

**CINRAM INTERNATIONAL
INC., CINRAM
INTERNATIONAL INCOME
FUND AND THE COMPANIES
LISTED ON SCHEDULE "A**

**THIRD REPORT
OF FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR OF THE
APPLICANTS
September 9, 2012**

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 CINRAM INTERNATIONAL
INC., CINRAM INTERNATIONAL INCOME FUND AND
THE COMPANIES LISTED IN SCHEDULE "A"

THIRD REPORT OF FTI CONSULTING CANADA INC.,
in its capacity as Monitor of the Applicants

September 9, 2012

INTRODUCTION

1. By Order of this Court dated June 25, 2012 (the "**Initial Order**"), Cinram International Inc. ("**CII**"), CII Trust, Cinram International Income Fund ("**Cinram Fund**") and the companies listed in **Schedule "A"** attached to this report (together with CII and Cinram Fund, the "**Applicants**") obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the "**CCAA**"). The Initial Order also granted relief in respect of Cinram International Limited Partnership (together with the Applicants, the "**CCAA Parties**") and

appointed FTI Consulting Canada Inc. ("**FTI**") as monitor (the "**Monitor**") of the CCAA Parties.

2. Cinram Fund, collectively with its direct and indirect subsidiaries, shall be referred to herein as "**Cinram**" or the "**Cinram Group**". The proceedings to be commenced by the Applicants under the CCAA will be referred to herein as the "**CCAA Proceedings**".
3. Cinram Group is one of the world's largest producers of pre-recorded multimedia products and related logistics services. Cinram Group has been unable to find an out-of-court solution to its financial difficulties and sought protection from its creditors under the CCAA.
4. The Applicants' stated principal objectives of the CCAA Proceedings were: (i) to ensure the ongoing operations of the Cinram Group; (ii) to ensure the Applicants have the necessary availability of working capital funds to maximize the ongoing business of the Cinram Group for the benefit of its stakeholders; and (iii) to complete the sale and transfer of substantially all of Cinram's core business to Cinram Group, Inc., formerly known as Cinram Acquisition, Inc. (the "**Purchaser**") or one or more of its nominees.

5. Further background information regarding the CCAA Parties and these proceedings is provided in, *inter alia*, the affidavit of John Bell sworn June 23, 2012 (the “**Bell Affidavit**”) and FTI’s pre-filing report dated June 23, 2012, copies of which have been posted on the Monitor’s website for the CCAA Proceedings at <http://cfcanada.fticonsulting.com/cinram>.
6. Capitalized terms not otherwise defined herein have the meaning given to them in the Bell Affidavit, the Asset Purchase Agreement (defined below), or previous reports of the Monitor.

PURPOSE OF THIS REPORT

7. The purpose of this Third Report is to inform the Court on the Applicants’ request for an Order, *inter alia*, extending the Stay Period to October 26, 2012 and sealing the Cashflow Forecast (as defined below) pending further Order of this Court.

TERMS OF REFERENCE

8. In preparing this report, FTI has relied upon unaudited financial information of the Applicants, the Applicants’ books and records, certain financial information prepared by, and discussions with, the Applicants’ management. FTI has not audited, reviewed or otherwise attempted to

verify the accuracy or completeness of the information and accordingly expresses no opinion or other form of assurance on the information contained in this report.

9. Unless otherwise stated, all monetary amounts contained in this report are expressed in United States dollars.

BACKGROUND

Cross Border Proceedings

10. On June 26, 2012, Cinram International ULC, as foreign representative of the Cinram Group, obtained an order from the United States Bankruptcy Court (District of Delaware) under Chapter 15 of the U.S. Bankruptcy Code recognizing and enforcing the Initial Order on an interim basis and granting an interim stay of any enforcement or actions against the CCAA Parties or their assets.
11. On July 25, 2012, the U.S. Court approved and entered the Final Recognition Order under Chapter 15 of the Bankruptcy Code, granting recognition of the CCAA Proceedings as the “foreign main proceedings” of the CCAA Parties and recognizing the Initial Order.

