**Court File No. CV-14-10518-00CL**

# THE CASH STORE FINANCIAL SERVICES INC. AND RELATED APPLICANTS

## FIFTEENTH REPORT TO THE COURT SUBMITTED BY FTI CONSULTING CANADA INC., IN ITS CAPACITY AS MONITOR

**February 26, 2015**

**Court File No. CV-14-10518-00CL**

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

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC., TCS CASH STORE INC., INSTALOANS INC., 7252331 CANADA INC., 5515433 MANITOBA INC., AND 1693926 ALBERTA LTD DOING BUSINESS AS "THE TITLE STORE"

APPLICANTS

# FIFTEENTH REPORT TO THE COURT SUBMITTED BY FTI CONSULTING CANADA INC. IN ITS CAPACITY AS MONITOR

## INTRODUCTION

1. On April 14, 2014, Regional Senior Justice Morawetz granted an Initial Order (the "**Initial Order**") (pursuant to the *Companies' Creditors Arrangement Act* (Canada), as amended (the "**CCAA**") to The Cash Store Financial Services Inc. ("**CSF**"), The Cash Store Inc., TCS Cash Store Inc., Instaloans Inc., 7252331 Canada Inc., 5515433 Manitoba Inc. and 1693926 Alberta Ltd. doing business as "The Title Store" (collectively, the "**Applicants**" or "**Cash Store**") providing protections to the Applicants under the CCAA, including a stay of proceedings until May 14, 2014 (as extended from time to time, the "**Stay**"), and appointing FTI Consulting Canada Inc. (the "**Monitor**") as CCAA monitor.

2. The Initial Order was amended and restated on April 15, 2014 (the "**Amended and Restated Initial Order**") to, among other things, appoint Blue Tree Advisors

Inc. as Chief Restructuring Officer of the Applicants (the "**CRO**"). The proceedings commenced by the Applicants under the CCAA are referred to herein as the "**CCAA Proceedings**".

3. The Stay has been extended a number of times. Pursuant to the order of Regional Senior Justice Morawetz dated February 10, 2015, the Stay currently extends to March 6, 2015.

4. The Applicants, through the CRO, have brought a motion for an order extending the stay of proceedings until June 1, 2015 (the "**Stay Extension Order**").

5. On April 30, 2014, Regional Senior Justice Morawetz granted an order (the "**Additional TPL Protection Order"**) providing additional protections for third party lenders ("**TPLs**"), including a requirement that the Applicants maintain a minimum $3.0 million cash balance subject to further Order of the Court or the consent of the Monitor. The Applicants have requested the Monitor's consent to discontinue this requirement.

6. At the hearing on January 26, 2015 of a motion in respect of the approval of the easyfinancial Transaction, the court-appointed representative counsel to the putative class members in the class action *Timothy Yeoman v The Cash Store Financial Services Inc. et al.*,("**Representative Counsel**") requested a date for a motion ordering Cash Store to produce certain data relating to the amounts claimed by class members. Representative Counsel's request was objected to by counsel to the Applicant and counsel to the Ad Hoc Committee of Noteholders on the basis that the issue of priority should first be determined before the Applicant undertakes the potentially expensive and time intensive process of calculating and providing this data.

7. Regional Senior Justice Morawetz requested that the Monitor prepare a report outlining any potential issues associated with facilitating Representative Counsel's request for the production of the data. The Monitor indicated that it would provide such additional information to the Court.

8. The purpose of this Fifteenth Report is to provide the Court with:

(a) the Monitor's comments and recommendations in respect of the requested Stay Extension Order;

(b) information regarding the repayment of the DIP Loan;

(c) the Monitor's consent to discontinue the requirement that the Applicants maintain a $3.0 million cash balance relating to the TPL Protection Order; and

(d) information regarding the potential cost and complexity associated with the calculation of data requested by Representative Counsel.

**TERMS OF REFERENCE**

9. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with various parties (the "**Information**").

10. Except as described in this Report:

(a) the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook;

(b) the Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook; and

(c) future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

11. The Monitor has prepared this Report in connection with the motion described in the Applicants' Notice of Motion dated February 24, 2015 and the other matters specifically referenced herein. This Report should not be relied on for other purposes (except to the extent a future Monitor's report provides otherwise).

