

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

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| -----   | x |                         |
| In re   | : | Chapter 15              |
|   | : |                         |
| CINRAM INTERNATIONAL INC., <i>et al.</i> , <sup>1</sup> | : | Case No. 12-11882 (KJC) |
|   | : |                         |
| Debtors in a Foreign Proceeding.                        | : | (Jointly Administered)  |
|   | : |                         |
|   | : |                         |
| -----   | x |                         |

**NOTICE OF FILING OF FIRST REPORT OF THE MONITOR**

PLEASE TAKE NOTICE that FTI Consulting Canada, Inc., in its capacity as the court-appointed monitor (the “Monitor”) for the above-captioned debtors (collectively, the “Debtors”) in a proceeding commenced under Canada’s *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, and pending before the Ontario Superior Court of Justice, hereby files the *First Report of FTI Consulting Canada Inc., in Its Capacity as Monitor of the Applicants, dated July 9, 2012* (the “First Monitor’s Report”). A copy of the First Monitor’s Report is annexed hereto as Exhibit 1.

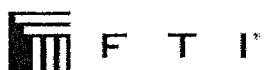
Dated: Wilmington, Delaware  
July 12, 2012

|  |   |
|--|---|
| SHEARMAN & STERLING LLP<br>Douglas P. Bartner<br>Jill Frizzley<br>Robert Britton<br>599 Lexington Avenue<br>New York, New York 10022<br>Telephone: (212) 848-4000<br>Facsimile: (646) 848-8174 | YOUNG CONAWAY STARGATT & TAYLOR, LLP<br>/s/ <u>Kenneth J. Enos</u><br>Pauline K. Morgan (No. 3650)<br>Kenneth J. Enos (No. 4544)<br>Rodney Square<br>1000 North King Street<br>Wilmington, DE 19801<br>Telephone: (302) 571-6600<br>Facsimile: (302) 571-1253 |
| <i>Co-Counsel to the Foreign Representative</i>  |   |

<sup>1</sup> The last four digits of the United States Tax Identification Number or Canadian Business Number, as applicable, of each of the Debtors follow in parentheses: (a) Cinram International Inc. (4583); (b) Cinram (U.S.) Holding’s Inc. (4792); (c) Cinram, Inc. (7621); (d) Cinram Distribution LLC (3854); (e) Cinram Manufacturing LLC (2945); (f) Cinram Retail Services LLC (1741); (g) Cinram Wireless LLC (5915); (h) IHC Corporation (4225); and (i) One K Studios, LLC (2132). The Debtors’ executive headquarters is located at 2255 Markham Road, Toronto, Ontario, M1B 2W3, Canada.

**EXHIBIT 1**

**First Monitor's Report**



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

**FIRST REPORT  
OF FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR OF THE  
APPLICANTS  
July 9, 2011**

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. As described in greater detail in the Hootnick Affidavit, 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 Initial Order granted, *inter alia*, a stay of proceedings until July 25, 2012, or such later date as this Honourable Court may order.
5. On June 26, 2012, Cinram International ULC 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.
6. 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

provided by the Purchaser to CII and 1362806 Ontario Limited (together with CII, the “**Share Sellers**”);

- (c) authorizing CII to enter into the Asset Purchase Agreement and the Share Sellers to enter into the Share Purchase Offer;
- (d) 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 Asset Sale Transaction;
- (e) authorizing the Share Sellers to complete the Share Sale Transaction;
- (f) vesting all of the Asset Sellers’ right, title and interest in and to the Purchased Assets (as defined in the Asset Purchase Agreement) and the Share Sellers’ right, title and interest in and to the Purchased Shares in the Purchaser, or one or more of its nominees, free and clear of all interests, liens, charges and encumbrances, other than permitted encumbrances;
- (g) sealing the Confidential Supplement (defined below) until further Order of this Court; and
- (h) extending the Stay Period to September 14, 2012.

assist it in a comprehensive and thorough review of Cinram's strategic alternatives with the goal of maximizing value for Cinram's stakeholders.

14. As described in greater detail in the Hootnick Affidavit, Moelis is a global investment bank with expertise in mergers and acquisitions, recapitalization and restructuring, capital market risk advisory and asset management and is recognized for its leading global media practice having completed over \$50 billion in transaction volume across over 60 transactions.
  