Sale Approval and Vesting Order

12. On July 12, 2012, this Court made an order (the “**Approval and Vesting Order**”), *inter alia*: (i) approving the sale of substantially all of the property and assets used in connection with the business carried on by Cinram in North America contemplated by an asset purchase agreement between CII and the Purchaser dated June 22, 2012 (the “**Asset Purchase Agreement**”); (ii) approving the sale of the shares of Cooperatie Cinram Netherlands UA pursuant to the binding purchase offer dated June 22, 2012 (the “**Purchase Offer**”) provided by the Purchaser to CII and 1362806 Ontario Limited (together with CII, the “**Share Sellers**”); (iii) authorizing CII to enter into the Asset Purchase Agreement and the Share Sellers to enter into the Purchase Offer; (iv) authorizing CII, Cinram Inc., Cinram Retail Services LLC, One K Studios, LLC, Cinram Distribution LLC and Cinram Manufacturing LLC (collectively, the “**Asset Sellers**”) to complete the transactions contemplated by the Asset Purchase Agreement (the “**Asset Sale Transaction**”); and (v) authorizing the Share Sellers to complete the transactions contemplated by the Purchase Offer (the “**Share Sale Transaction**”, together with the Asset Sale Transaction, the “**Sale Transactions**”).

13. The U.S. Court granted an Order, *inter alia*, recognizing the Approval and Vesting Order and authorizing the assignment and assumption of certain executory contracts and unexpired leases on July 25, 2012.
14. On August 21, 2012, this Court granted an Order assigning the Listed Closing Assigned Contracts and approving the process relating to the Additional Assigned Contracts set out in the Assignment Order.

STATUS OF THE CCAA PROCEEDINGS

Asset Sale Transaction

15. The Monitor delivered its certificate on August 31, 2012 and the Asset Sale Transaction closed on August 31, 2012. All of the Applicants' directors and officers, other than Messrs Henri A. Aboutboul and Bradley I. Dietz, as trustees of Cinram Fund, and Mr. William Mueller, as manager of Cinram Wireless LLC, resigned effective August 31, 2012. Pursuant to the Asset Sale Transaction, all but approximately 140 of the Applicants' 3,000 employees engaged in the North American business were transferred to the Purchaser or its nominees or remain employed by Cinram Wireless LLC.

16. The Initial Order approved up to US\$15 million of debtor-in-possession financing pursuant to a credit agreement between the Applicants and certain lenders dated as of June 22, 2012 (the "**DIP Agreement**"). On June 28, 2012, the Applicants drew down the full amount available under the DIP Agreement, which was repaid with interest on the closing of the Asset Sale Transaction in accordance with the terms of the Asset Purchase Agreement and the DIP Credit Agreement. Certain fees and related costs payable remain outstanding and are anticipated to be paid at a later date.

17. Additionally on the closing of the Asset Sale Transaction, payments were made to those employees subject to a key employee retention program (the "**KERP**") (which was also approved in the Initial Order) whose employment with the Applicants was terminated prior to closing. The terms of the KERP call for payment to be made on, inter alia, the earlier of December 31, 2012 or termination of employment, accordingly no payments were made to employees of Cinram Wireless LLC subject to the KERP as their employment was not terminated.

18. Following the closing of the Asset Sale Transaction and subject to completion of a satisfactory security review by the Monitor's counsel, the Monitor is holding sale proceeds in the approximate amount of \$33 million pending a motion for distribution to the lenders (the "**First Lien**").

Lenders") under the Amended and Restated Credit Agreement dated as of April 11, 2011 among certain of the CCAA Parties and JPMorgan Chase Bank N.A., as administrative agent for the First Lien Lenders (the "**First Lien Credit Agreement**").