12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the previous reports of the Monitor, the Initial Order, and other Orders of the Court issued in the CCAA Proceedings.

**STAY EXTENSION**

13. The Applicants have requested an extension of the Stay to June 1, 2015.

14. The Applicants, under the supervision and direction of the CRO, have been working with due diligence and in good faith to address numerous issues in these CCAA Proceedings, including their work to complete the Money Mart Transaction and the easyfinancial Transaction.

15. The Cashflow Forecast attached hereto as Schedule "A" demonstrates that the Applicants are projected to have sufficient liquidity to continue operations without further financing until at least the week ended June 1, 2015. As a result of the successful completion of the Money Mart Transaction and the easyfinancial Transaction, the Applicants project that they will have sufficient financial resources to continue their remaining operations and ongoing restructuring efforts for the duration of the proposed Stay extension period. Sales proceeds remaining after the repayment of the DIP, plus existing cash and other receipts are estimated to exceed disbursements for the proposed Stay extension period.

16. The proposed extension of the Stay throughout the Stay Extension period requested would enable the Applicants to fulfil their obligations under the Money Mart Transition Services Agreement and complete any additional purchase price adjustments pursuant to the Money Mart Asset Purchase Agreement. Extending the Stay until June 1, 2015 would also allow the Applicants to develop a mechanism to address any priority disputes, consult with stakeholders regarding the distribution of proceeds and provide sufficient time to deal with various other estate matters. The Monitor believes that this timing is appropriate and sensible.

17. Accordingly, the Monitor recommends that this Court grant the Stay extension to June 1, 2015 as requested by the Applicants.

**REPAYMENT OF DIP LOAN & FEE DISBURSEMENT**

18. As previously reported in the Monitor's Fourteenth Report, the Applicants have successfully closed both the Money Mart and easyfinancial Transactions. At that time, the Monitor reported that the Applicants intended to use the sale proceeds to pay amounts due to the DIP Lenders and to finance the Applicants' ongoing costs and restructuring efforts, subject to the terms of the Money Mart Asset Purchase Agreement and the easyfinancial Asset Purchase Agreement requiring any funds to be held in escrow for a period of time.

19. On February 19, 2015, subsequent to the receipt of a Direction to Pay from Cash Store, the Monitor distributed a portion of the Base Amount (as defined in the Money Mart Asset Purchase Agreement) to repay the DIP Lenders under the Amended and Restated Debtor-in-Possession Term Sheet dated May 20, 2014, as amended (Exit Amount not included). The repayment amount was $21,870,734.39.

20. The distribution made to the DIP Lenders included amounts relating to DIP Advances outstanding as of February 18, 2015; accrued and unpaid interest to February 18, 2015; accrued and unpaid DIP Financing Fees; the accrued and unpaid Amendment Fee; and the accrued and unpaid Amendments and Waiver Fee. The distribution did not include the payment of the Exit Amount.

21. The Exit Amount is additional consideration due under the Amended and Restated DIP Term Sheet to the DIP Lenders who are also Senior Secured Noteholders. The Exit Amount is calculated using a formula that includes, among other things, the full purchase price of any sale transaction. Both the Money Mart Transaction and the easyfinancial Transaction are subject to certain customary purchase price adjustments. As such, the Exit Amount cannot be calculated until the final purchase price for each of these transactions is fully and finally determined.

22. On February 19, 2015, subsequent to the receipt of a Direction to Pay from Cash Store, the Monitor also distributed a portion of the Base Amount to the following parties:

(i) the CRO, BlueTree Advisors Inc. pursuant to the Court-approved Engagement Letter dated April 14, 2014 as amended July 17, 2014. The CRO's fees are covered by the Administration Charge;

(ii) Rothschild Inc. pursuant to the Court-approved Engagement Letter dated as of February 20, 2014. Rothschild's fees are covered by the Administration Charge;

(iii) Houlihan Lokey Capital, Inc., pursuant to the Engagement Letter dated March 26, 2014. Houlihan's fees are covered by the Administration Charge;

(iv) FTI Consulting Canada Inc., on account of services rendered; and

(v) Osler, Hoskin & Harcourt LLP, on account of services rendered.

