



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

**SIXTH REPORT  
OF FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR OF THE  
APPLICANTS  
January 16, 2013**

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"

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

January 16, 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 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 to be 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”, together with the Asset Sale Transaction, the “Sale Transactions”).

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. 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**

10. The purpose of this Sixth Report is to inform and/or provide an update to this Honourable Court on the following:

- a) status of the CCAA Parties' CCAA proceedings;
- b) the CCAA Parties' financial performance since October 6, 2012 and a comparison of the actual to forecast results;
- c) the weekly cashflow forecast to June 28, 2013 (the "Cashflow Forecast");
- d) the CCAA Parties' request for an Order, *inter alia*:
  - i. extending the Stay Period to June 28, 2013;
  - ii. authorizing the Share Sellers to accept the Share Purchase Offer on the basis that closing of the Share Sale Transaction occurs on or before January 28, 2013;
  - iii. authorizing the CCAA Parties and the Monitor to exercise any and all rights and remedies they may have against the Purchaser arising out of or in connection with any failure of the Purchaser to complete the Share Sale Transaction, if the Share Sale Transaction does not occur or before January 28, 2013; and
  - iv. sealing the Cashflow Forecast pending further Order of this Court; and

- e) the Monitor's conclusions and recommendations.

## **TERMS OF REFERENCE**

- 11. 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.
- 12. Unless otherwise stated, all monetary amounts contained in this report are expressed in United States dollars.

## **STATUS OF THE CCAA PROCEEDINGS**

- 13. The Asset Purchase Agreement provided that \$10,000,000 of the Purchase Price be paid on the earlier of December 17, 2012 or the closing of the Share Sale Transaction. The Monitor confirms that it has received the aforementioned funds and, on December 20, 2012, as contemplated by paragraph 12 of the Order dated October 19, 2012, distributed these additional sale proceeds to the Pre-Petition First Lien Agent on behalf of the Pre-Petition First Lien Lenders.
- 14. The Monitor, in consultation with the Financial Advisors to the Pre-Petition First Lien Agent, continues to work with the real estate agents engaged to sell the CCAA Parties' properties located in Madrid, Spain, Olyphant, Pennsylvania and

Louisville, Kentucky. Several parties have expressed interest in these properties however, to date, no offers have been submitted.

15. The Monitor in consultation with the Financial Advisors to the Pre-Petition First Lien Agent continues to work with management of Cinram Wireless LLC to address the changing requirements of its customer and achieve a successful transition of its business.
16. The Monitor has, for several months, been working with the administrator of Cinram International (Hungary) Kft. ("**Cinram Hungary**"), with a view to reaching an agreement to compromise a tax liability due to the Grand Duchy of Luxembourg. Such agreement would have allowed Cinram Hungary to wind up its affairs through a voluntary liquidation, avoiding much of the cost and time delay associated with an involuntary liquidation. Unfortunately, no such compromise agreement has been reached; accordingly Cinram Hungary will commence involuntary liquidation proceedings within the next 30 days.

#### *Share Sale Transaction*

17. As described in the Monitor's Fifth Report, under the terms of the Share Purchase Offer, the Share Sellers (each of which is a CCAA Party) had the right to accept the offer on satisfaction of the conditions thereto, subject to the right of the Purchaser to extend the closing of the Share Sale Transaction up to December

- 17, 2012. Each of the Share Purchase Offer and the Share Purchase Agreement is governed by Ontario law.
18. The CCAA Parties worked diligently towards an expected closing of the Share Sale Transaction on December 17, 2012.
19. On December 13, 2012, the Purchaser advised that it considered that the Share Sellers had not satisfied all the conditions precedent to the Share Sale Transaction and were not in a position to fulfill their obligations under the Share Purchase Agreement. The Purchaser further advised that it would be ready to proceed with the Closing at such time as the Share Sellers satisfied all outstanding conditions precedent and were in a position to fulfill their obligations under the Share Purchase Agreement.
20. Subsequent to December 17, 2012, the Monitor convened several telephone discussions with the Purchaser to determine whether the issues which the Purchaser saw as impediments to closing could be resolved. Unfortunately, an agreement as to a basis on which to close the Share Sale Transaction has not been reached.
21. Counsel to the CCAA Parties has advised that the Share Sellers are of the view that they are in a position to fulfil their obligations under the Share Purchase Agreement and that all of the conditions precedent have been satisfied.