15. As part of Cinram's strategic review process, Moelis, among other things:
  - a) sought to identify a potential transaction, such as a sale of the company, strategic combination or new money investment from a strategic or financial investor, while concurrently evaluating a possible stand-alone transaction with Cinram's lenders;
  
  - b) commencing in the fall of 2011, conducted preliminary discussions with certain key parties-in-interest, including the Lenders' financial advisors, key customers and certain strategic parties.
  
  - c) prepared and disseminated a Confidential Information Memorandum (the "CIM") to prospective purchasers to review upon execution of a confidentiality agreement and contacted prospective investors,

20. Following request for binding indications of interest from the second round bidders by April 6, 2012, indications of interest were received, none of which were binding or in a form acceptable to Cinram.
21. In early April 2012, Moelis received an inquiry from the Purchaser expressing interest in Cinram. The Purchaser executed a confidentiality agreement and was provided with access to the Cinram data room. Subsequently, in mid-April, 2012 the Purchaser submitted a formal indication of interest.
22. Moelis, Cinram and its advisors continued discussions and conducted meetings with the interested parties.
23. Cinram carefully reviewed and considered all of the proposals received in the strategic review process. After a detailed evaluation of the economic and other terms of the various proposals received, and after consultation with Moelis, Cinram's other advisors and the Lenders' advisors, Cinram determined that the offer submitted by the Purchaser was the best offer submitted in the circumstances taking into account such factors as: (a) purchase price; (b) conditions for closing; (c) required financing; (d) structuring of the transaction; (e) assets included in the transaction; (f) the timeframe within which the transaction could be closed; and (f) number of jobs that would be preserved.
24. Accordingly, Cinram, with the assistance of Moelis and Cinram's counsel, entered into negotiations with the Purchaser in respect of definitive agreements for the

27. The Sale Transaction involves the Asset Sale Transaction contemplated by the Asset Purchase Agreement and the Share Sale Transaction contemplated by the Share Purchase Offer and, upon exercise thereof, the Share Purchase Agreement.
28. Cinram's goal is to close the Asset Sale Transaction and the Share Sale Transaction simultaneously in August 2012; however, the closing of the Share Sale Transaction may be extended if necessary to complete certain regulatory consultation matters and subject to the Purchaser's right to extend the closing to not later than December 17, 2012 even if the conditions to closing have then been satisfied.

*Asset Purchase Agreement*

29. The key elements of the Asset Purchase Agreement are discussed in greater detail in the Hootnick Affidavit and include the following:
- a) an aggregate cash purchase price of \$82,500,000 (subject to certain adjustments as provided in the Asset Purchase Agreement) to be allocated as follows: \$50 million to the Purchased Assets ("**Asset Purchase Price**") and \$32.5 million to the Purchased Shares ("**Share Purchase Price**") pursuant to an agreement reached between the CCAA Entities and the Purchaser. \$40 million of the Asset Purchase Price will be payable on the closing of the Asset Sale Transaction and the remaining \$10 million of the Asset Purchase Price is payable upon the earlier of the Share Sale



- e) the exclusion of certain assets (as more particularly described in Section 2.2 of the Asset Purchase Agreement) from the Asset Sale Transaction including, among other things, the following:
    - i. the assets and business of IHC Corporation and Cinram Wireless LLC;
    - ii. the shares of capital stock or other equity interest in Cinram (U.S.) Holding's Inc., Synbar Equities Inc., Cinram International (Hungary) PrLtd, Cooperatie Cinram Netherlands UA and 1362806 Ontario Limited, intercompany receivables or payables, and any intercompany investments;
    - iii. subject to Section 8.16 of the Asset Purchase Agreement, the cash collateral securing Letters of Credit;
    - iv. all real property interests of Cinram Manufacturing LLC in the Olyphant Facility; and
    - v. those assets of the Asset Sellers set forth on Schedule 2.2(p) of the Asset Purchase Agreement.
30. The completion of the Asset Sale Transaction is conditional on, among other things,