**TPL CASH BALANCE OBLIGATION**

23. The Additional TPL Protections Order required that, among other things, Cash Store maintain a minimum cash balance in an amount equal to $3.0 million subject to further Order of the Court or the consent of the Monitor.

24. In light of the sale of the Cash Store business and assets in the recent Money Mart and easyfinancial transactions and the resolution of some of the TPL entitlement disputes by way of the decision of the Ontario Court of Appeal, dated November 25, 2014, Cash Store has requested the Monitor's consent to discontinue the requirement that it maintain a $3.0 million minimum cash balance. The discontinuation of the requirement to maintain a minimum cash balance will not affect the TPL funds being held to address the Ontario interest collection issue or the TPL funds being held to address s. 4(c)(i) of the Additional TPL Protections Order.

25. The Monitor believes that the $3.0 million minimum balance is no longer necessary to protect the TPL Lenders' interests and provides its consent to this request, effective following the hearing of the Applicant's motion on March 2, 2015.

**FEE COLLECTION IN ONTARIO**

26. As previously reported in the Monitor's Twelfth and Thirteenth Report, the CRO and the Monitor became aware that, as a result of the treatment of capitalized fees in the BOSS Application system, Cash Store had received amounts in respect of capitalized fees when accepting payments of principal from borrowers in Ontario during the CCAA Proceedings.

27. Since that time, the Applicants, in consultation with the Monitor, have been working to identify the quantum of non-principal amounts received by Cash Store in relation to Ontario line of credit ("**LOC**") products since February 12, 2014. The Monitor has previously reported that the calculation of this amount has been complicated by a number of factors. Among other things, a line item in the BOSS Application system intended to include only principal amounts was capable of including calculated amounts of interest upon typical manual entries by employees at individual branches.

28. This ongoing investigation has provided the Applicants and the Monitor with an opportunity to assess the BOSS Application system and conduct an internal audit and systematic testing of the Cash Store LOC receivables in Ontario. While the scope of the Applicant's internal review relates primarily to the period following February 12, 2014, this analysis provides significant insight into the reliability of the Cash Store's Account Receivable records and the complexity of calculating the data requested by Representative Counsel for the broader period following September 1, 2011.

29. The Applicant's ongoing internal audit has revealed that while certain line items may be relatively easy to identify as non-principal amounts, the line item intended to identify net principal balance, labelled as "carry over balances" in relation to LOC accounts, may also include non-principal amounts caused by manual entries by employees at individual branches: specifically capitalized interest. Cash Store management has identified the following line items which may be easily separated from net principal amounts but which have not been tested for accuracy:

(i) Total loan fees;

(ii) Total NSF fees; and

(iii) Total Interest.

30. Cash Store management has indicated that the February 12, 2014 Ontario LOC accounts receivable includes 20,757 accounts which may have been compromised by the BOSS Application's automated processing when triggered by manual entry. The Monitor further understands that despite several weeks of testing and investigation, the Applicant's IT Group, with the oversight of the Monitor, has not been able to develop an automated solution to adequately audit the post February 12, 2014 accounts. As a result, the only way to accurately quantify the non-principal amounts included in the "carry over balances" is to manually test each of the 20,757 accounts; a process which is further complicated by the complexity of each customer's transactional activity. The Monitor estimates that manual testing and calculation of each account would take ten professional auditors approximately ten months to complete the February 12, 2014 – present period alone. This would cost approximately $5,000 per month per auditor for a total approximate cost of $500,000.

| | |
|---|---|
| Total Accounts @ Feb 12, 2014 | 47191 |
| - Less accounts with Non-carry over balance @ Feb 12, 2014 | 26434 |
| = Accounts with Carry over balance @ Feb 12, 2014 | 20757 |
| | |
| | |
| Calculation on Accounts with Carry over @ Feb 12, 2014 | 20757 |
| | |
| Accounts completed per day | 10 |
| Working days in calendar year | 251 |
| Number of auditors | 10 |
| | |
| Time in years to complete | 0.83 |
| Time in months to complete | 9.92 |

31. If any of the remaining 26,434 customer LOC accounts were also compromised because they had carry over balances before February 12, 2014, then each of the 47,191 accounts would have to be reviewed and tested. The Monitor estimates that manual testing and calculation of each account would take ten professional auditors approximately twenty-three months to complete the February 12, 2014 – present period for all 46,191 accounts. This would cost approximately $5000 per month per auditor for a total approximate cost of $1,150,000.

