



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

**NINTH REPORT
OF FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR OF THE
APPLICANTS
June 20, 2013**

Court File No. CV12-9767-00CL

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 C INTERNATIONAL INC., CII TRUST, C
INTERNATIONAL INCOME FUND AND THE COMPANIES
LISTED IN SCHEDULE "A"

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

June 20, 2013

INTRODUCTION

1. By Order of this Court dated June 25, 2012 (the "**Initial Order**"), C International Inc., formerly Cinram International Inc. ("**CII**"), CII Trust, C International Income Fund, formerly Cinram International Income Fund (the "**Fund**") and the companies listed in **Schedule "A"** attached to this report (together with CII, CII Trust and the 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 C International Limited Partnership, formerly 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. The Fund, collectively with its direct and indirect subsidiaries, shall be referred to herein as “**Cinram**” or the “**Cinram Group**”. The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
3. Cinram Group was one of the world’s largest producers of pre-recorded multimedia products and related logistics services. Cinram Group was 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. 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 (“**Cinram Netherlands**”) pursuant to the binding purchase offer dated June 22, 2012 (the “**Share Purchase Offer**”) provided by the Purchaser to CII and 1362806 Ontario Limited (together with CII, the “**Share Sellers**”), on the terms of the form of share purchase agreement appended to the Share Purchase Offer (the “**Share Purchase Agreement**”); (iii) authorizing CII to enter into the Asset Purchase Agreement and the Share Sellers to enter into the Share Purchase Offer; (iv) authorizing CII, CIHV Inc., formerly Cinram Inc., CRSMI LLC, formerly Cinram Retail Services LLC, One K Studios, LLC, CDIST LLC, formerly Cinram Distribution LLC and CMFG LLC, formerly 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 Share Purchase Offer (the “Share Sale Transaction”).

7. On July 25, 2012, the United States Bankruptcy Court (District of Delaware) (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 on a final basis. The U.S. Court also granted an Order, *inter alia*, recognizing the Approval and Vesting Order and authorizing the assignment and assumption of certain executory contracts and unexpired leases.
8. As reported in the Third Report of the Monitor, on August 31, 2012, the Asset Sale Transaction closed and the Monitor delivered its certificate.
9. As reported in the Seventh Report of the Monitor, on February 4, 2013, the Share Purchase Transaction closed and the Monitor delivered the Monitor’s Share Sale Transaction Certificate on February 5, 2013.
10. Capitalized terms not otherwise defined herein have the meaning given to them in the Bell Affidavit, the Asset Purchase Agreement, the Initial Order or previous reports of the Monitor.

PURPOSE OF THIS REPORT

11. The purpose of this Ninth Report is to inform and/or provide this Honourable Court with an update on the following:
 - a) status of the CCAA Parties' CCAA proceedings;
 - b) the CCAA Parties' financial performance since December 31, 2012 and a comparison of the actual to forecast results;
 - c) the weekly cashflow forecast to December 6, 2013 (the "**Cash Flow Forecast**");
 - d) the CCAA Parties' request for an Order, *inter alia*, extending the Stay Period to December 6, 2013; and
 - e) the Monitor's conclusions and recommendations.

TERMS OF REFERENCE

12. 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.

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

STATUS OF THE CCAA PROCEEDINGS

General

14. The Asset Sale Transaction closed on August 31, 2012 and the Share Sale Transaction closed on February 4, 2013.

Wireless

15. On April 10, 2013, this Honourable Court made an order (the “**Equipment Sale Approval and Vesting Order**”), *inter alia*, approving the sale of the Equipment (as defined in the Equipment Sale Approval and Vesting Order) by Cinram Wireless LLC (“**Wireless**”) to Motorola Mobility LLC, representing a sale of substantially all of the assets of Wireless (the “**Wireless Sale Transaction**”).
16. On April 22, 2013, CRW, in its capacity as foreign representative for the U.S. Debtors, obtained an order under chapter 15 of the Bankruptcy Code from the U.S. Court, *inter alia*, recognizing the Equipment Sale Approval and Vesting Order.

