative costs for the PSP Jobs; and
  - c) The Interim Receiver and Receiver undertook a number of actions to continue work by the Licensees. By January 2, 2014, SHS and the Interim Receiver had sent notice to 47 Licensees, including the Licensee Respondents, who perform carpet/upholstery and duct cleaning work, advising that SHS proposed to continue operations. The Receiver followed up on these notices by phone calls directly to the

<sup>1</sup> First Report: [http://www.pwc.com/en\\_CA/CA/car/shs/assets/shs-019\\_122013.pdf](http://www.pwc.com/en_CA/CA/car/shs/assets/shs-019_122013.pdf)

<sup>2</sup> Second Report: [http://www.pwc.com/en\\_CA/CA/car/shs/assets/shs-045\\_010814.pdf](http://www.pwc.com/en_CA/CA/car/shs/assets/shs-045_010814.pdf)

<sup>3</sup> Third Report: [http://www.pwc.com/en\\_CA/CA/car/shs/assets/shs-058\\_012914.pdf](http://www.pwc.com/en_CA/CA/car/shs/assets/shs-058_012914.pdf)

<sup>4</sup> See First Report paragraphs 13-18, Second Report paragraphs 12-26, and Third Report paragraphs 25-31

Licensees, including the Licensee Respondents. This is contrary to the suggestions in the Respondent Factum about the Receiver's actions in this regard.

7. The Respondent Factum states at paragraph 14 that the Receiver "took down" the computer system by which the Licensees received leads on December 14, 2013 (the "**Centah System**"), and after that date no leads or service calls went to the Respondents from SHS. This is not accurate.
8. Firstly, the Receiver only temporarily suspended access to the Centah System to all but a limited number of former SHS employees retained by the Receiver in order to evaluate the existing orders and determine whether and how they will be completed, and on what terms they could be completed. These actions were discussed in the First Report and the Second Report.
9. Secondly, in addition to the leads shared through the Centah System, Licensees also received leads for new orders by other means. Some customers contacted Licensees directly to request services covered under the License Agreements. Additionally, SHS maintained toll-free telephone numbers that connected potential customers directly with the Licensees to order services covered under the License Agreements. These phone numbers were not terminated by the Receiver at any point during the Interim Receivership Proceedings or the Receivership Proceedings.
10. The Respondent Factum suggests that the Receiver saw no value in the work performed by the Licensee Respondents. The Receiver is of the view that its actions during the Receivership Proceedings reflect prudent, good-faith efforts to continue these operations. The accounting provided by the Licensee Respondents (referred to in the Eleventh Report and the Supplementary Report) demonstrates that the Licensee Respondents continued to perform services during the Relevant Period that, in the Receiver's view, were properly covered by the terms of the License Agreements.
11. Based on the foregoing observations, the Receiver remains of the view that the Amount Owed by the Licensee Respondents is fully payable to the Receiver in respect of services performed by the Licensee Respondents during the Interim Receivership and Receivership Proceedings, and that it is appropriate for the Licensee Respondent Order to be made by the Court.

12. The Receiver respectfully requests that this Court grant the Licensee Respondent Order.

All of which is respectfully submitted on this 21<sup>st</sup> day of April, 2015.

**PricewaterhouseCoopers Inc.**

In its capacity as Receiver of SHS Services Management Inc. / Gestion des Services SHS Inc. and  
SHS Services Limited Partnership



Mica Arlette  
Senior Vice President

# TAB A

**Court File No. CV-13-10370-00CL**

**SHS Services Management Inc. /  
Gestion des Services SHS Inc.  
SHS Services Limited Partnership**

**INTERIM RECEIVER'S FIRST REPORT TO THE COURT**

**December 20, 2013**



Court File No. CV-13-10370-00CL

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

**IN THE MATTER OF THE INTERIM RECEIVERSHIP OF  
SHS SERVICES MANAGEMENT INC. / GESTION DES SERVICES SHS INC.  
AND SHS SERVICES MANAGEMENT LP**

**IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 47  
OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985 c.B-3, AS AMENDED;  
AND SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C-43,  
AS AMENDED**

**FIRST REPORT TO THE COURT  
SUBMITTED BY PRICEWATERHOUSECOOPERS INC.  
IN ITS CAPACITY AS INTERIM RECEIVER**

**INTRODUCTION**

1. By Order (the "**Appointment Order**") of Mr. Justice Moratwetz of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated December 13, 2013 (the "**Date of Appointment**"), pursuant to section 47 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c.B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C-43, as amended (the "**CJA**"), PricewaterhouseCoopers Inc. was appointed as interim receiver and receiver (in both capacities referred to as the "**Interim Receiver**") of all of the assets, undertakings and properties of SHS Services Management Inc. / Gestion des Services SHS Inc. ("**SHS**") and SHS Services Management LP ("**SHS LP**," and collectively with SHS, the "**Company**") acquired for, or used in relation to a business carried on by the Company, including all proceeds thereof (the "**Property**"). The Interim Receiver's appointment pursuant to section 47 of the BIA was made until January 11, 2014. These proceedings shall be referred to herein as the "**Interim Receivership Proceedings**". A copy of the Appointment Order is attached as Appendix "A" to this report.
2. The application for the Appointment Order was brought by the Company. The Company's principal secured creditors are Sears Canada Inc. ("**Sears**") and Alaris Income Growth Fund Partnership ("**Alaris**"), pursuant to the terms of a loan agreement with SHS.
3. The purpose of this report (the "**First Report**") is to provide an update to the Court on:

- a) The Interim Receiver's activities since the Date of Appointment;
  - b) The relief sought in the comeback hearing scheduled for December 23, 2013 (the "Comeback Hearing"); and
  - c) The anticipated actions to be taken in the Interim Receivership Proceedings.
4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars and exclude harmonized sales tax ("HST"). Capitalized terms not otherwise defined are as defined in the Appointment Order.

#### **ACTIVITIES OF THE INTERIM RECEIVER**

5. The Appointment Order was granted at approximately 4:30pm on December 13, 2013. Since that time the Interim Receiver has completed several activities pursuant to its duties and powers as set out in the Appointment Order. The activities have been primarily focused on:
- a) taking possession and control of the assets, undertakings and properties of the Company;
  - b) issuing notices of termination to employees on behalf of the Company;
  - c) retaining, on behalf of the Company, certain select staff on a term and task contract basis;
  - d) suspending substantially all business operations pending a financial viability review; and
  - e) completing other statutory and operational requirements.

#### **POSSESSION AND CONTROL**

6. Representatives of the Interim Receiver attended at the Company's head office in Markham, Ontario and at the Company's operating locations in Vancouver, Calgary, Edmonton, Winnipeg, Cambridge (ON), Toronto, Ottawa and Montreal in the afternoon and evening of December 13, 2013. On arrival, the Interim Receiver arranged meetings with employees to discuss the status of the Company's operations, the receivership

process, and the Interim Receiver's proposed course of action.

7. At those locations, the Interim Receiver arranged for the locks to be changed on all access doors, changed security system passcodes, secured a copy of the Company's books and records, and obtained payroll records and a list of customers and creditors. Access to the Company's computer systems was restricted to key retained individuals, and backups of system data were obtained. The Interim Receiver also arranged for inventory counts to be performed in each location, which were performed in the week of December 16, 2013.
8. The Interim Receiver did not attend at the Company's locations in Regina (SK) and Oshawa (ON), but has arranged for former employees of SHS who were retained by the Interim Receiver to exercise control over assets at those locations and perform the actions noted above as required.
9. Some of the Company's inventory is located in sites managed by Sears, including certain distribution centres and store locations. Sears has confirmed to the Interim Receiver that this inventory shall not be moved, removed or transferred without the direction of the Interim Receiver. Further, Sears shall not attempt to market, sell, or otherwise relinquish control of this inventory without the direction of the Interim Receiver. Arrangements will be made shortly to perform a count of this inventory.
10. The Interim Receiver has frozen the bank accounts held by the Company with HSBC Bank Canada ("HSBC"), and established new accounts in the name of the Interim Receiver at the Royal Bank of Canada. At the time of taking possession, approximately \$1.2 million of funds was held in the accounts of the Company. In the Interim Receiver's notice to creditors filed pursuant to section 246(1) of the BIA, the Receiver indicated funds of approximately \$1.9 million were obtained. This balance had been reported by HSBC, but did not take into account certain cheques or payments totaling approximately \$0.7 million which had been presented and accepted by HSBC for payment prior to the Interim Receiver's appointment but for which the account balance had not yet been updated. This is being reviewed by the Interim Receiver.

#### **EMPLOYEES**

11. Pursuant to paragraph 13 of the Appointment Order, the Interim Receiver, on behalf of the Company, terminated the employment of all of the Company's employees upon taking

possession of the Company on December 13, 2013. Verbal notice was given to employees present at the Company's locations on taking possession that day. Additional notices of termination were sent by mail on December 16, 2013.

12. Certain former employees of SHS have been temporarily retained by SHS through the Interim Receiver on a term and task contract basis to provide assistance to the Interim Receiver.