| | |
|---|---|
| Calculation on all accounts @ Feb 12, 2014 | 47191 |
| | |
| Average accounts completed per day | 10 |
| Working days in calendar year | 251 |
| Number of auditors | 10 |
| | |
| Time in years to complete | 1.88 |
| Time in months to complete | 22.56 |

32. In addition to the specific manual entry (creating a new draw with a prior balance), which causes the BOSS Application system to automatically calculate the carry over balance, the internal audit also uncovered several other issues compromising the integrity of the BOSS Application system. The Monitor understands that, among other things, there appears to be an unreconciled accounts receivable balance between the total pulled from the data warehouse and the total calculated by the internal audit using figures stored at the same data warehouse. The internal audit also found various unexplained interest calculation errors caused by the system's automated processing of customer transactional data.

33. To further complicate data calculation and verification, in the time period following September 1, 2011 the BOSS Application system has had 153 updated software releases. With the Monitor's oversight, the Applicants have discovered that numerous errors and miscalculations were created in the BOSS Application during the updated software releases as a result of insufficient quality assurance and user acceptance testing.

34. There is no reason to believe that the issues identified in the ongoing audit relating to the post February 12, 2014 period would not also be present in respect of the data requested by Representative Counsel for the period following September 1, 2011.

35. The Monitor respectfully submits to the Court this Fifteenth Report.

Dated this 26th day of February, 2015.

FTI Consulting Canada Inc.
The Monitor of
The Cash Store Financial Services Inc.
and Related Applicants