17. Upon the expiry of the applicable appeal periods for the Equipment Sale Approval and Vesting Order and the U.S. order recognizing the Equipment Sale Approval and Vesting Order, the Holdback Amount being held in escrow by the Monitor in connection with the Wireless Sale Transaction was released from escrow for the benefit of Wireless in accordance with the Termination Agreement.
18. Wireless is in the final stages of the wind down of its business. As of the date of this report, Management of Wireless has confirmed that Wireless vacated the leased Wireless facility and expects to complete the wind down of the business by the end of June 2013.

Employee Plans

19. The Monitor is assisting Management with the wind down and termination of the various health and employee benefit plans for Wireless and other former CCAA Parties' employees. All employee-benefit related plans, other than the Cinram 401k Thrift Plan (the "**401k Plan**"), will be terminated effective June 30, 2013.
20. With respect to the 401k Plan, participants will no longer be able to make contributions after June 30, 2013. The Monitor, with the assistance of Management, is working with the trustee of the 401k Plan to identify participants

and arrange for distribution of the plan assets. Once all plan assets have been distributed, the 401k Plan will be terminated.

Distributions to the Pre-Petition First Lien Lenders

21. As of the date of this report, distributions to the Pre-Petition First Lien Lenders have totaled approximately \$81 million. Based on current cash balances, forecast cash flows and expected recoveries from the sale of the Excluded Asset properties, the Monitor expects that there will be further distributions to the Pre-Petition First Lien Lenders, the timing and amount of which will be largely dependent on the sale of real estate assets and the settlement of employee benefit plan liabilities.

Cinram Hungary Kft.

22. Cinram Hungary Kft. ("**Hungary**") is a wholly owned subsidiary of CII and was founded as part of a tax management arrangement. Hungary was managed by Capita Hungary International ("**Capita**") and as such had no operations and only one employee. Hungary's principal asset consists of cash in the amount of approximately \$1.08 million.

23. Hungary is a guarantor of the Applicants' indebtedness under the Credit Agreements in the approximate amount of \$250 million (the "**Guaranty**"). In addition to its liability as a guarantor under the Credit Agreements, Hungary is liable in the approximate amount of \$420,000 in respect of taxes owing to the tax authorities of the grand Duchy of Luxembourg ("**Tax Authorities**"). The Monitor is advised that Hungary's liability in respect of the Guaranty ranks in priority to its liability to the Tax Authorities.

24. With the agreement of the Pre-Petition First Lien Agent, the Monitor, assisted by Hungary's auditors ("**KPMG**") and Capita, attempted to reach a voluntary agreement with the Tax Authorities such that the Tax Authorities would receive less than the full liability in return for a full release of such liability, thereby avoiding the costs and delay associated with a formal liquidation. The Monitor was unable to reach such agreement with the Tax Authorities and accordingly on February 27, 2013, with the agreement of the Monitor, a liquidator was appointed over the assets of Hungary.

25. The liquidation order has been filed with the Hungarian Court. It is expected that the court will issue a liquidation order within 60 days. The liquidator expects the liquidation to be completed within approximately 4 months, at which time substantially all of the \$1.08 million would be available for distribution to the Pre-Petition First Lien Lenders.

Excluded Real Estate Assets

26. The Monitor, in consultation with the financial advisor to the Pre-Petition First Lien Lenders, is overseeing the marketing and sale process of the Excluded Asset real estate properties located in Olyphant, Pennsylvania; Louisville, Kentucky; and Madrid, Spain.
27. Listing agents have been engaged and are actively marketing the properties. To date, a number of parties have expressed interest in the real properties; however, no sale of any of the properties has been agreed.