#### OPERATION OF THE COMPANY

13. The assets and operations of the Company were described in the affidavit of Micheal Clements sworn December 12, 2013 (the "Clements Affidavit") which was filed as part of the application for the Interim Receivership Proceedings.
14. The products and services that SHS performed included a range of interior and exterior home renovations, repairs, and other home maintenance services, in addition to the sale of air conditioners, furnaces, fireplaces, and interior and exterior renovation-related products, as well as installation and assembly of products purchased at Sears retail outlets (collectively the "Services"). The provision of the Services was pursuant to the terms of a Branded Concession Agreement between Sears and SHS dated December 20, 2012 (the "BCA"). In addition, SHS operates a hot water heater rental business (the "Water Heater Business").
15. The Interim Receiver is not currently accepting new orders for Services under the BCA. Orders for Services that were received by SHS prior to the Date of Appointment and which have not yet resulted in installations or other work performed in customer homes (the "Work In Process") are being reviewed and evaluated to determine whether and how they will be completed, and on what terms they may be completed. Among other things, the Interim Receiver is considering the net financial benefit to the estate of SHS of performing such work, in part given the deposits received from a number of customers prior to the Interim Receivership Proceedings.
16. The Interim Receiver is working diligently to complete this review, and will consult further with Sears and Alaris on this issue. The Interim Receiver will report further to the Court on its findings.

17. For emergency repairs, warranty or service work required by customers of SHS for Services that were either incomplete on or performed prior to the Date of Appointment, the Interim Receiver is working with Sears to identify such work orders so that Sears may elect whether it wishes to complete such work immediately. If completed now on behalf of the Company, this specific type of work is not expected to result in a net financial benefit to SHS.
18. Counsel for Sears has indicated to the Interim Receiver that to the extent that Sears has rights to assert claims against SHS under the BCA (or any related agreements) for indemnity, it reserves its right to assert a claim for such expenses, and that any work Sears elects to perform for customers of SHS itself should be done so on a without prejudice basis (on the part of Sears and the Interim Receiver). The Interim Receiver has not yet reviewed the merits of any claims which Sears may wish to assert pursuant to the BCA or otherwise.

#### **OTHER ACTIVITIES**

19. The Interim Receiver notified the Company's various utility and telephone companies of our appointment and provided a copy of the Receivership Order to ensure service was not disrupted. The Interim Receiver has also spoken with certain key service providers to ensure continuation of services pursuant to the terms of the Appointment Order.
20. As of the date of the First Report, the Interim Receiver has received several claims pursuant to section 81.1 of the BIA for the repossession of certain inventory by unpaid suppliers. The Interim Receiver expects to receive additional claims and will consider all such claims in accordance with its duties.
21. The Interim Receiver is reviewing the potential existence of other priority claims for statutory deemed trust amounts, or priority claims pursuant to sections 81.4 and 81.6 of the BIA. The Interim Receiver is aware of amounts that were paid by the Company prior to the Interim Receivership Proceedings which among other things would have reduced these amounts owing. Both Sears and Alaris have requested further information on such payments. The Interim Receiver will report further on this in a future report to the Court.
22. The Interim Receiver has also performed other activities incidental to its duties and powers under the Appointment Order and the BIA, including the following:

- a) Initial review and reconciliation of accounting information provided by the Company, assistance with cut-off of pre- and post-receivership accounting in the Company's financial records, and preparation of initial cash flow forecasts for the Interim Receivership;
  - b) Reviewed the adequacy of insurance coverage, advised the Company's insurer of the receivership, and requested to be added as a named insured to the policy;
  - c) Issued statutory notices pursuant to s. 245 and 246(1) of the BIA, which were mailed on December 20, 2013; and
  - d) Held calls with Sears and Alaris regarding the status of the Interim Receivership Proceedings.
23. The Interim Receiver has established a website ([www.pwc.com/car-shs](http://www.pwc.com/car-shs)) for creditors, customers and other stakeholders to obtain further information on the Interim Receivership Proceedings. As of December 19, 2013 the website had received over 1600 unique visitors. The Company's call center (1-800-469-4663) has responded to over 4,000 calls with information on the Interim Receivership Proceedings. The Interim Receiver's phone hotline (1-855-376-8474) has received over 800 calls, which are being responded to in priority sequence.

#### COMEBACK HEARING

24. In his endorsement on granting the Appointment Order, Justice Morawetz stipulated that a comeback hearing was to be held on December 23, 2013. The Interim Receiver filed a notice of motion on December 18, 2013 seeking an order to amend the Appointment Order (the "**Amendment Order**") for the following purposes.

#### CONTINUATION OF SERVICES PROVISIONS SHALL NOT APPLY TO BRANDED CONCESSION AGREEMENT

25. Prior to the Interim Receivership Proceedings, Sears asserted grounds to terminate the BCA, but refrained from actually terminating the contract on the basis that the receivership order would contain a limited exemption from the stay of proceedings relative to Sears's ability to terminate the BCA. At that time, the Interim Receiver agreed

to seek this relief upon its appointment.

26. The BCA is attached as Appendix "B" of this report. Due to the commercially sensitive nature of some of the information in the schedules to the BCA, these have not been included.
27. The BCA governs the conduct of the business as it relates to, among other things, the use and promotion of the Sears trademark and logo, as well as other intellectual property of Sears. It also deals with service level commitments in the conduct of the business. Given the use of the Sears' proprietary intellectual property, Sears support for the continuation of the business during a receivership was contingent upon Sears having the ability to terminate the CBA, on terms providing for a transition period acceptable to the Interim Receiver, on reasonable notice to the Interim Receiver. If the CBA had been terminated before the receivership, it is highly unlikely that the Interim Receiver would be able to market parts of the business or complete any outstanding work orders or repair work.
28. The continuation of the BCA during the receivership gives the Interim Receiver the opportunity to seek buyers for all or parts of the business, and preserves the Interim Receiver's ability to have Sears process credit card sales and other essential services which are provided to SHS under the CBA and related documents. It also allows SHS to continue to use Sears locations to safely store assets of SHS which are in a Sears store or warehouse, without the cost of relocating these assets to a third party warehouse.
29. The Interim Receiver considers that this relief is appropriate in the circumstances. The specific relief sought includes a notice requirement, transitional provisions, and indemnification for costs by Sears which are of benefit to SHS in the Interim Receivership Proceedings. Further, this exclusion does not affect the rights of SHS with regards to the Water Heater Business, which the Interim Receiver considers to be of potential value.

#### **INCLUSION OF E-SERVICE PROTOCOL**

30. The proposed order includes the adoption of the E-Service Protocol of the Commercial List. The E-Service Protocol has recently come into effect and, pursuant to section 7 of the Protocol, is to be used in all Receivership proceedings. The Receiver believes that implementation of the E-Service Protocol will allow for the efficient service of materials and will benefit all stakeholders.

#### ANTICIPATED ACTIONS IN THE INTERIM RECEIVERSHIP

31. The Interim Receiver understands that Sears intends to move for an Order for the continuation of these proceedings under section 243 of the BIA, and the conversion of the Interim Receiver to a Receiver pursuant to that section of the BIA. It is anticipated that this motion shall be scheduled during the week of January 6, 2014 (the "January Hearing").
32. Pending the expected application of Sears to expand the Interim Receiver's appointment pursuant to section 243 of the BIA, or further clarification of the Interim Receiver's sale powers at the Comeback Hearing the Interim Receiver will sell assets pursuant to paragraph 3(1) of the Order only if such Property is perishable or likely to depreciate rapidly in value or the sale of assets is permitted by virtue of its appointment as receiver under the CJA.
33. The Interim Receiver is currently in discussions with Sears with regard to provision of critical services to SHS customers on an interim basis, in order to provide stability to the business and support to customers with urgent service issues. The Interim Receiver is hopeful that it will be able to complete an agreement with Sears in this regard prior to December 23, 2013, and will report more fully to the Court at that time.
34. The Interim Receiver is aware of a number of parties who are potentially interested in acquiring some of the assets or operations of SHS. Prior to the Interim Receivership Proceedings, SHS had spoken with a number of parties regarding their interest in purchasing the Water Heater Business. Two preliminary expressions of interest were received from third parties prior to the Date of Appointment, and one of these expressions of interest was signed back by SHS. The Interim Receiver is following up with these parties on these expressions of interest, and is speaking with other parties who have contacted it subsequent to the Date of Appointment to express their interest in the Water Heater Business and/or the other assets and operations of the Company. As part of the January Hearing, the Interim Receiver currently intends to bring an application for the approval of a sale and marketing process for the Company's assets and operations.



35. Between now and the January Hearing, the Interim Receiver intends to perform, *inter alia*, the following actions:

- a) Complete the review of the Work In Process to determine whether and how any Work in Process will be completed, and on what terms, and consult with Sears and Alaris regarding same, including an estimate of costs that may need to be incurred in this regard;
- b) Contact potential interested parties in the assets and operations of the Company, including the Water Heater Business, in anticipation of the commencement of a sale and marketing process to be approved at the January Hearing;
- c) Continue responding to requests for information from interested parties, including customers and creditors, and coordinate with Sears on requests for urgent repair or warranty work; and
- d) Other administrative and statutory duties, including processing of payrolls for retained employees and issuance of T4 and Records of Employment for all employees.

**RELIEF SOUGHT**

36. The Interim Receiver respectfully requests this Court grant the Amendment Order.

All of which is respectfully submitted on this 20<sup>th</sup> day of December, 2013.

