THE GLOBE AND MAIL

Operating at a "substantial" loss, Sears Canada Inc. is preparing for a total liquidation soon if the bid by its executive chairman to save the insolvent retailer fails.

A court-appointed monitor overseeing Sears's insolvency proceedings says in a report this week that so far the bid from a management group led by executive chairman Brandon Stranzl has been insufficient. If the offer falters, Sears is poised to ask the court "in the coming days" for approval to run liquidation sales to cash in on the busy preholiday shopping season to generate money for unsecured creditors.

"Liquidation sales in the retail industry yield better results if they are completed before and during the lead-up to the December holiday season, which also impacts recovery to stakeholders," the report says.

The spectre of Sears holding heavy liquidation sales threatens other retailers' bottom lines during the crucial preholiday period when they count on selling merchandise at full price.

"Liquidation sales would be a big challenge for other retailers," Hugh Latif, of Hugh Latif & Associates Management Consultants, said in an interview. "It would make them more price-sensitive."

Retailers tend to ring up their biggest profit during the holiday season, but their margins would be hurt if they're forced to mark down prices to match those of Sears, he said.

Sears already held liquidation sales after it announced this summer it was closing 59 of its 255 stores.

FTI Consulting Canada Inc., the monitor overseeing Sears' insolvency, hints the bid by Mr. Stranzl, who has been removed from his day-to-day duties but retains the title of executive chairman, would not generate as much money for creditors as selling off pieces of Sears' assets to others. Mr. Stranzl's bid is the only offer that Sears is considering that contemplates it continuing as a going concern and saving thousands of jobs.

Mr. Stranzl met late Tuesday with advisers to Sears and other parties involved in the insolvency process, presenting a revised bid and a 24-hour deadline for a response, sources said.

On Wednesday, Sears plans to ask the Ontario Superior Court to approve a host of agreements the retailer made recently to sell some of its best assets, including 11 store leases, a distribution centre, its Corbeil appliance chain, rights to its Viking appliances trademark, its transport division and three home-services firms.

Mr. Stranzl this week accused Sears of creating a sale process that has sidelined his offer by moving quickly to sell its "crown jewels" that he had intended for his management bid, according to a letter from his lawyer at Stikeman Elliott and obtained by The Globe and Mail.

"Given the materiality of the removal of these assets, it is highly unrealistic for the company to expect that there would not be a significant impact on our clients' purchase price," the letter from lawyer Samantha Horn says.

But the monitor says time is running out. Sears is losing more than $1-million a day, according to its report. It says in the seven weeks ended Sept. 23 its net cash outflow was about $55.2-million.

The report also suggests Mr. Stranzl may not contribute the full amount of his retention bonus to an employee hardship fund. The report says a beneficiary of the retention payment program – without naming the beneficiary, although it is believed to be Mr. Stranzl – had previously proposed to donate his bonus to the fund set up this summer for Sears staff who lost their jobs without severance when the retailer won court protection from its creditors on June 22.

Mr. Stranzl had reportedly pledged to provide $300,000 to the fund, which was the first instalment of his bonus, sources have said. The monitor's report says Sears "continues to hold the portion of the second instalment" of the beneficiary's payment because of the "uncertainty regarding the agreement." A Sears spokesman said he didn't know about the matter. (The hardship fund was to have received a total of $500,000.)

The report says Sears and its advisers "have worked diligently with the Stranzl group to achieve a going concern transaction. However, at this date, the monitor notes that the Stranzl group proposal remains conditional in a number of respects and accordingly presents significant closing risk and uncertain recoveries. ... The monitor believes the viability of a going concern transaction can continue to be explored subject to time constraints imposed by the [Sears's] ongoing operating losses, financing arrangements, liquidity and necessary timelines to commence a liquidation process, but only in conjunction with (and not to the exclusion of) the other value maximizing transactions."

Still, Mr. Stranzl counters in his Oct. 1 lawyer's letter that his group's lenders "continue to have conventional (though limited) conditions in their commitment letters."

His key lenders – initially Goldman Sachs & Co. and Ares Capital and then Blackstone Group – "have earned their reputations precisely because they honour their commitments," the letter from Mr. Stranzl's lawyer says.