

**Schonfeld Inc.**  
Receivers + Trustees

District of Ontario  
Division No. 9  
Court File No: 31-1535741  
Estate File No: 31-1535741

**IN THE MATTER OF THE PROPOSAL OF  
INTIMELLE INC.  
OF THE CITY OF MARKHAM, IN THE PROVINCE OF ONTARIO**

**TRUSTEE'S PRELIMINARY REPORT TO THE CREDITORS**

**INTRODUCTION**

Intimelle Inc. ("Intimelle" or the "Company") filed a Notice of Intention to Make a Proposal ("NOI") under Division I, Part III, of the Bankruptcy and Insolvency Act ("BIA") on September 2, 2011. Schonfeld Inc. Receivers + Trustees consented to act as Proposal Trustee (the "Trustee") under the Proposal (the "Proposal").

On September 12, 2011, the Company filed its cash flow and reports on the cash flow with the Official Receiver. On September 30, 2011 the Company filed a Proposal with the Official Receiver.

Intimelle is presently negotiating the terms of a forbearance agreement with its main operating lender to provide continued financing while the Company restructures its operations. It is anticipated that such agreement will be reached prior to the meeting of creditors. In the event such an agreement is not reached, the recommendation of the Proposal Trustee herein may change.

**PURPOSE OF THIS REPORT**

This report provides the creditors with the following information:

- Background of the Company;
- Causes of its financial difficulties and present financial position;
- Summary of the Proposal; and
- Trustee's recommendation

The Proposal Trustee is required to monitor the affairs of the Company until the time of Court approval. The Proposal Trustee has been given access to the premises, books and records, and other financial and non-financial information of the Company to allow it to fulfill this monitoring role.

Tel. 416.862.7785 Fax. 416.862.2136

info@schonfeldinc.com

438 University Avenue, 21st Floor, Toronto, Ontario Canada M5G 2K8

## **BACKGROUND**

Intimelle Inc. was incorporated under the laws of the Province of Ontario in July 1981. The shareholders of the company are 50% Harvey Silver (President) and 50% Linda Silver (Vice-President & Secretary Treasurer).

Intimelle imports and distributes brand name apparel including hosiery, lingerie and golf wear, across Canada and the US. It also designs and sells a private label brand. Approximately 95% of product is imported from Asia and the Middle East. Customers consist of a mix of retailers in Canada and numerous golf courses across North America.

Since fiscal 2009 the shareholders have advanced \$866,000 into Intimelle in an effort to provide sufficient working capital, but it is now apparent that fundamental changes are needed as to how Intimelle operates.

Intimelle is unable to attain a desired level of profitability and needs to restructure its operations by rationalizing its product lines and exiting the warehousing side of the business. This will allow for reduced personnel costs and overheads associated with maintaining a warehouse facility, and greater focus on more profitable product lines.

## **CAUSES OF FINANCIAL DIFFICULTIES**

Intimelle has not generated sufficient profits year over year, and as a result is insufficiently capitalized to meet its operating needs in a very competitive industry. Intimelle's operating loan credit facilities are increasingly over-extended during key inventory purchasing cycles.

The Company's business model currently requires significant expenditure on personnel and warehousing costs, which is not supportable. The Company recognizes that it must take immediate steps to exit the warehousing and order fulfillment side of the business and seek lower cost outsourcing alternatives.

## **REASONS FOR FILING THE NOI**

Intimelle's largest secured creditor is Royal Bank of Canada ("RBC") in the amount of \$930,000. Business Development Bank of Canada ("BDC") is also a secured creditor, subordinate to RBC, in the amount of \$145,000.

RBC issued demand for repayment of its loans pursuant to S. 244 of the BIA on August 26, 2011. Intimelle was not in a position to repay the Bank. On September 2, 2011, Intimelle filed the NOI which provided it with an opportunity to formulate a restructuring plan.

Intimelle believed that the only way it would be able to make a viable proposal to its Unsecured Creditors was to file a NOI and negotiate with its Secured Creditors for a forbearance agreement while operating within certain constraints and implementing cost-saving measures and other steps designed to improve Intimelle's financial position.