*Transition Services Agreement*¹

19. In accordance with the Asset Purchase Agreement, on August 31, 2012, CII and the Purchaser entered into a Transition Services Agreement (the "**Transition Services Agreement**"). The Transition Services Agreement addresses matters in connection with certain Excluded Assets and the European Business including the following:

- a) the Purchaser providing management services to the European Business in substance and scope similar to the services provided by CII to the European Business prior to the closing of the Asset Sale Transaction until the earlier to occur of (a) December 17, 2012 and the termination of the Purchase Offer in accordance with its terms, subject to earlier termination in accordance with the Transition Services Agreement;

¹ Capitalized terms used in this section but not defined shall have the meaning attributed to them in the Asset Purchase Agreement.

- b) use by the Purchaser of that certain manufacturing facility owned by Cinram Manufacturing LLC located at 1400 E. Lackawanna Ave., Olyphant, Pennsylvania (the "**Olyphant Facility**"), which is an Excluded Asset, for a period of twelve months following the closing of the Asset Sale Transaction (unless terminated earlier by the Purchaser in accordance with the Transition Services Agreement), with the costs of operation and use of the Olyphant Facility borne by the Purchaser but otherwise rent-free;
- c) the Purchaser providing management and other services to Cinram Wireless LLC in substance and scope similar to the services provided prior to the closing of the Asset Sale Transaction for an agreed monthly fee plus reimbursement of documented and invoiced costs, until the scheduled termination of Cinram Wireless LLC's key customer contract, subject to earlier termination in accordance with the Transition Services Agreement; and
- d) the Purchaser providing administrative services (the "**Administrative Services**") relating to the wind-up and court processes undertaken by Cinram, record keeping, financial, tax and other reporting obligations and other similar administrative services as reasonably requested by CII until August 31, 2013 at no

cost other than reimbursement of documented and invoiced costs incurred by Purchaser in performing the Administrative Services.

20. The Monitor is advised by the CCAA Parties that the Transition Services Agreement is required in order for Cinram to continue operating its European Business in the ordinary course as CII and the Purchaser work towards the completion of the Share Sale Transaction.

Share Sale Transaction

21. The CCAA Parties advise that they are working towards an expected Closing of the Share Sale Transaction by December 17, 2012.

Sale of Excluded Real Property

22. The CCAA Parties, with the assistance of the Monitor in consultation with the First Lien Lenders' advisors, have commenced the selection of real estate brokers to assist in the sale of the real property not subject to the Sale Transactions.

Future Motions

23. The Monitor understands that the CCAA Parties are working towards bringing a motion for an Order, *inter alia*, permitting distributions to the First Lien Lenders, authorizing the Monitor to set up an administrative reserve and otherwise increasing the Monitor's powers. The Monitor is advised the CCAA Parties expect to bring this motion before October 26, 2012.
24. Under the Initial Order, the Monitor is authorized to, among other things, assist the CCAA Parties and/or the Investment Banker with respect to any sales and marketing process to sell the Property and the Business or any part thereof. The Monitor intends to continue to so assist the CCAA Parties with respect to any assets not transferred under the Sale Transactions, as well as perform all other functions it is authorized to perform under the Initial Order and the CCAA.

RECEIPTS AND DISBURSEMENTS TO AUGUST 31, 2012

25. The Bell Affidavit filed as part of the Initial Application Record included a cash flow forecast for the CCAA Applicants for the 13-week period beginning June 17, 2012 and ending September 14, 2012 (the "**Initial Cash Flow Forecast**"). The table below presents the actual versus forecast results of the CCAA Applicants' Initial Cash Flow Forecast for the period ending August 31, 2012.