**PricewaterhouseCoopers Inc.**

In its capacity as Interim Receiver of SHS Services Management Inc. / Gestion des Services SHS Inc. and SHS Services Management LP



Mica Arlette  
Senior Vice President

# TAB B

**Court File No. CV-13-10370-00CL**

**SHS Services Management Inc. /  
Gestion des Services SHS Inc.  
SHS Services Limited Partnership**

**INTERIM RECEIVER'S SECOND REPORT TO THE COURT**

**January 7, 2014**

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

**IN THE MATTER OF THE RECEIVERSHIP OF SHS SERVICES MANAGEMENT  
INC. / GESTION DES SERVICES SHS INC. AND SHS SERVICES LIMITED  
PARTNERSHIP**

**IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 47  
OF THE *BANKRUPTCY AND INSOVLENCY ACT*, R.S.C. 1985 c.B-3, AS  
AMENDED; AND SECTION 101 OF THE *COURTS OF JUSTICE ACT*,  
R.S.O. 1990, c. C-43, AS AMENDED**

**SECOND REPORT TO THE COURT  
SUBMITTED BY PRICEWATERHOUSECOOPERS INC.  
IN ITS CAPACITY AS INTERIM RECEIVER AND RECEIVER**

**INTRODUCTION**

1. By Order (the "**Appointment Order**") of Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated December 13, 2013 (the "**Date of Appointment**"), pursuant to section 47 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c.B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C-43, as amended (the "**CJA**"), PricewaterhouseCoopers Inc. was appointed as interim receiver and receiver (in both capacities referred to as the "**Interim Receiver**") of all of the assets, undertakings and properties of SHS Services Management Inc. / Gestion des Services SHS Inc. ("**SHS**") and SHS Services Limited Partnership ("**SHS LP**," and collectively with SHS, the "**Company**") acquired for, or used in relation to a business carried on by the Company, including all proceeds thereof (the "**Property**"). The Interim Receiver's appointment pursuant to section 47 of the BIA was made until January 11, 2014. These proceedings shall be referred to herein as the "**Interim Receivership Proceedings**".
2. The application for the Appointment Order was brought by the Company. The Company's principal secured creditors are Sears Canada Inc. ("**Sears**") and Alaris Income Growth Fund Partnership ("**Alaris**"), pursuant to the terms of a loan agreement with SHS.
3. On December 23, 2013, the Court made an order (the "**Amended and Restated**

**Order**") amending and replacing the Appointment Order. The Amended and Restated Order provided, among other things, that Sears may exercise its right to terminate the Concession Agreement (as defined in the Amended and Restated Order) on notice to or consent of the Interim Receiver, or on further order of the Court. The Interim Receiver notes that, as of the date of this report, Sears has not provided notice of termination of the Concession Agreement to the Interim Receiver.

4. The Interim Receiver made its first report to the Court on December 20, 2013 (the "**First Report**"), which is attached (without appendices) as Appendix "A". The purpose of this report (the "**Second Report**") is to provide an update to the Court on:
  - a) The Interim Receiver's activities since the First Report;
  - b) The relief sought in the hearing scheduled for January 9, 2014 (the "**January 9 Hearing**"), including for an order (the "**Receivership Order**"):
    - i) Continuing the Interim Receivership Proceedings as Receivership Proceedings under section 243 of the BIA;
    - ii) Approving the activities of the Interim Receiver as set out in the First and Second Reports; and
    - iii) Approving a sales process for the Company's rental portfolio assets (the "**Rental Portfolio Sales Process**"); and
  - c) The anticipated actions to be taken after the January 9 Hearing.

#### **TERMS OF REFERENCE**

5. In preparing this report and conducting its analysis, the Interim Receiver has obtained and relied upon certain unaudited, draft and/or internal financial information of the Company, the Company's books and records, and discussions with various parties including former SHS employees retained on an interim basis by the Interim Receiver (collectively, the "**Information**").
6. Except as otherwise described in this report:

- a) The Interim Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook;
  - b) The Receiver has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
7. Future oriented financial information referred to in this report is based on estimates and assumptions. Actual results may vary from forecast, even if the assumptions materialize, and such variations may be significant.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars and exclude harmonized sales tax ("HST"). Capitalized terms not otherwise defined are as defined in the Appointment Order.

#### **ACTIVITIES OF THE INTERIM RECEIVER**

9. Since the time of the First Report, the Interim Receiver has completed several activities pursuant to its duties and powers as set out in the Appointment Order. The activities have been primarily focused on the following:
- a) Reviewing the Company's outstanding work orders to determine which are to be completed, pursuing a support agreement with Sears regarding same, and assisting the Company in its resumption of limited operations;
  - b) Forecasting the cash flow requirements of the Interim Receivership Proceedings and any subsequent proceedings after the January 9 Hearing, and arranging funding for same;
  - c) Reviewing certain cash receipts and payments which occurred in the week prior to the Date of Appointment;
  - d) Reviewing certain creditor claims received to date by the Interim Receiver and its counsel; and

- e) Working with counsel for Sears on the plans for the January 9 Hearing, including seeking the appointment of PricewaterhouseCoopers Inc. as receiver of the Company under section 243 of the BIA and developing the Rental Portfolio Sales Process.
10. The Interim Receiver has also performed other activities incidental to its duties and powers under the Appointment Order and the BIA, together with other operational and statutory requirements, including the following:
- a) Reviewing and reconciling accounting information provided by the Company, and assistance with cut-off of pre- and post-Date of Appointment accounting in the Company's financial records;
  - b) Arranging alternative insurance coverage for SHS and the Interim Receiver, as the Company's existing policy expires on January 11, 2014 and the existing insurer is unwilling to extend coverage after that date;
  - c) Corresponding with SHS's various landlords regarding occupancy of SHS's leased premises, and communicating with SHS's utility and service providers regarding post-appointment services;
  - d) Communications with Canada Revenue Agency and the various provincial tax offices regarding completion of SHS's harmonized sales tax returns and provincial sales tax returns up to December 13, 2013 and making arrangements with respect to post-appointment tax returns, as required;
  - e) Completing records of employment for SHS's former employees;
  - f) Working on the Interim Receiver's communication strategy and updating and posting frequently asked questions and answers on the Interim Receiver's website to provide information to customers, former employees, installers, contractors, third party licensees and various other interested parties;
  - g) Safeguarding the Company's inventory and other assets at its rented warehouses across Canada;
  - h) Liaising with Sears to assist in managing information requests from former SHS

customers seeking service and warranty work, which Sears is performing as described below;

- i) Numerous discussions with parties expressing an interest in acquiring some or all of the Company's assets and operations;
  - j) Communicating with Sears and Alaris and their counsel regarding the status of the Interim Receivership Proceedings.
11. The Interim Receiver has established a website ([www.pwc.com/car-shs](http://www.pwc.com/car-shs)) for creditors, customers and other stakeholders to obtain further information on the Interim Receivership Proceedings. As of January 2, 2014 the website had received over 5,300 visits. The Company's call center (1-800-469-4663) has responded to over 11,600 calls with information on the Interim Receivership Proceedings to December 31, 2013. The Interim Receiver's phone hotline (1-855-376-8474) has received over 2,000 calls, and its email address ([shs.questions@ca.pwc.com](mailto:shs.questions@ca.pwc.com)) has received over 500 emails. These are being responded to by the Interim Receiver and former SHS staff retained by the Interim Receiver as quickly as possible.

#### **LIMITED RESUMPTION OF OPERATIONS AND BACKSTOP AGREEMENT WITH SEARS**

12. The Interim Receiver has worked with SHS on the limited resumption by SHS of its business activities, with the support of Sears to mitigate the potential financial loss to the estate from doing so.
13. The products and services that SHS performed included a range of interior and exterior home renovations, repairs, and other home maintenance services, in addition to the sale of air conditioners, furnaces, fireplaces, and interior and exterior renovation-related products, as well as installation and assembly of products purchased at Sears retail outlets (collectively the "Services").
14. SHS acquired the assets to perform the Services under the terms of an Asset Transfer Agreement dated December 20, 2012 (the "ATA"), and the provision of the Services was governed by the terms of a Branded Concession Agreement between Sears and SHS dated December 20, 2012 (the "BCA"). The Services were sold by employees of the Company, primarily at Sears locations and from visits to customer sites. Product used or installed as



part of the Services was also ordered by employees of the Company. The performance of the Services, including installation of purchased products, was done by independent contractors engaged by SHS.

15. Certain Services, including carpet/upholstery and duct cleaning services (collectively "**PSP Jobs**") were performed by licensees (the "**Licensees**") pursuant to the terms of a license agreement that was assigned to SHS by Sears as part of the ATA. Sears has informed the Interim Receiver that it gave notice of the assignment of the license agreements to the affected licenses substantially in the form of notice attached as Appendix "**B**". SHS manages a portion of the generation of leads for new PSP Jobs as well as the processing of payments for this work, and receives a portion of the revenue generated by PSP Jobs depending on the nature of the work performed.
16. In the First Report, the Interim Receiver advised that it was reviewing orders for Services that were received by SHS prior to the Date of Appointment and which have not yet resulted in installations or other work performed in customer homes (the "**Existing Orders**") to determine whether and how they could be completed, and on what terms they may be completed.
17. An initial review of the Existing Orders was completed on December 20, 2013. This identified a material number of Existing Orders that were expected to generate positive cash flow for the estate, and which could be completed before January 11, 2014 when the Interim Receivership Proceedings are due to expire. In general, these jobs consisted of orders placed using a Sears-branded credit card, for which the cost of Services had not yet been charged.
18. Based on this initial review, and at Sears's request, SHS and the Interim Receiver evaluated whether it would be appropriate to pursue the completion of certain Existing Orders that could result in a net financial benefit to the estate. Potential benefits include allowing for realizations of the Company's inventory at the prices previously contracted with customers and assisting in preserving potential going-concern sale options for parts of the Company pending evaluation by the Interim Receiver and the Secured Creditors. However, the Interim Receiver wished to mitigate the potential downside risk of the estate suffering losses specifically from the incremental costs of completing the Existing Orders and in connection with managing the Licensees in connection with the PSP Jobs.