Insurance for the CCAA Applicants

28. The CCAA Applicants' Excluded Asset real estate properties are insured under an umbrella insurance policy that is scheduled to expire on June 30, 2013. The Monitor, in consultation with the Pre-Petition First Lien Lenders, is investigating options for property insurance coverage beyond June 30, 2013 and expects to have arranged coverage prior to the expiration of the current policy.
29. The trustees, directors and former officers of the Fund and its subsidiaries are insured against possible liabilities under a Directors' and Officers' ("D&O") insurance policy that is scheduled to expire on July 1, 2013. It is expected that the trustees of the Fund and directors remaining at its subsidiaries in North America

will resign prior to July 1, 2013. The Monitor is investigating options for D&O insurance beyond July 1, 2013, including coverage with respect to Cinram's Spanish subsidiary and tail insurance with respect to the remainder of the Cinram Group and will consult with the Pre-Petition First Lien Lenders with respect to same.

RECEIPTS AND DISBURSEMENTS TO JUNE 28, 2013

30. Appendix A to the Confidential Supplement to the Sixth Report of the Monitor included a cash flow forecast for the CCAA Applicants for the period beginning December 31, 2012 and ending on June 28, 2013 (the "**January 2013 Cash Flow Forecast**"). The table below presents the actual versus forecast results of the CCAA Applicants' January 2013 Cash Flow Forecast for the period ending June 14, 2013. Unless otherwise stated, all monetary amounts contained in this section of this Ninth Report are expressed in Canadian dollars.

	Variance \$000's
Cash Flow from Operations	
Receipts	6.8
Operating Disbursements	<u>2.8</u>
Operating Cash Flows	9.6
Restructuring / Non-recurring Distributions	(1.0)
	<u>(13.3)</u>
Non-Operating Cash Flow	(14.3)
Projected Net Cash Flow	<u>(4.7)</u>
Beginning Cash Balance	<u>-</u>
Ending Cash Balance	<u>(4.7)</u>

31. Actual Operating Cash Flows for the period ending June 14, 2013 exceeded forecast by \$9.6 million due to:

- a positive variance in Receipts due to a delay in the wind down of the Wireless business which resulted in higher-than-forecast sales;
- a reduction in payment terms with respect to the collection of Wireless accounts receivable which will reverse in future forecast periods; and
- Lower-than-forecast operating disbursements due primarily to lower rent expense associated with the exit of the Wireless leased facility.

32. Non-operating Cash Flows were \$14.3 million lower-than-forecast due primarily to the funding of distributions from operating cash flows which were not contemplated in the January 2013 Cash Flow Forecast. Other Restructuring /

Non-recurring disbursements consist primarily of professional fees, and certain one-time costs associated with the wind down of the Wireless business that were not included in the January 2013 Cash Flow Forecast.

33. For the period ending June 14, 2013, and as result of the variances described above, the ending balance in cash was \$4.7 million less-than-forecast.

CASH FLOW FORECAST

34. The CCAA Parties, with the assistance of the Monitor, have updated the Cash Flow Forecast. A copy of the Cash Flow Forecast is attached as Appendix "A" to this Ninth Report.
35. It is anticipated that the CCAA Parties' forecast liquidity requirements during the Cash Flow Forecast period will continue to be met by the CCAA Parties and from funds available in the Administrative and Transitional Costs Reserves.

REQUEST FOR AN EXTENSION OF THE STAY OF PROCEEDINGS

36. 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 Orders dated July 12, 2012, September 13, 2012, October 19, 2012, and January 21, 2013, the Stay Period was extended to June 28, 2013.

37. Additional time is required for the CCAA Parties to pursue their restructuring efforts, including the sale of the assets not sold pursuant to the Asset Sale Transaction, the Share Sale Transaction and the Wireless Sale Transaction. The continuation of the stay of proceedings to December 6, 2013 is necessary to provide the stability needed during that time.
38. It is the Monitor's view based on the CCAA Parties' Cash Flow Forecast that the CCAA Parties will have sufficient available cash resources during the requested Stay Period.
39. Based on the information presently available, the Monitor believes that creditors will not be materially prejudiced by an extension of the Stay Period to December 6, 2013.
40. 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.
41. The Monitor is advised by the CCAA Parties that the Pre-Petition First Lien Lenders support the requested extension of the Stay Period.