22. Counsel to the CCAA Parties has advised that the Share Sellers are ready and willing to accept the Share Purchase Offer and close the Share Sale Transaction, and that further delay in closing the Share Sale Transaction will adversely affect the Cinram business and the interests of the Pre-Petition First Lien Lenders, the senior secured lenders with the main economic interest in the Cinram Group.
23. On January 14, 2013, the Monitor advised the Purchaser that the CCAA Parties would be bringing a motion to extend the Stay of Proceedings sometime during the week commencing January 21, 2013 and that they would, as part of the stay extension motion, be seeking the assistance of this Court in addressing the closing of the Share Sale Transaction.
24. As at the date of this report, the Share Sale Transaction has not closed.

#### RECEIVERSHIP OVER CII BANK ACCOUNT

25. Pursuant to the Order of Justice Morawetz dated October 19, 2012, FTI was appointed as receiver (in such capacity, the “Receiver”) without security of the bank account of CII located in Canada used in relation to a business carried on by CII in order to allow former employees of CII access to payments under the *Wage Earner Protection Program Act (Canada)* (“WEPPA”).

26. On, or about November 5, 2012, the Receiver delivered notices to approximately 190 former employees of C International Inc. advising them of the WEPPA process and requesting claims pursuant to WEPPA.
27. The Receiver has been in communication with representatives from Human Resources and Services Development Canada (“HRSDC”) with respect to the WEPPA and on January 11, 2013, delivered to HRSDC Trustee Information Forms (“TIFs”) on behalf of the former employees who have provided claims information to the Receiver.
28. The Receiver continues to communicate with, and assist the former employees of C International Inc. and HRSDC with respect to, proceedings under WEPPA.

#### **RECEIPTS AND DISBURSEMENTS TO DECEMBER 28, 2012**

29. Appendix “A” to the Confidential Supplement to the Fourth Report of the Monitor included a cash flow forecast for the CCAA Applicants for the period beginning October 6, 2012 and ending on February 1, 2013 (the “**October 6<sup>th</sup> Cash Flow Forecast**”). The table below presents the actual versus forecast results of the CCAA Applicants’ October 6<sup>th</sup> Cash Flow Forecast for the period ending December 28, 2012.

	Variance \$000's
<b>Cash Flow from Operations</b>	
Receipts	0.6
Operating Disbursements	1.5
<b>Operating Cash Flows</b>	<u>2.1</u>
Restructuring / Non-recurring	0.6
Funding from Proceeds of Asset Sale	-
Distributions	0.1
<b>Non-Operating Cash Flow</b>	<u>0.7</u>
<b>Projected Net Cash Flow</b>	<u>2.8</u>
Beginning Cash Balance	-
<b>Ending Cash Balance</b>	<u>2.8</u>

30. Actual operating cash flows for the period ending December 28, 2012 were \$2.1 million higher than forecast due to lower-than-forecast Operating Disbursements, combined with a positive variance in Receipts associated with the return of certain cash collateral securing a letter of credit that was not contemplated in the October 6th Cash Flow Forecast.
31. Actual Restructuring disbursements, which consist primarily of professional fees, were lower-than-forecast by approximately \$0.6 million. This positive variance is expected to reverse in future forecast periods.
32. The combined positive variances in forecast operating and non-operating cash flows resulted in an overall positive variance in the forecast ending balance in cash at December 28, 2012 of \$2.8 million.

## CASH FLOW FORECAST

33. The CCAA Parties, with the assistance of the Monitor, have updated the consolidated forecast of their receipts and disbursements (the “**Cash Flow Forecast**”) for the period ending June 28, 2013. A copy of the Cash Flow Forecast is attached as Appendix “A” to the Confidential Supplement to this Sixth Report. The Applicants are requesting the sealing of the Cash Flow Forecast due to 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 Pre-Petition First Lien Agent under the Pre-Petition First Lien Credit Agreement is aware of the Cash Flow Forecast and supports the requested relief.
34. 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 Cost Reserves.

## REQUEST FOR AN EXTENSION OF THE STAY OF PROCEEDINGS

35. 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, and October 19, 2012, the Stay Period was extended to February 1, 2013.

36. Additional time is required for the CCAA Parties to pursue their restructuring efforts, including the restructuring or sale of the assets and business not 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; and complete the Share Sale Transaction described above or exercise rights and remedies in respect thereof. The continuation of the stay of proceedings to June 28, 2013 is necessary to provide the stability needed during that time.
37. 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.
38. Based on the information presently available, the Monitor believes that creditors will not be materially prejudiced by an extension of the Stay Period to June 28, 2013.
39. 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.