19. On December 27, 2013, SHS and Sears entered into an agreement (the "**Backstop Agreement**"), a copy of which is attached at Appendix "C", which provides support to SHS and the Interim Receiver from Sears for the completion Existing Orders and managing the Licensees in connection with PSP Jobs. The key terms of the Backstop Agreement include the following:
- a) SHS, in consultation with Sears, shall use its commercially reasonable efforts to identify those Existing Orders that have a reasonable prospect of being completed on or before January 11, 2014 (being the expiry date of the Interim Receivership Proceedings), and seek to schedule those jobs for completion with the relevant customers and installers (such orders being called Scheduled Jobs);
  - b) SHS shall use commercially reasonable efforts to re-commence the carpet/upholstery cleaning and duct cleaning businesses previously provided by SHS through third party licensees (i.e. PSP Jobs);
  - c) SHS makes no representation or warranty to Sears whatsoever in connection with the work performed in connection with the Scheduled Jobs. Sears shall, at its own expense, honour any warranty made previously by SHS with respect to the Scheduled Jobs completed;
  - d) Sears shall remit to SHS the funds received in respect of completed Scheduled Jobs, net of the Merchant Fee and Commission (as defined in the Backstop Agreement). These amounts will be released without setoff, netting or deduction for costs associated with products or services provided prior to the Date of Appointment. SHS shall be responsible for paying parties who supply work for the Scheduled Jobs or carpet, upholstery, and duct cleaning services sold to customers;
  - e) Sears agrees that it shall pay to SHS the amount of Losses, if any, incurred by SHS in connection with the activities contemplated by the Backstop Agreement. "Losses" is a defined term in the Backstop Agreement. In summary, Losses mean any losses incurred due to the direct labour and material costs relating to the performance of the Scheduled Jobs and PSP Jobs. Pursuant to the Backstop Agreement, Sears does not agree to include other overhead costs (with the

limited exception of some information technology costs) and the fees of the Interim Receiver and its counsel in calculating the Losses. Sears agrees that it cannot claim the Losses that it funds against the estate.

- f) Sears shall not be prevented from electing to honour a warranty claim for an SHS customer for work performed prior to the Date of Appointment, subject to a reservation of rights in connection with any claims Sears may assert against SHS as a result of such claims.
20. Since the execution of the Backstop Agreement, SHS and the Interim Receiver have been working to schedule the Existing Orders with both customers and contract installers. As part of this, customers and installers are required to sign an agreement (the "**Confirmation Agreements**") with SHS to, among other things, acknowledge the terms under which work is being performed. According to SHS's books and records at the date of this Second Report, contract installers (which excluded the Licensees and ordinary trade suppliers) as a group were owed approximately \$973,000 as at the date of the Appointment Order. It is a condition of the Confirmation Agreements with installers that they agree in advance with SHS to complete new Scheduled Jobs without demanding payment of any amounts owed to them prior to the Date of Appointment.
21. As of January 2, 2014, SHS was seeking to schedule approximately 284 Existing Orders with customers and contract installers. A further 204 Existing Orders requiring additional inventory (such as windows and doors which are currently produced and sitting with the manufacturers) may also be scheduled, subject to further discussions with the Secured Creditors on a viable go forward plan and securing sufficient and stable financing.
22. SHS will contact individual customers with eligible Existing Orders once contract installers have been confirmed to perform the work.
23. Also as of January 2, 2014, SHS and the Interim Receiver sent notice to 47 Licensees who perform carpet/upholstery and duct cleaning licensees advising that SHS was agreeing to resume these operations on the basis of the Licensees signing a Confirmation Agreement with SHS to, among other things, acknowledge the terms under which work is being performed. Similarly to the contract installers, Licensees are required to acknowledge

that they will complete new orders without demanding payment of any pre-filing amounts owed. According to SHS's books and records at the date of this report, Licensees as a group were owed approximately \$1.8 million as at the date of the Appointment Order (though this includes amounts owing to Licensees who performed work other than carpet/upholstery and duct cleaning services).

24. It is currently anticipated that, should the Interim Receivership Proceedings be continued as discussed later in this report, SHS will seek to schedule additional Existing Orders and PSP Jobs for completion to January 17, 2014, subject to an agreed extension of the term of the Backstop Agreement to that date and Sears providing the Borrowings as discussed in more detail below.
25. For emergency repairs, warranty or service work required by customers of SHS for Services that were either incomplete on or performed prior to the Date of Appointment, the Interim Receiver continues to work with Sears to identify such work orders so that Sears may elect whether it wishes to complete such work immediately. This specific type of work is not expected to result in a net financial benefit to SHS.
26. Counsel for Sears has indicated to the Interim Receiver that to the extent that Sears has rights to assert claims against SHS under the BCA (or any related agreements) for indemnity, it reserves its right to assert a claim for such expenses, and that any work Sears elects to perform for customers of SHS itself should be done so on a without prejudice basis (on the part of Sears and the Interim Receiver). The Interim Receiver also reserved its right to review and vet any such claims and has not yet reviewed the merits of any claims which Sears may wish to assert pursuant to the BCA or otherwise.

#### **CASH FLOW FORECAST AND FINANCING OF RECEIVERSHIP PROCEEDINGS**

27. Attached as Appendix "D" is a summary of actual cash flows to December 27, 2013 and forecast cash flows to March 28, 2014 (the "Cash Flow Forecast"), on the assumption these proceedings will be continued in their current form or as Receivership Proceedings following the January 9 Hearing.
28. As of the Date of Appointment, the Company had approximately \$1.2 million in cash in its bank accounts that was recovered by the Interim Receiver. From the Date of

Appointment to January 3, 2014, the Interim Receiver received approximately \$32,000 in miscellaneous accounts receivable collections, and paid or incurred costs required to carry out its duties under the Appointment Order totaling approximately \$490,000, excluding the professional costs of the Receiver and its counsel. These costs primarily related to premises rent; costs for former SHS staff retained by the Interim Receiver to assist in securing the assets, taking inventories, securing and obtaining information from the books and records, addressing customer and supplier inquiries and other essential activities; the cost of the Company's third party systems provider and call center; and amounts payable to Sears pursuant to the BCA. Accordingly, as of January 3, 2014, the Interim Receiver held net available cash (after deducting accrued obligations) of approximately \$706,000.

29. As described further below under the heading "Claims" (at paragraph 42), the Interim Receiver has recently received notice of two potential construction lien trust claims, as well as other potential trust claims, that are being asserted over funds held by SHS and Sears.
30. The funding of the receivership is currently anticipated to be addressed through Receiver's borrowings, proceeds from asset sales and any surplus proceeds from the completion of Scheduled Jobs and PSP Jobs, to the extent that these sources of cash are available when required. As discussed below, Sears has agreed to advance Borrowings (as defined below) permitting the Interim Receiver to maintain the \$706,000 currently being held by the Interim Receiver as a contingency reserve.
31. The Interim Receiver requested funding (the "**Borrowings**") from Sears as permitted by the Appointment Order through an Interim Receiver's Borrowing Certificate, which is secured on a priority basis by the Receiver's Borrowing Charge. Sears provided Borrowings of \$324,000 on January 6, 2014, at an annual interest rate of 9% compounded monthly. The Interim Receiver notes that this rate is equivalent to the interest rate on the Secured Creditors' existing loans, including default interest.
32. Funding is required in order to maintain the operations of SHS during the receivership process. This principally includes payroll costs for the limited employees retained by the Receiver, rent and utilities on leased premises across Canada, and the Company's third party systems provider and call center. The Cash Flow Forecast illustrates the use of the

Borrowings on the basis of continuing the limited operations described above for the forecast period. The Borrowings would cover expected costs through the week of January 17, after which point the available cash from the Borrowings would be substantially used in full (including accrued obligations) if no other receipts from operations or asset sales are realized.

33. The Cash Flow Forecast does not reflect any receipts from asset sales, the limited continuation of operations described above, or from other sources, as the Interim Receiver cannot estimate the quantum or timing of such receipts at this point in time. Such receipts may reduce the amount of further Borrowings required.
34. The Borrowings, as well as the Interim Receiver's fees and those of its counsel during the forecast period, will be paid from available cash and the sale of SHS's assets, including from the Rental Portfolio Sales Process described below. Additional Borrowings may also be required to pay the Interim Receiver's fees and those of its counsel, which continue to accrue.
35. The Borrowings are only sufficient to provide the Interim Receiver, Sears, Alaris and other stakeholders of the Company with a brief period in which to consider the way forward in these proceedings with a view to maximizing recoveries for all stakeholders.