RECOMMENDATIONS AND CONCLUSIONS

42. For the reasons outlined above, the Monitor respectfully recommends that the Stay of Proceedings be extended until December 6, 2013.

All of which is respectfully submitted this 20th day of June, 2013.

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

Per



Paul Bishop
Senior Managing Director

Schedule "A"

Additional Applicants

C International General Partner Inc., formerly Cinram International General Partner Inc.

CRW International ULC, formerly Cinram International ULC

1362806 Ontario Limited

CUSH Inc., formerly Cinram (U.S.) Holdings' Inc.

CIHV Inc., formerly Cinram, Inc.

IHC Corporation

CMFG LLC, formerly Cinram Manufacturing LLC

CDIST LLC, formerly Cinram Distribution LLC

Cinram Wireless LLC

CRSMI LLC, formerly Cinram Retail Services, LLC

One K Studios, LLC

APPENDIX "A"

CCAA Applicants

CCAA Cash Flow Forecast

(US\$ in millions)

Week Ending	6/21/13	6/28/13	7/5/13	7/12/13	7/19/13	7/26/13	8/2/13	8/9/13	8/16/13	8/23/13	8/30/13	9/6/13	9/13/13	9/20/13	9/27/13	10/4/13	10/11/13	10/18/13	10/25/13	11/1/13	11/8/13	11/15/13	11/22/13	11/29/13	12/6/13	Total
Forecast Week	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
Cash Flow from Operations																										
Receipts	-	-	1.1	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4
Operating Disbursements	(1.2)	(0.1)	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0.3)	-	-	-	-	-	-	(1.7)
Operating Cash Flows	(1.2)	(0.1)	1.0	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	(0.3)	-	-	-	-	-	-	(0.3)
Restructuring / Non-recurring	(0.3)	-	(0.2)	(0.3)	-	(0.1)	-	(0.2)	-	-	-	(0.1)	-	-	-	-	(0.1)	-	-	-	(0.1)	-	-	-	(0.1)	(1.6)
Funding from Proceeds of Asset Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Cash Flow	(0.3)	-	(0.2)	(0.3)	-	(0.1)	-	(0.2)	-	-	-	(0.1)	-	-	-	-	(0.1)	-	-	(0.1)	-	-	-	-	(0.1)	(1.6)
Projected Net Cash Flow	(1.5)	(0.1)	0.8	(0.3)	-	(0.1)	-	0.1	-	-	-	(0.1)	-	-	-	-	(0.1)	-	(0.3)	-	(0.1)	-	-	-	(0.1)	(1.9)
Beginning Cash Balance	10.5	9.0	8.9	9.7	9.4	9.4	9.3	9.3	9.4	9.4	9.4	9.4	9.3	9.3	9.3	9.3	9.3	9.2	9.2	8.9	8.9	8.8	8.8	8.8	8.8	10.5
Ending Cash Balance	9.0	8.9	9.7	9.4	9.4	9.3	9.3	9.4	9.4	9.4	9.4	9.3	9.3	9.3	9.3	9.3	9.2	9.2	8.9	8.9	8.8	8.8	8.8	8.8	8.6	8.6

Notes:

- [1] The purpose of this cash flow forecast is to determine the liquidity requirements of the CCAA Parties during the forecast period.
- [2] Receipts from operations are forecast based on existing Accounts Receivable and customer payment terms.
- [3] Forecast Disbursements for operations are based on existing Accounts Payable, forecast production and/or property carrying costs, and vendor payment terms.
- [4] Restructuring /Non-recurring disbursements include professional fees associated with the CCAA Parties' restructuring.

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LIST
Proceeding commenced at Toronto

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STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

David R. Byers LSUC #: 22992W

Tel: (416) 869-5697

Maria Konyukhova LSUC#: 52880V

Tel: (416) 869-5230

Fax: (416) 861-0445

Lawyers for the Monitor