### **SUMMARY OF ASSETS AND LIABILITIES**

At the date of filing the NOI, Intimelle's secured creditors were owed approximately \$1,075,000 and its unsecured creditors \$1,249,000. Included in the unsecured creditor total are shareholder advances of \$866,000.

This unsecured creditor total does not include the amount which could be claimed by the landlord for the unexpired balance of the lease in the event of disclaimer, but only arrears which existed on the date of filing. Intimelle disclaimed its commercial lease at the time of filing of the Proposal and the landlord will be entitled to file a claim on the basis set out in the Proposal.

Intimelle's realizable assets primarily consist of accounts receivable and inventory. Intimelle also has a modest amount of office and warehouse equipment.

As at the date of filing of the Proposal, September 30, 2011, Intimelle's balance sheet (condensed) was as follows:

<b>INTIMELLE INC.</b>	
<b>30-Sep-11</b>	
<b><u>CONDENSED STATEMENT OF ASSETS AND LIABILITIES</u></b>	
<b><u>Assets:</u></b>	
Cash in Bank	\$ 12,000
Accounts Receivable	\$ 356,000
Inventory	\$ 900,000
Furniture and Fixtures	\$ 30,000
Prepays and Partial Deposits on Inventory	\$ 115,000
<b>Total Assets</b>	<b>\$ 1,413,000</b>
<b><u>Liabilities:</u></b>	
Secured Operating Loan RBC	930,000
Secured Working Capital Loan BDC	145,000
Unsecured Creditors (Pre NOI)	1,330,000
Post NOI Accrued Liabilities	100,000
<b>Total Liabilities</b>	<b>2,505,000</b>
<b>TOTAL DEFICIENCY</b>	<b>-\$1,092,000</b>

**Note:** The above noted figures have not been audited and are subject to change. Post NOI accrued liabilities include HST on post-NOI sales, professional fees, and projected payment for other non-COD purchases of goods and services.

## **THE PROPOSAL**

On September 30, 2011 the Company filed a Proposal with the Official Receiver.

### **i) Unsecured Creditors**

The Proposal offers payment of \$75,000 to the Unsecured Creditors over a period of 30 months from the Approval date (as defined in the Proposal), to be shared pro-rata.

As noted previously, the shareholders are owed \$866,000 and they have agreed to waive receipt of any dividend in the proposal should it be successful. After deducting this amount due to the shareholders, at the date of the NOI total arms-length Unsecured Creditors were \$464,000. This does not include creditors who may have claims for disclaimer or other contractual claims.

Intimelle disclaimed its lease of commercial property at the time of filing its Proposal. The landlord will be entitled to file a proof of claim according to the formula prescribed in the Proposal.

The amount distributed to each Unsecured Creditor will depend on the total claims actually filed and being conclusively valued and admitted. Total unsecured claims may be in excess of \$600,000 (excluding shareholders).

The Proposal offers a total payment over time of \$75,000 to the Unsecured Creditors to be shared pro-rata, in full and complete satisfaction of their claims. The Proposal offers a potential for recovery to the Unsecured Creditors which would otherwise not be available if Intimelle is bankrupt.

The success of the Proposal will depend on creditor approval at the meeting of creditors, and the ability of Intimelle to carry on business with adequate financing in place.

Harvey Silver has agreed to provide a guarantee for the payments to be made pursuant to the Proposal.

Unsecured Creditors must file a completed proof of claim form prior to the commencement of the meeting to be eligible to vote. Unsecured Creditors may vote in person at the meeting or by voting letter submitted to the Proposal Trustee prior to the meeting.

The Superintendent's levy of 5% shall be deducted from the gross amount distributed under the Proposal as required under the BIA. Professional fees and costs for the Proposal will be paid by the Company in addition to the amount distributed to the creditors. Professional fees and costs will not be deducted from the proposal funds paid to the Trustee for distribution to the creditors. These fees and costs include the Trustee's fees, legal costs, and disbursements and are subject to taxation by the Court.

**ii) Secured Creditors**

Intimelle has two secured creditors Royal Bank of Canada ("RBC") and Business Development Bank of Canada ("BDC") (collectively the "Secured Creditors") which hold general security agreements covering all of the assets of Intimelle. RBC is owed approximately \$930,000 and BDC is owed \$145,000 subordinate to RBC.