#### **SHS PRE-FILING CASH TRANSACTIONS**

36. In the First Report, the Interim Receiver indicated that it had frozen the bank accounts (the "**HSBC Accounts**") held by the Company with HSBC Bank Canada ("**HSBC**"), and established new accounts in the name of the Interim Receiver at the Royal Bank of Canada. The HSBC Accounts consisted of one Canadian dollar account and one US dollar account. The Interim Receiver is informed by former SHS employees that the HSBC Accounts were general operating accounts used for the receipt of funds for the sale of a wide range of products and services, as well as for making payments to the Company's various creditors including employees, trade creditors, installers, contractors, and other parties. In the normal course of business, credit card transactions for customer payments (both on Sears-branded cards as well as third party credit cards) would be cleared through merchant account systems managed by Sears, and the cleared funds would then be remitted to SHS and deposited into the HSBC Accounts. SHS did not maintain any

segregated trust accounts and all funds received by SHS were co-mingled in the HSBC Accounts.

37. Sears has informed the Interim Receiver that it is currently withholding certain funds from SHS related to pre-filing transactions. The Interim Receiver has requested a reconciliation of the funds held by Sears, which is expected to be provided shortly. The Interim Receiver will continue to pursue an accounting from Sears with respect to the funds it holds and a release of funds payable to SHS.
38. In the First Report, the Interim Receiver noted that the balance of funds transferred to the Interim Receiver by HSBC had been revised downwards by approximately \$695,000 from the initial amount indicated. This related to certain cheques or payments which had been presented and accepted by HSBC for payment prior to the Interim Receiver's appointment but for which the account balance had not yet been updated. The Interim Receiver has reviewed these transactions and noted that approximately \$616,000 of the payments were for remittances of employee deductions at source made by the Company shortly before the Interim Receiver's appointment. The Interim Receiver considers that most if not all of these funds would have been subject to a statutory deemed trust in favour of the relevant taxation authorities at the time of the Interim Receiver's appointment had the remittances not been made. The remaining payments included small amounts for workers' compensation premiums, employer health tax, and legal fees.
39. Also as indicated in the First Report, the Interim Receiver is aware of other amounts that were paid by the Company prior to the Interim Receivership Proceedings. Included in Appendix "E" is a breakdown of the cash receipts and payments from December 9 to 13, 2013, the week preceding the Date of Appointment, which are summarized as follows:

Opening bank balance at December 9, 2013	\$2.2 million
Cash receipts	\$1.5 million
Cash payments	(\$2.5 million)
Closing bank balance at December 13, 2013	<u>\$1.2 million</u>

The \$1.2 million of funds remaining after these transactions was swept from the HSBC accounts following the Date of Appointment as described in the First Report.

40. The receipts consisted primarily of co-mingled funds transferred by Sears for various

customer purchases and deposits.

41. The payments consisted of the following:

a) \$2.0 million was paid for employee-related disbursements. Of this:

i) \$1.3 million related to employee compensation costs including payroll, accrued vacation pay, and employee expense reports. The Interim Receiver understands from former SHS employees that these payments resulted in the vast majority of Company employees being paid in full up to the Date of Appointment for pre-filing wage and accrued vacation pay obligations. The Interim Receiver notes that these payments substantially reduced potential amounts payable to employees on account of priority obligations pursuant to sections 81.4 and 81.6 of the BIA, but may in some case have exceeded the priority lien of \$2,000 per employee.

ii) \$0.7 million related to Crown remittances for employee deductions at source related to the wage and vacation payments referred to above. As noted above, the Interim Receiver considers that most if not all of these funds would have been subject to a statutory deemed trust in favour of the relevant taxation authorities at the time of the Interim Receiver's appointment had the remittances not been made.

b) The remaining \$0.5 million related to trade creditor obligations, sales tax remittances, professional costs, and a customer refund.

## **CLAIMS**

42. The Interim Receiver has not made a general call for claims from creditors. However it has received claims from several parties asserting priority claims in these Interim Receivership Proceedings.

43. The Interim Receiver has received several claims pursuant to section 81.1 of the BIA for the repossession of certain inventory by unpaid suppliers. The statutory deadline for filing such claims has now passed and the Interim Receiver is considering all claims



received in accordance with its duties.

44. The Interim Receiver is reviewing the potential existence of other priority claims for statutory deemed trust amounts, or priority claims pursuant to sections 81.4 and 81.6 of the BIA.
45. The Interim Receiver has recently received notice of trust claims from the following parties retained by SHS to perform Services for customers of SHS prior to the Date of Appointment, including the following:
  - a) Three claims for which the claimants have filed builders' liens against customers' properties in connection with unpaid amounts, including Cedar Grove Building Products Ltd. (claiming \$267,000), Rocky View Roofing Inc. (claiming \$1,018.55) and 1310294 Alberta Ltd. (claiming \$432.97); and
  - b) Two claims from installers asserting that SHS is holding funds impressed with a trust, including Katrich Holdings Ltd. (claiming \$21,635.32) and RDJ Holdings Ltd. (claiming \$16,368.09).
46. The Receiver has not yet determined whether any of the trust claims relating in the funds recovered by the Interim Receiver after the Date of Appointment are valid.

#### **APPOINTMENT OF RECEIVER PURSUANT TO SECTION 243 OF THE BIA**

47. The application for the Receivership Order contemplates the appointment of PricewaterhouseCoopers Inc. as Receiver pursuant to section 243 of the BIA, the approval of the Interim Receiver's activities to date, and the continuation of the Interim Receivership Proceedings as a national receivership under the BIA (the "**Receivership Proceedings**").
48. The term of the Interim Receivership Proceedings is limited to January 11, 2014 under the Appointment Order (and as continued under the Amended and Restated Order). At the Date of Appointment, Sears had just issued a Notice of Intention to Enforce Security pursuant to section 244 of the BIA, but the statutory notice period had not yet expired. The Court granted the Appointment Order, which was sought by the Company, on the basis that the Company consented to the making of the order and that the appointment of

an interim receiver was necessary for the protection of the debtor's estate.

49. The Interim Receiver considers that the continuation of the Interim Receivership Proceedings as Receivership Proceedings is appropriate in the circumstances. The issues which precipitated the initiation of the Interim Receivership Proceedings as set out in the initial application materials, including the insolvency of the Company and the need for the protection of the Company's estate, are continuing. The Interim Receiver has taken possession of the assets and operations of the Company and, as indicated above, has been working closely with Sears on plans to continue limited operations. Further time is required to pursue the realization of the Company's assets and to distribute these proceeds in an orderly manner, which can be accomplished through the Receivership Proceedings.

#### **RENTAL PORTFOLIO SALES PROCESS**

50. The application for the Receivership Order also contemplates the approval of the Rental Portfolio Sales Process described below.
51. The Interim Receiver is aware of a number of parties who are potentially interested in acquiring some of the assets or operations of SHS. Prior to the Interim Receivership Proceedings, SHS had spoken with a number of parties regarding their interest in purchasing the Company's rental portfolio assets (the "**SHS Rental Portfolio**"). Two preliminary expressions of interest were received from third parties prior to the Date of Appointment, and one of these expressions of interest was signed back by SHS. The Interim Receiver is aware that at least one of these parties remains interested in completing a transaction.
52. Additional parties have contacted the Interim Receiver since the Date of Appointment to express their interest in purchasing some of the Company's other assets and operations. The Interim Receiver will evaluate the options available to pursue such realizations with the Secured Creditors shortly.
53. The Interim Receiver considers it appropriate to seek the Court's approval of the Rental Portfolio Sales Process at this time in order to facilitate the timely completion of a sale of the SHS Rental Portfolio. The SHS Rental Portfolio is comprised of assets and contracts which are unique and separable from the rest of the Company's business operations, and

so can be marketed on their own. The Interim Receiver is aware of interest in this asset expressed to date by several parties, both before and after the Date of Appointment, and considers it appropriate to pursue that interest now. Additionally a sale of the SHS Rental Portfolio would improve the liquidity position of the Company's estate. Further sale processes may be commenced for other assets or operations of the Company in due course once the options available have been discussed with the Secured Creditors.

54. The SHS Rental Portfolio consists of approximately 3,400 residential water heaters and other HVAC equipment that is rented to customers across Canada under contracts ranging from 5 to 15 years.
55. The Interim Receiver has established, subject to the Court's approval, a marketing process to identify and solicit offers from parties to purchase the SHS Rental Portfolio. The details of the proposed Rental Portfolio Sales Process are attached as Appendix "F" and are summarized as follows:
  - a) Initial discussions and marketing of the SHS Rental Portfolio to prospective purchasers has already begun, and will be formally commenced on the Court's approval of the Rental Portfolio Sales Process. Notice of the Rental Portfolio Sales Process will also be published in Globe and Mail (National Edition) within 5 days of the approval of the Rental Portfolio Sales Process;
  - b) Qualified Bidders will be required to submit an offer on the Receiver's Form of Purchase Agreement (as defined in the Rental Portfolio Sales Process) to the Receiver (an "**Offer**") on or before 12:00 noon EST on a date that is 30 days after the Rental Portfolio Sales Process is approved (the "**Offer Deadline**");
  - c) Qualified Bids must meet certain criteria set out in the Rental Portfolio Sales Process, including that they are irrevocable and that they are not conditioned on financing or the performance of further due diligence;
  - d) Each Qualified Bid will be considered by the Receiver, and the Receiver may, at its discretion, negotiate any and all Qualified Bids;
  - e) The Receiver will select a Qualified Bid to consummate a transaction (the "**Accepted Offer**"), and shall promptly notify the successful bidder, that their

offer has been accepted. The Receiver shall take such steps as may be necessary to facilitate a closing of the Accepted Offer within 30 days following the Offer Deadline, and subject to the approval of the Court.