	Forecast	Actual	Variance
	\$000's	\$000's	\$000's
Cash Flow from Operations			
Receipts	77.4	77.1	(0.3)
Operating Disbursements	(86.0)	(74.8)	11.2
Operating Cash Flows	(8.6)	2.3	10.9
Restructuring / Non-recurring	(4.3)	(3.9)	0.4
Financing	(1.2)	(0.6)	0.6
DIP Proceeds	15.0	15.0	-
Non-Operating Cash Flow	9.5	10.4	0.9
Projected Net Cash Flow	0.9	12.7	11.8
Beginning Cash Balance	11.5	11.5	
Ending Cash Balance	12.4	24.2	11.8

26. Actual projected net cash flow for the period ending August 31st, 2012 was \$11.8 million better than forecast in the Initial Cash Flow Forecast.

27. The positive variance was primarily the result of:

- a) Better than forecast post-filing credit terms from raw material and other trade suppliers; and
- b) Lower than anticipated critical vendor payments and post-CCAA filing security deposits.

CASH FLOW FORECAST

28. The CCAA Parties, with the assistance of the Monitor, have updated the consolidated forecast of their receipts and disbursements (the "Cashflow

Forecast") for the period ending October 26, 2012. A copy of the Cashflow Forecast is attached as **Appendix "A"** to the Confidential Supplement to this Third Report. The Applicants are requesting the sealing of the Cashflow Forecast due to the commercially sensitive information it contains about certain Excluded Assets that, if disclosed, could have a detrimental effect on Cinram's remaining operations and restructuring efforts. The Administrative Agent under the First Lien Credit Agreement is aware of the Cashflow Forecast and supports the requested relief.

29. It is anticipated that the CCAA Entities' forecast liquidity requirements during the Cashflow Forecast Period will continue to be met by the CCAA Parties.

REQUEST FOR AN EXTENSION OF THE STAY OF PROCEEDINGS

30. Pursuant to the Initial Order, the Stay Period was granted until, and including, July 25, 2012, or such later date as the Court may order. Pursuant to an Order dated July 12, 2012, the Stay Period was extended to September 14, 2012.
31. Additional time is required for the CCAA Parties to pursue their restructuring efforts, including the restructuring or sale of the assets and business not being sold pursuant to the Asset Sale Transaction. Among

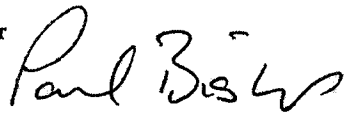
other things, the CCAA Parties need time to complete the sale process for certain real property not subject to the Asset Sale Transaction; determine which agreements should be disclaimed and rejected under the CCAA Proceedings and Chapter 15 Proceedings; and complete the Share Sale Transaction described above. The continuation of the stay of proceedings to October 26, 2012 is necessary to provide the stability needed during that time.

32. It is the Monitor's view based on the CCAA Parties' Cashflow Forecast that the CCAA Parties will have sufficient available cash resources during the requested Stay Period.
33. Based on the information presently available, the Monitor believes that creditors will not be materially prejudiced by an extension of the Stay Period to October 26, 2012.
34. The Monitor is not aware of any non-compliance by the CCAA Parties with requirements under the CCAA or pursuant to any Order issued by this Court in the CCAA Proceedings. The Monitor also believes that the CCAA Parties have acted, and are continuing to act, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.

All of which is respectfully submitted this 9th day of September, 2012.

FTI Consulting Canada Inc.,
in its capacity as the Monitor of Cinram International Inc., Cinram International
Income Fund and the other Applicants listed in Schedule "A"

Per

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Paul Bishop
Senior Managing Director

Schedule "A"

Additional Applicants

Cinram International ULC

1362806 Ontario Limited

Cinram (U.S.) Holdings' Inc.

Cinram, Inc.

IHC Corporation

Cinram Manufacturing LLC

Cinram Distribution LLC

Cinram Wireless LLC

Cinram Retail Services, LLC

One K Studios, LLC

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Court File No. CV12-9767-00CL

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

Proceeding commenced at Toronto

**THIRD REPORT OF FTI CONSULTING CANADA
INC., IN ITS CAPACITY AS MONITOR**

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