40. The Monitor is advised by the CCAA Parties that the Pre-Petition First Lien Lenders support the requested extension of the Stay Period.

**REQUEST TO AUTHORIZE THE SHARE SELLERS TO ACCEPT THE SHARE PURCHASE OFFER ON THE BASIS THAT CLOSING OF THE SHARE SALE TRANSACTION OCCURS ON OR BEFORE JANUARY 28, 2013**

41. As stated above, as at the date of this report, the Share Sale Transaction has not closed.
42. As stated in the Monitor's First Report, the CCAA Parties believe that the Sale Transaction, including the Share Sale Transaction, represents the best available alternative in the circumstances. In its First Report, the Monitor recommended approval of the Asset Sale Transaction and the Share Sale Transaction by this Honourable Court.
43. The CCAA Parties and the Monitor remain of the view that the Sale Transaction, including the Share Sale Transaction, represents the best available alternative in the circumstances. However, the Purchaser and the Share Sellers are, and have been for some time now, at an impasse and require this Court's assistance in order to move their CCAA Proceedings forward and to completion.
44. Therefore, the Monitor supports the CCAA Parties request for an Order authorizing the Share Sellers to accept the Share Purchase Offer on the basis that

closing of the Share Sale Transaction occurs on or before January 28, 2013 and, if it does not close by that date, authorizing the CCAA Parties and the Monitor to exercise any and all rights and remedies they may have against the Purchaser arising out of or in connection with any failure of the Purchaser to complete the Share Sale Transaction.

45. If the Share Sale Transaction fails to close by January 28, 2013, the Monitor intends to consent to the lifting of the stay of proceedings solely for the purpose of allowing the Pre-Petition First Lien Agent or Pre-Petition First Lien Lenders to exercise their rights or remedies against or in respect of (i) any Subsidiary Counterparty that is a European First Lien Guarantor, (ii) any Subsidiary Property of a European First Lien Guarantor, and/or (iii) the shares of Cinram Netherlands held by a CCAA Party subject to the Pre-Prepetition First Lien Lenders' security.
46. Pursuant to paragraph 23 of the Order dated October 19, 2012, from and after the date of that Order, the stay of proceedings may be lifted by Court Order or with the written consent of the Monitor and no further consent of any other Person is required.
47. Such limited lifting of the stay if the Share Sale Transaction does not close has been requested by the Pre-Petition First Lien Agent on behalf of the Pre-Petition

First Lien Lenders. As they appear to be the only stakeholders with an economic interest in the proceeds from any realization on those assets, this request and realization strategy appears reasonable to the Monitor if the Share Sale Transaction does not close on or before January 28, 2013.

48. The Monitor is advised by counsel for the CCAA Parties and the Pre-Petition First Lien Lenders that they intend to amend and/or terminate the Support Agreement dated June 22, 2012 between the CCAA Parties and the consenting Pre-Petition First Lien Lenders in order to allow the Pre-Petition First Lien Agent or Pre-Petition First Lien Lenders to exercise their rights and remedies against or in respect of (i) any Subsidiary Counterparty that is a European First Lien Guarantor, (ii) any Subsidiary Property of a European First Lien Guarantor, and/or (iii) the shares of Cinram Netherlands held by a CCAA Party subject to the Pre-Petition First Lien Lenders' security. The Purchaser is not a party to any support agreement with the CCAA Parties or the Pre-Petition First Lien Lenders.

## RECOMMENDATION AND CONCLUSIONS

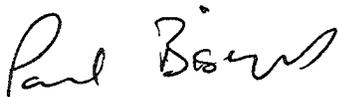
49. For the reasons outlined above, the Monitor respectfully recommends that the Stay of Proceedings be extended until June 28, 2013. The Monitor also supports the CCAA Parties' request for an Order sealing the Cashflow Forecast pending further Order of this Court.

50. The Monitor also supports the CCAA Parties request for an Order authorizing the Share Sellers to accept the Share Purchase Offer on the basis that closing of the Share Sale Transaction occurs on or before January 28, 2013 and, if it does not close by that date, authorizing the CCAA Parties and the Monitor to exercise any and all rights and remedies they may have against the Purchaser arising out of or in connection with any failure of the Purchaser to complete the Share Sale Transaction.

All of which is respectfully submitted this 16<sup>th</sup> day of January, 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

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36,  
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LISTED ON SCHEDULE "A"

Court File No. CV12-9767-00CL

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

**Proceeding commenced at Toronto**

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

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