56. The Interim Receiver is of the view that the total time period contemplated by the Rental Portfolio Sales Process provides a reasonable period in which the Receiver, if appointed, will be able to ascertain if an acceptable transaction for the SHS Rental Portfolio can be obtained, particularly given that some limited marketing of the SHS Rental Portfolio has already occurred. Equally, it is anticipated that the Rental Portfolio Sales Process will result in a transaction that will provide further liquidity in order to complete these proceedings and facilitate a distribution to creditors.
57. The Interim Receiver notes that additional funding by way of Receiver's borrowings (or funds from other asset sales) will be required to fund the cost of completing the Rental Portfolio Sales Process. As part of the planned discussions with the Secured Creditors noted above regarding the way forward for these proceedings, the Interim Receiver will address this issue with Sears and Alaris.

#### **ANTICIPATED ACTIONS AFTER THE JANUARY 9 HEARING**

58. Following the January 9 Hearing, and assuming the continuation of the Interim Receivership Proceedings as Receivership Proceedings, the Interim Receiver or PricewaterhouseCoopers Inc. as Section 243 Receiver intends to perform, *inter alia*, the following actions:
  - a) Continue to pursue the completion of Existing Orders and PSP Jobs under the Backstop Agreement (once extended);
  - b) Commence the Rental Portfolio Sales Process, if approved, and develop further realization plans for the balance of the Company's assets and operations;
  - c) Work with Sears and Alaris to consider the way forward in these proceedings with a view to maximizing recoveries for all stakeholders, and address any further funding requirements arising therefrom;
  - d) Continue responding to requests for information from interested parties, including customers and creditors, and coordinate with Sears on requests for

urgent repair or warranty work; and

- e) Address and resolve outstanding priority claims of creditors, and consider whether a broader claims process may be required; and
- f) Other administrative and statutory duties, including processing of payrolls for retained employees and payments for services provided.

**RELIEF SOUGHT**

59. The Interim Receiver respectfully requests this Court grant the Receivership Order, including the approval of the Rental Portfolio Sales Process described herein.

All of which is respectfully submitted on this 7<sup>th</sup> day of January, 2014.

**PricewaterhouseCoopers Inc.**

In its capacity as Interim Receiver of SHS Services Management Inc. / Gestion des Services SHS Inc. and SHS Services Limited Partnership



Mica Arlette  
Senior Vice President

TAB C

Court File No. CV-13-10370-00CL

**SHS Services Management Inc. /  
Gestion des Services SHS Inc.  
SHS Services Limited Partnership**

**RECEIVER'S THIRD REPORT TO THE COURT**

**January 28, 2014**

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

**IN THE MATTER OF THE RECEIVERSHIP OF SHS SERVICES MANAGEMENT  
INC. / GESTION DES SERVICES SHS INC. AND SHS SERVICES LIMITED  
PARTNERSHIP**

**THIRD REPORT TO THE COURT  
SUBMITTED BY PRICEWATERHOUSECOOPERS INC.  
IN ITS CAPACITY AS RECEIVER**

**INTRODUCTION**

1. By Order (the "**Appointment Order**") of Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated December 13, 2013 (the "**Date of Appointment**"), pursuant to section 47 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c.B-3, as amended (the "**BIA**") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C-43, as amended (the "**CJA**"), PricewaterhouseCoopers Inc. ("**PwC**") was appointed as interim receiver and receiver (in both capacities referred to as the "**Interim Receiver**") of all of the assets, undertakings and properties of SHS Services Management Inc. / Gestion des Services SHS Inc. ("**SHS**") and SHS Services Limited Partnership ("**SHS LP**," and collectively with SHS, the "**Company**") acquired for, or used in relation to a business carried on by the Company, including all proceeds thereof (the "**Property**"). These proceedings up to the Interim Receiver's discharge on January 9, 2014 (as noted below) shall be referred to herein as the "**Interim Receivership Proceedings**".
2. The application for the Appointment Order was brought by the Company. The Company's principal secured creditors are Sears Canada Inc. ("**Sears**") and Alaris Income Growth Fund Partnership ("**Alaris**"), pursuant to the terms of a loan agreement with SHS.
3. On January 9, 2014, by order (the "**Receivership Order**") of Mr. Justice Brown of the Court, PwC was appointed as receiver (in such capacity, the "**Receiver**"), without security, of the Property pursuant to section 243 of the BIA, and was discharged as Interim Receiver. These proceedings shall be referred to as the "**Receivership**".



**Proceedings".**

4. The Interim Receiver made two reports to the Court on December 20, 2013 (the "**First Report**") and January 7, 2014 (the "**Second Report**") during the Interim Receivership Proceedings. The purpose of this report (the "**Third Report**") is to inform to the Court on:
  - a) The Receiver's activities since the Second Report;
  - b) The Receiver's statement of receipts and disbursements for the period from the Date of Appointment to January 24, 2014, the forecast cash flows to March 28, 2014, and the potential funding requirements indicated therein;
  - c) The relief sought in the hearing scheduled for February 4, 2014 (the "**February 4 Hearing**"), including for an order (the "**February 4 Order**"):
    - i) Authorizing the Receiver to enter into an auction services agreement (the "**Auction Agreement**"), and a transaction to sell the Auction Assets (as defined below), and vesting in the purchaser the Auction Assets free and clear of all encumbrances;
    - ii) Approving the release of Prepaid Custom Inventory (as defined below) to customers; and
    - iii) Approving the activities of the Receiver as set out in this Third Report;
  - d) The Receiver's views on the application by certain licensees of the Company to lift the stay of proceedings in the Receivership Order.

**DISCLAIMER AND TERMS OF REFERENCE**

5. In preparing this report and conducting its analysis, the Receiver has obtained and relied upon certain unaudited, draft and/or internal financial information of the Company, the Company's books and records, and discussions with various parties including former SHS employees retained on an interim basis by the Receiver (collectively, the "**Information**").
6. Except as otherwise described in this report:
  - a) The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy

or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook;

- b) The Receiver has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
7. Future oriented financial information referred to in this report is based on estimates and assumptions. Actual results may vary from forecast, even if the assumptions materialize, and such variations may be significant.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars and exclude harmonized sales tax ("HST"). Capitalized terms not otherwise defined are as defined in the Receivership Order.

#### **ACTIVITIES OF THE RECEIVER**

9. Since the date of the Receivership Order, the Receiver has completed several activities pursuant to its duties and powers as set out in the Receivership Order. The activities have been primarily focused on the following:
- a) Developing a strategy for the completion of the Receivership Proceedings, and obtaining the support of the Secured Creditors for same;
  - b) Forecasting the cash flow requirements of the Receivership Proceedings and arranging funding for same;
  - c) Assisting the Company in the resumption of limited operations, including the completion of certain outstanding work orders;
  - d) Conducting the Rental Portfolio Sales Process, as defined and described below;
  - e) Seeking offers for the liquidation of the Company's remaining inventory and fixed assets;
  - f) Reviewing certain creditor claims received to date by the Receiver and its counsel;

- g) Seeking the recovery of certain pre-filing receipts currently being withheld by Sears; and
  - h) Responding to a notice of motion filed by certain licensees of the Company, as more fully described below.
10. The Receiver has also performed other activities incidental to its duties and powers under the Receivership Order and the BIA, together with other operational and statutory requirements, including the following:
- a) Reviewing and reconciling accounting information provided by the Company, and assistance with cut-off of pre- and post-Date of Appointment accounting in the Company's financial records;
  - b) Communicating with Canada Revenue Agency and the various provincial tax offices regarding completion of SHS's harmonized sales tax returns and provincial sales tax returns up to December 13, 2013 and making arrangements with respect to post-appointment tax returns, as required;
  - c) Calculating amounts owed to former employees pursuant to SHS's payroll records and provincial legislation for compliance with the *Wage Earner Protection Program Act* requirements.
  - d) Updating and posting frequently asked questions and answers on the Receiver's website, and responding to phone and e-mail inquiries from customers, former employees, installers, contractors, third party licensees and various other interested parties;
  - e) Safeguarding the Company's inventory and other assets at its rented warehouses across Canada;
  - f) Liaising with Sears to assist in managing information requests from former SHS customers seeking service and warranty work, which Sears is performing as described below;
  - g) Communicating with parties expressing an interest in acquiring some or all of the Company's assets and operations; and

- h) Communicating with Sears and Alaris and their counsel regarding the status of the Receivership Proceedings.
11. The Receiver has established a website ([www.pwc.com/car-shs](http://www.pwc.com/car-shs)) for creditors, customers and other stakeholders to obtain further information on the Receivership Proceedings. From the Date of Appointment to January 24, 2014 the website had received over 9,200 visits. Additionally, in that period, the Company's call center (1-800-469-4663) has received over 30,000 calls seeking information on the Company, the Interim Receivership and Receivership. The Receiver's phone hotline (1-855-376-8474) has received over 4,500 calls, and its email address ([shs.questions@ca.pwc.com](mailto:shs.questions@ca.pwc.com)) has received over 1,200 emails since the Date of Appointment. These are being responded to by the Receiver and former SHS staff retained by the Receiver as quickly as possible.