Intimelle is in the process of negotiating agreements with the Secured Creditors to provide ongoing financial support to Intimelle during its restructuring.

In the event of the bankruptcy of Intimelle, the realizable value of the Company's assets in liquidation is not expected to be sufficient to repay the Secured Creditors. Should this occur, there is no reasonable expectation of recovery for the Unsecured Creditors.

The Proposal, which has been made to the Secured Creditors, provides that they are to be repaid in full by January 31, 2012, or as may be otherwise agreed between the parties.

The Secured Creditors will not share in the \$75,000 being offered to the Unsecured Creditors.

**CANADA REVENUE AGENCY ("CRA")**

CRA is owed approximately \$129,000 for unremitted HST up to the date of the filing of the NOI, which has been included in the total owing to the Unsecured Creditors. Intimelle is responsible for remitting all post NOI HST and Source Deductions.

**PROPOSAL VS. BANKRUPTCY**

The Proposal provides a better return to the creditors than a bankruptcy. The Unsecured Creditors are not likely to receive any payment in a bankruptcy given the amount owed to Secured Creditors and the expected realizable value of inventory (primarily licensed apparel) in a liquidation scenario. If the Unsecured Creditors reject the Proposal, the Debtor will be deemed bankrupt.

At the date of filing of the NOI, the amount owing to the Unsecured Creditors was \$1,249,000. Of this total, the principals Harvey and Linda Silver are together owed \$866,000 for monies which they advanced into Intimelle since fiscal 2009. The Silvers are the largest unsecured creditor.

The Silvers have agreed to waive receipt of any dividend in the Proposal should it be accepted and successfully performed. However, in the event of a bankruptcy the Silvers will be entitled to prove their claim and participate with all of the Unsecured Creditors in any distribution in bankruptcy. Furthermore, Harvey Silver has agreed to provide a guarantee for the \$75,000 being offered to the Unsecured Creditors.

For illustrative purposes, if total unsecured claims are \$600,000, the Unsecured Creditors would receive the equivalent of 12.5 cents/dollar. The amount actually distributed to each Unsecured Creditor will depend on the total claims actually filed and being conclusively valued and admitted.

In a bankruptcy, the Secured Creditors are entitled to payment in priority to the unsecured creditors. In this case, the Secured Creditors are owed amounts likely to be in excess of the net realizable value of the assets.

### **PROPOSAL TRUSTEE'S INVESTIGATION AND FINDINGS**

Following a preliminary review in the financial records of Intimelle, the Proposal Trustee has satisfied itself, on a preliminary basis, that there are no transactions, sales of assets, or lawsuits that the trustee could challenge as reviewable, or preferences that would benefit the estate.

### **RECOMMENDATION OF THE PROPOSAL TRUSTEE**

The Proposal Trustee recommends acceptance of the Proposal. The Proposal provides the opportunity for recovery to the Unsecured Creditors which is not otherwise likely to be available in the event of a bankruptcy and/or receivership.

The Proposal offers payment of \$75,000 to the Unsecured Creditors over a period of 30 months from the Approval date (as defined in the Proposal), to be shared pro-rata. This equates to approximately 12.5 cents on the dollar for the Unsecured Creditors, on the assumption that total Unsecured Creditor claims will be in the range of \$600,000.

The amount distributed to each Unsecured Creditor will depend on the total claims actually filed and being conclusively valued and admitted. The Proposal offers recovery to the Unsecured Creditors which would otherwise not be available in a bankruptcy.

The success of the Proposal will depend on creditor approval at the meeting of creditors, and reaching agreements with its Secured Creditors to meet its financing requirements.

A refusal of the Proposal will result in an automatic bankruptcy with no expected distribution to the Unsecured Creditors in view of the quantum of secured claims which will rank in priority.

DATED AT Toronto, this 11<sup>th</sup> day of October, 2011.

SCHONFELD INC., Trustee in the  
Proposal of Intimelle Inc.  
Per:

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S. Harlan Schonfeld, CA CIRP