Greg Watson
Senior Managing Director

**Schedule "A" – Cashflow Forecast**

**The Cash Store Financial Services, Inc.**
**Weekly Cash Forecast**
**(CAD 000's)**

| Week Ended | 2/27/2015 | 3/6/2015 | 3/13/2015 | 3/20/2015 | 3/27/2015 | 4/3/2015 | 4/10/2015 | 4/17/2015 | 4/24/2015 | 5/1/2015 | 5/8/2015 | 5/15/2015 | 5/22/2015 | 5/29/2015 | 6/5/2015 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RECEIPTS: | | | | | | | | | | | | | | | | |
| Loan Repayments - Direct Portfolio | $ 334 | $ 38 | $ 38 | $ 38 | $ 75 | $ 63 | $ 30 | $ 30 | $ 38 | $ 53 | $ 30 | $ 30 | $ 30 | $ 30 | $ 18 | $ 872 |
| Loan Repayments - Broker Portfolio | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Loan Fees - Broker Portfolio | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Income Receipts | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Non-Operating Receipts | 222 | 189 | 189 | 189 | 189 | 189 | - | - | - | - | - | - | - | - | - | 1,167 |
| Asset Sale Proceeds | - | - | - | - | - | 1,000 | 750 | - | - | 750 | - | 500 | - | 500 | - | 3,500 |
| TOTAL RECEIPTS | 556 | 227 | 227 | 227 | 264 | 1,252 | 780 | 30 | 38 | 803 | 30 | 530 | 30 | 530 | 18 | 5,539 |
| OPERATING DISBURSEMENTS: | | | | | | | | | | | | | | | | |
| Loan Disbursements - Direct Portfolio | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Loan Disbursements - Broker Portfolio | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Payroll and Benefits | 1,022 | 88 | 418 | 88 | 418 | 88 | 11 | 51 | 11 | 51 | 10 | 45 | 10 | 45 | 10 | 2,368 |
| Operating Expenses | 661 | 71 | 71 | 71 | 71 | 189 | 81 | 81 | 54 | 54 | 44 | 44 | 30 | 30 | 26 | 1,580 |
| Rent | 349 | - | 313 | - | - | 169 | - | 84 | - | 84 | - | 15 | - | 15 | - | 1,028 |
| Transfer to UK | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Utility Deposits/Miscellaneous | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Critical Vendors | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| TOTAL OPERATING DISBURSEMENTS | 2,033 | 159 | 802 | 159 | 489 | 446 | 93 | 217 | 66 | 190 | 54 | 104 | 40 | 89 | 36 | 4,976 |
| OPERATING CASH FLOW | $ (1,477) | $ 68 | $ (576) | $ 68 | $ (225) | $ 806 | $ 687 | $ (187) | $ (28) | $ 613 | $ (24) | $ 426 | $ (10) | $ 441 | $ (18) | $ 563 |
| NON-OPERATING DISBURSEMENTS: | | | | | | | | | | | | | | | | |
| Professional Fees - Restructuring | 551 | 240 | 240 | 240 | 60 | 420 | 155 | 155 | 155 | 310 | 155 | 155 | 155 | 310 | 145 | 3,446 |
| Branch Closure Costs | 125 | - | 135 | - | 82 | 192 | - | - | - | - | - | - | - | - | - | 534 |
| Employee Related Restructuring Costs | 60 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 60 |
| Other Income Pass-Through | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Credit Facility Interest | 125 | - | - | - | - | 125 | - | - | - | 125 | - | - | - | 125 | - | 500 |
| DIP Interest and Related Fees | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Third Party Lender Payment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capex | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| TOTAL NON-OPERATING DISBURSEMENTS | 861 | 240 | 375 | 240 | 142 | 737 | 155 | 155 | 155 | 435 | 155 | 155 | 155 | 435 | 145 | 4,540 |
| BoP Cash | $ 9,254 | $ 6,916 | $ 6,744 | $ 5,793 | $ 5,621 | $ 5,254 | $ 5,323 | $ 5,855 | $ 5,513 | $ 5,330 | $ 5,508 | $ 5,329 | $ 5,600 | $ 5,435 | $ 5,441 | $ 9,254 |
| Total Cash Flow | (2,338) | (172) | (951) | (172) | (367) | 69 | 532 | (342) | (183) | 178 | (179) | 271 | (165) | 6 | (163) | (3,976) |
| EoP Cash Before New Borrowing | $ 6,916 | $ 6,744 | $ 5,793 | $ 5,621 | $ 5,254 | $ 5,323 | $ 5,855 | $ 5,513 | $ 5,330 | $ 5,508 | $ 5,329 | $ 5,600 | $ 5,435 | $ 5,441 | $ 5,278 | $ 5,278 |
| BoP DIP Loan | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| DIP Draw | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Funding From Asset Sale Proceeds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| DIP Paydown | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| EoP DIP Loan | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| BoP Senior Credit Facility | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 |
| Draw | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Paydown | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| EoP Senior Credit Facility | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 |
| EoP Cash After New Borrowing | $ 6,916 | $ 6,744 | $ 5,793 | $ 5,621 | $ 5,254 | $ 5,323 | $ 5,855 | $ 5,513 | $ 5,330 | $ 5,508 | $ 5,329 | $ 5,600 | $ 5,435 | $ 5,441 | $ 5,278 | $ 5,278 |
| Less: Non-Ontario Restricted Cash | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) | (3,250) |
| Less: Ontario Restricted Cash | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) | (1,931) |
| Less: Cash Minimum | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Less: Tax Refund | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| EoP Cash After Restricted Cash | $ 1,735 | $ 1,563 | $ 612 | $ 440 | $ 73 | $ 141 | $ 674 | $ 332 | $ 149 | $ 327 | $ 148 | $ 418 | $ 254 | $ 260 | $ 97 | $ 97 |

Notes:
[1] The purpose of this cash flow forecast is to determine the liquidity requirements of the Applicants during the forecast period.
[2] Receipts from operations are forecast based on existing Consumer Loan Receivables and Accounts Receivable, forecast lending volumes and other revenues, and customer payment terms.
[3] Non-operating receipts represents reimbursement estimates from National Money Mart.
[4] Forecast disbursements from operations are forecast based on existing Accounts Payable, forecast loan volumes and operating expenses, and payment terms.
[5] Post-petition non operating expenses include professional fees associated with the Applicants restructuring and payments made to Third Party Lenders.
Forecast professoinal fee disbursements are based on advisor level estimates of fees that may be incurred during the forecast period.
[6] Credit Facility Interest includes interest associated with the $12 million in secured loans provided by the Senior Lenders.
[7] Use of asset sale proceeds will be used to fund the estate during this forecast period.
[8] DIP Exit Fee will be paid directly out of Monitor's trust account.