#### RECEIVER'S STATEMENT OF RECEIPTS AND DISBURSEMENTS

12. The Receiver's statement of receipts and disbursements for the period from the Date of Appointment to January 24, 2014 is detailed in Appendix "A" and is summarized as follows:

STATEMENT OF RECEIPTS AND DISBURSEMENTS	
For the Period from December 13, 2013 to January 24, 2014	
	in \$ 000's
Total Receipts	261
<b>Disbursements:</b>	
Employee Costs	158
Rent / Lease Payments	131
Other Operating Costs	101
Installer Payments	23
Sears Branded Concession Agreement Payments	127
Total Disbursements	539
Net Cash Flow	(278)
Opening Cash	1,205
Net Cash Flow	(278)
Funds Received Under Receiver's Borrowings	427
Reserve for s.81.1 claims	(64)
Contingency Reserve	(705)
Ending Cash Balance	584

13. In addition to the amounts shown above, accrued obligations for operating costs, employees and installer payments (excluding accrued and unpaid professional fees) totaling approximately \$334,000 were outstanding. Accordingly, the net available cash

balance available to the Receiver is approximately \$250,000.

14. Customer receipts include amounts collected from the completion of Existing Orders (as defined below). The Receiver has reserved \$64,000 from these receipts that relate to the Company's cost of certain inventory sold through completion of the Existing Orders, which inventory is potentially subject to claims of suppliers for the repossession of unpaid inventory pursuant to section 81.1 of the BIA (the "**81.1 Claims**"). The distribution of these funds will be made once these claims are finally determined.
15. As discussed in the Second Report, the Receiver held net available cash (after deducting accrued obligations) of approximately \$706,000 as of January 3, 2014. The Receiver requested funding (the "**Borrowings**") from Sears and Alaris as permitted by the Appointment Order and the Receivership Order through the issuance of Borrowing Certificates, which are secured on a priority basis by the Receiver's Borrowing Charge. To date, \$427,000 has been advanced as Borrowings, permitting the Receiver to maintain the \$706,000 as a contingency reserve. The Borrowings have been made at an annual interest rate of 9% compounded monthly, which is equivalent to the interest rate on the Secured Creditors' existing loans, including default interest.

#### **CASH FLOW FORECAST AND FINANCING OF RECEIVERSHIP PROCEEDINGS**

16. Attached as Appendix "B" is an updated summary of forecast cash flows to March 28, 2014 (the "**Cash Flow Forecast**").
17. The funding of the receivership is currently anticipated to be addressed through Borrowings, proceeds from asset sales and any surplus proceeds from the completion of Existing Orders and PSP Jobs (both as defined below), to the extent that these sources of cash are available when required.
18. Funding is required in order to maintain the operations of SHS during the receivership process. This principally includes payroll costs for the limited employees retained by the Receiver, rent and utilities on leased premises across Canada, and the Company's third party systems provider and call center. The Cash Flow Forecast illustrates the use of the Borrowings on the basis of continuing limited operations for the forecast period.
19. The current Borrowings would cover forecast operating costs through the week of

February 7, albeit with a very limited cushion for contingencies in that week, after which point the available cash would be substantially used in full (including accrued obligations) if no other receipts from operations or asset sales are realized, or no further Borrowings are made.

20. The Cash Flow Forecast does not reflect any receipts from asset sales, the completion of Existing Orders (described below), or from other sources, as the Receiver cannot estimate the quantum or timing of such receipts at this point in time. Such receipts may reduce the amount of further Borrowings required.
21. The Borrowings, as well as the Receiver's fees and those of its counsel, will be paid from available cash and the sale of SHS's assets, including from the sale of the Auction Assets and completion of the Rental Portfolio Sales Process described below. Additional Borrowings may also be required to pay the Receiver's fees and those of its counsel, which continue to accrue.
22. Given the uncertainty regarding the timing and quantum of receipts, the continuation of the Receivership Proceedings has been dependent on funding by the Secured Lenders through the Borrowings. The Receiver has made requests of the Secured Lenders to provide sufficient funding (based on forecasts provided to the Secured Lenders) to the end of February 2014, by which point the Receiver hopes to have completed a transaction under the Rental Portfolio Sale Process (discussed below, though this transaction may not be completed until early March). The ongoing discussions on funding have resulted in increased professional costs, which will be borne by the Company's creditors.
23. The Receiver is not prepared to make financial commitments extending beyond when it is confident it will have adequate funds to support the associated costs. To date, the funding provided has been limited, and has only permitted the Receiver to continue operations on a week-to-week basis. This has reduced the number of Existing Orders that the Company can complete in the Receivership Proceedings, given the need to schedule many of the orders out over a longer period than that for which the Receiver has adequate funds.
24. Sears has indicated it will consider additional funding requests in due course as they arise. Should it become apparent that the Secured Lenders are not prepared to provide additional Borrowings as required to complete the Receivership Proceedings, the Receiver

may be required to curtail the completion of the Existing Orders and other actions being taken to improve recoveries to the estate, or seek additional Borrowings from other sources. The Receiver may also seek further advice and direction of the Court if necessary.

# **LIMITED RESUMPTION OF OPERATIONS AND BACKSTOP AGREEMENT WITH SEARS**

25. As outlined in the Second Report, the Receiver has worked with SHS on the limited resumption by SHS of its business activities, with the support of Sears to mitigate the potential financial loss to the estate from doing so. Potential benefits of completing this work have included allowing for realizations of the Company's inventory at the prices previously contracted with customers, and preserving potential sale and realization options for the Company's assets and operations pending evaluation by the Receiver and the Secured Creditors.
26. The Receiver has pursued the completion of certain orders for SHS's services that were received by SHS prior to the Date of Appointment which had not resulted in installations or other work performed in customer homes, but which were expected to generate positive cash flow for the estate (the "Existing Orders"). As of January 23, 2014, SHS had completed 100 of the Existing Orders during the Interim Receivership and Receivership Proceedings for gross revenue of approximately \$227,000. A further 28 orders for \$65,000 of gross revenue are scheduled for completion. The net recovery from the completion of these Existing Orders will be reduced for amounts payable to installers for this work, as well as the resolution of the 81.1 Claims.
27. Also as discussed in the Second Report, the Receiver has sought to resume certain carpet/upholstery and duct cleaning services (collectively "PSP Jobs") were performed by licensees (the "Licensees") pursuant to the terms of a license agreement that was assigned to SHS by Sears prior to the Receivership Proceedings. However, to date only one of the 47 Licensees has agreed to sign a confirmation agreement with SHS to, among other things, acknowledge the terms under which work is being performed. The application of certain of the Licensees to lift the stay of proceedings in the Receivership Order is addressed further below.
28. The Backstop Agreement with Sears (as defined and described in the Second Report)

provides support to SHS and the Receiver from Sears for the completion of Existing Orders and managing the Licensees in connection with PSP Jobs. This agreement mitigates the potential downside risk of the estate suffering losses specifically from the incremental costs of completing the Existing Orders, and in connection with managing the Licensees in connection with the PSP Jobs. The Receiver and Sears have mutually agreed to extend the Backstop Agreement to February 7 2014, based on the current funding available to the Receiver.

29. SHS is contacting individual customers with Existing Orders that the Company wishes to complete in the Receivership Proceedings once contract installers have been confirmed to perform the work. The Receiver is exploring other options for the completion of the Existing Orders, including the sale or contracting out of certain Existing Orders that are ultimately not pursued by the Receiver.
30. For emergency repairs, warranty or service work required by customers of SHS for Services that were either incomplete on or performed prior to the Date of Appointment, the Receiver continues to work with Sears to identify such work orders so that Sears may elect whether it wishes to complete such work immediately. This specific type of work is not expected to result in a net financial benefit to SHS.
31. Counsel for Sears has indicated to the Receiver that to the extent that Sears has rights to assert claims against SHS under the BCA (or any related agreements) for indemnity, it reserves its right to assert a claim for such expenses, and that any work Sears elects to perform for customers of SHS itself should be done so on a without prejudice basis (on the part of Sears and the Receiver). The Receiver has reserved its right to review and vet any such claims and has not yet reviewed the merits of any claims which Sears may wish to assert pursuant to the BCA or otherwise.



## UPDATE ON RENTAL PORTFOLIO SALES PROCESS

32. The Receivership Order approved a sale process (the "**Rental Portfolio Sale Process**") for the Company's portfolio of residential water heater and HVAC rental assets (the "**SHS Rental Portfolio**"). To date, 25 parties have executed non-disclosure agreements and reviewed information on the SHS Rental Portfolio. A further 11 parties have expressed an interest in the SHS Rental Portfolio and have been provided a non-disclosure agreement for execution.
33. The deadline for offers in the Rental Portfolio Sale Process is February 10, 2014 (the "**Offer Deadline**"). The Receiver expects to identify a successful bidder for the SHS Rental Portfolio shortly after the Offer Deadline, and will proceed to negotiate a definitive asset purchase agreement with the successful bidder thereafter. The Receiver shall take such steps as may be necessary to facilitate a closing of the Accepted Offer as soon as possible following the Offer Deadline, and subject to the approval of the Court.
34. It is anticipated that the Rental Portfolio Sales Process will result in a transaction that will provide further liquidity in order to complete these proceedings and facilitate a distribution to creditors.