33. If Closing (under the Asset Purchase Agreement) does not occur on or before September 15, 2012, or such later date agreed to by both parties (the "**Sunset Date**"), the Asset Purchase Agreement may be terminated by the Purchaser or CII.
34. CII shall not, and shall cause its affiliates not, to pursue an Acquisition Proposal (as defined in the Asset Purchase Agreement). CII may consider an Acquisition Proposal that could reasonably be expected to lead to a Superior Proposal (as defined in the Asset Purchase Agreement) subject to the terms and conditions set forth in the Asset Purchase Agreement.
35. CII must pay to the Purchaser a break fee in the amount of \$2,250,000 if CII terminates the Asset Purchase Agreement for the purpose of entering into a binding written agreement with respect to a Superior Proposal, or the Purchaser terminates the Asset Purchase Agreement as a result of:
- a) CII withdrawing or seeking authority to withdraw the Approval and Vesting Order or the Sale Recognition Order;
  - b) CII selling, transferring or otherwise disposing of any material portion of the Purchased Assets, except in connection with the CCAA Proceedings and/or the Chapter 15 Proceedings, and except with the consent of the Purchaser; or

- c) the cancellation or termination of all debt obligations and guarantees of Cinram's European entities to the first and second lien lenders and the release of all security related thereto.
39. The Purchaser has the right to extend the closing of the Share Sale Transaction up to December 17, 2012. The Share Purchase Offer may be rescinded by either party if the Asset Purchase Agreement is terminated.
40. Pursuant to the Share Purchase Offer, the Share Sellers and their affiliates shall not solicit or encourage any inquiries or proposals for, or enter into any discussions with respect to, the acquisition by any other person or any shares of Cinram's European entities.
41. Cinram, the Lenders and the Monitor are aware of the need to institute appropriate transition agreements in respect of the Excluded Assets under the Asset Purchase Agreement and the European assets in the event the Share Purchase Transaction and Asset Purchase Transaction are not closed simultaneously. Preliminary discussions on these matters have commenced and will be continued in the week commencing July 9, 2012.
42. As at the date of this report, no stakeholder has advised the Monitor that it opposes or intends to oppose the Sale Transaction.

#### **REQUEST FOR AN EXTENSION OF THE STAY OF PROCEEDINGS**

48. The Monitor is advised by the CCAA Parties that the Lenders support the requested extension of the Stay Period.

#### **CONFIDENTIAL SUPPLEMENT**

49. The Monitor is advised that a confidential supplement will be provided by the Applicants to the Court in connection with the sale approval motion, which contains confidential information relating to the Sale Transaction, including the letter setting out the allocation of the Asset Purchase Price (as described above) and Schedules 2.1(i), 4.3, and 4.6 to the Asset Purchase Agreement and Schedule I.3 to Exhibit I to the Asset Purchase Agreement containing sensitive, competitive information of the CCAA Parties (the “**Confidential Supplement**”). The Applicants are requesting a sealing order in respect of the Confidential Supplement.

#### **RECOMMENDATION AND CONCLUSIONS**

50. The Sale Transaction, if completed, will enable the Cinram Business to continue as a going concern.
51. According to the Hootnick Affidavit, Moelis undertook a comprehensive assessment of the market to identify parties potentially interested in purchasing the Cinram Business. The CCAA Parties believe that the Sale Transaction represents the best available alternative in the circumstances taking into account

55. The Monitor does not believe that realization on the assets of the Purchased Business under a bankruptcy would be more beneficial to the creditors of the CCAA Entities.
56. As at July 6, 2012 and since the signing of the Asset Purchase Agreement, First Lien Lenders representing an additional approximately 24% of the indebtedness under the First Lien Credit Agreement have agreed to support the Sale Transaction.
57. The Monitor's counsel has undertaken and will complete a review of the First Lien Lenders' security prior to any motion to distribute the proceeds of the Sale Transaction.
58. The Monitor is advised that all creditors with registered personal property security interests against the CCAA Parties have been served with notice of this motion.
59. The Monitor is advised that the CCAA Parties and the Purchaser are not related persons within the meaning of the CCAA.
60. The Monitor is also advised by the CCAA Parties that they can and will make the payments that would have been required under sections 6(5)(a) or 6(6)(a) of the

**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