## LIQUIDATION OF INVENTORY AND AUCTION SERVICES AGREEMENT

35. At the Date of Appointment, the Company's records indicated that it held inventory with a book value of approximately \$3.0 million. This primarily consisted of HVAC equipment, window and floor covering products, and air filtration equipment located in the Company's warehouses, Sears distribution centres and warehouses, and third party logistics locations across Canada. Additionally, the Company's records indicated that the Company had fixed assets (excluding the Rental Portfolio assets) with a net book value of approximately \$3.0 million, of which \$1.8 million related to tangible assets (excluding leasehold improvements).
36. The inventory described above included some custom-made products for certain customers who paid for these products in full prior to the Date of Appointment (the "**Prepaid Custom Inventory**"). The Receiver is of the view that these customers (the "**Prepaid Customers**") may have a valid property claim to this inventory, and is

contacting the affected Prepaid Customers to arrange the collection of the Prepaid Custom Inventory upon production of appropriate documentation to substantiate such a claim. The Receiver will seek the Court's approval of these actions as part of the February 4 Order.

37. The Receiver, in consultation with the Secured Lenders, determined that it would be appropriate to obtain proposals to liquidate the inventory and tangible fixed assets not otherwise used, released or sold through the limited operations described above (the "Auction Assets"). The Receiver sought proposals from five liquidators requesting offers on the Inventory and PPE Assets from the liquidators, and requested that those offers provide a net minimum guarantee bid with shared up-side and/or other proposals for the purchase of the Auction Assets (the "Proposals").
38. As at the date of this report, the Receiver is in discussions with three of the five liquidators on the terms of their Proposals. The Proposals are expected to be received prior to January 31, 2014. The Receiver intends, in consultation with the Secured Lenders, to determine if there is a Proposal to take forward as the basis to negotiate a definitive Auction Agreement for the Auction Assets. The Receiver will file a supplementary report prior to the February 4 Hearing if it is able to agree the form of a definitive Auction Agreement for which the Court's approval will be sought.

## CLAIMS

39. The Receiver has not made a general call for claims from creditors. However it has received claims from several parties asserting priority claims in these Receivership Proceedings.
40. The Receiver received eight 81.1 Claims. The Receiver is considering the claims received in accordance with its duties, and has requested additional information from some of these parties to substantiate their claims.
41. The Receiver has estimated the potential priority claims for employee wages and vacation pay pursuant to section 81.4 of the BIA at approximately \$68,000. The actual amount of the priority claim will depend on the final claims filed by employees and Service Canada. The Receiver understands that the Company's pension plan service provider will shortly be filing a claim for potential pension priority amounts owing pursuant to section 81.6 of

the BIA.

42. The Receiver is reviewing the potential existence of other priority claims for statutory deemed trust amounts.
43. The Receiver has recently received notice of trust claims from the following parties retained by SHS to perform services for customers of SHS prior to the Date of Appointment. This includes:
  - a) Eight claims for which the claimants have filed builders' liens against customers' properties in connection with unpaid amounts, totaling approximately \$277,000; and;
  - b) Three claims from installers asserting that SHS is holding funds impressed with a trust, totaling approximately \$65,000.
44. The Receiver has not yet determined whether any of the trust claims relating to the funds recovered by the Receiver after the Date of Appointment are valid. The Receiver may seek the Court's approval of a claims process in due course to consider the extent, quantum and validity of these and other trust claims which may be asserted.

#### **FUNDS HELD BY SEARS**

45. In the ordinary course of SHS' business, payments for work performed by SHS for customers are processed by Sears and are then remitted on to SHS, net of merchant fees (ranging from 1.7% to 1.85%) and Sears commission (3.5%).
46. The Receiver understands from the Company's books and records that Sears received approximately \$1.4 million of payments from customers for work performed prior to the Date of Appointment (the "Pre-Filing Customer Payments"). A summary of the Pre-Filing Customer Payments received by Sears to SHS based on the Company's books and records is attached as Appendix "C".
47. In the Second Report, the Interim Receiver noted that Sears has informed the Interim Receiver that it was withholding the Pre-Filing Customer Payments, and that the Interim Receiver had requested from Sears a reconciliation of the funds it was holding. Since that

time, the Receiver has made several verbal and written requests to Sears to provide an accounting of the Pre-Filing Customer Payments and ultimately a request to turn over the Pre-Filing Customer Payments to the Receiver. Sears committed to provide the Receiver an accounting by the end of day on January 28, 2014. To the extent that Sears fails to provide the accounting or the accounting provided by Sears is not satisfactory to the Receiver, the Receiver will file a supplementary report in support of further relief to be sought in connection with this issue on the return of this motion.

#### **APPLICATION BY THE LICENSEE RESPONDENTS**

48. On January 23, 2014, a notice of motion was filed by counsel for a group of Licensees (the "Licensee Respondents") for an order lifting the stay provisions in paragraphs 14 and 15 of the Receivership Order (the "Stay Provisions") as against the Licensee Respondents.
49. The Receiver wishes to clarify some of the comments made in the notice of motion filed by the Licensee Respondents:
  - a) At paragraph (g) the Licensee Respondents submit that SHS or the Receiver either repudiated the license agreements or have ceased operations. Neither of these alleged actions has occurred. As indicated in the Second Report, the Receiver has taken actions to seek to continue the Company's operations with the support of Sears through the Backstop Agreement.
  - b) At paragraph (i) the Licensee Respondents submit that the Receiver has not proposed attempting to sell the license agreements with the Licensees since the outset of the receivership. As indicated in the Second Report, SHS, the Receiver and Sears pursued the Backstop Agreement to, among other things, assist in preserving potential going-concern sale options for parts of the Company, including the work performed by the Licensees. The Receiver has continued to pursue these options since that time, and has offered the opportunity to all Licensees to work with the Receiver in the interim.
50. As indicated in the Second Report, SHS and the Interim Receiver sent notice to all 47 Licensees who perform carpet/upholstery and duct cleaning services advising that SHS was agreeing to resume these operations on the basis of the Licensees signing a

Confirmation Agreement with SHS to, among other things, acknowledge the terms under which work is being performed. The Receiver subsequently spoke with each of the 47 Licensees by phone.

51. The Receiver has spoken with each of the Licensees regarding their willingness to work with the Receiver going forward. One Licensee is prepared to work with the Receiver at this time. Some of the other Licensees have indicated that they may wish to work with the Receiver going forward subject to amending certain terms of their license agreements. The Receiver has not consented to these proposed amendments, as (among other things) they would restrict the ability of the Receiver to assign these agreements to any third party.
52. Among other things, the license agreements provide for the use by the Licensees of certain intellectual property of Sears. The Receiver is of the view that the assignment of those license agreements to other parties would require the consent of Sears, which in the current circumstances it does not expect will be granted.
53. The Receiver takes no position on the application of the Licensee Respondents insofar as it pertains to a lifting of the Stay Provisions for the purposes of terminating their license agreements with SHS, but if such relief is granted, the Receiver takes the position that the order should only be effective upon receipt by the Receiver of:
  - a) (i) an accounting from Licensees of the services performed under the license agreements by such Licensees since the Date of Appointment; and (ii) funds from Licensees properly payable to Sears and SHS under the terms of such license agreements on account of services performed; or
  - b) if no services were provided since the Date of Appointment, a statutory declaration from Licensees stating that no services were performed under the license agreements and that no funds are payable to Sears and SHS under the terms of such license agreements.
54. The Receiver opposes any application by the Licensee Respondents to lift the Stay Provisions for any other, broader purpose.
55. The Receiver is aware that Sears and counsel for the Licensee Respondents have held

without-prejudice discussions regarding this motion. The Receiver will comment on the outcome of such discussions, if necessary, in a supplementary report.

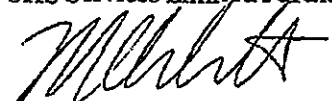
#### **RELIEF SOUGHT**

56. The Receiver respectfully requests this Court grant the relief in the February 4 Order:
- a) Approving the release of Prepaid Custom Inventory to customers; and
  - b) Approving the activities of the Receiver as set out in this Third Report.
57. As indicated, the Receiver will, as required, make a supplementary report to the Court prior to the February 4 Hearing to address the further relief sought authorizing the Receiver to enter into an Auction Agreement and a transaction to sell the Auction Assets, vesting in the purchaser the Auction Assets free and clear of all encumbrances, and addressing the issues relating to the Pre-Filing Customer Payments.

All of which is respectfully submitted on this 28<sup>th</sup> day of January, 2014.

**PricewaterhouseCoopers Inc.**

In its capacity as Receiver of SHS Services Management Inc. / Gestion des Services SHS Inc. and  
SHS Services Limited Partnership



Mica Arlette  
Senior Vice President

IN THE MATTER OF THE RECEIVERSHIP OF SHS SERVICES MANAGEMENT INC./GESTION DES SERVICES  
SHS INC. AND SHS SERVICES LIMITED PARTNERSHIP

IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY*  
*ACT*, R.S.C. 1985, c. B-5, AS AMENDED; AND SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C.43,  
AS AMENDED

Court File No. CV-13-10370-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE -  
COMMERCIAL LIST**

Proceeding commenced at Toronto

**REPLY MOTION RECORD  
(RETURNABLE APRIL 28, 2015)**

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