

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
CLOTHING FOR MODERN TIMES LTD.
A COMPANY DULY INCORPORATED IN THE PROVINCE OF ONTARIO WITH A
HEAD OFFICE IN THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO**

FIRST REPORT OF THE MONITOR

JANUARY 19, 2012

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INTRODUCTION

1. Clothing for Modern Times Ltd. (“**CMT**” or the “**Company**”) is an Ontario-incorporated company that designs, produces and markets trendy apparel styles under the retail businesses: Urban Behavior (“**UB**”), Costa Blanca (“**CB**”) and Costa Blanca X (“**CBX**”), with a head office premises located at 300 Supertest Road, Toronto.
2. On June 27, 2011, the Company filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to section 50.4 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”). A. Farber & Partners Inc. (“**Farber**”) was appointed as Trustee in the Proposal of the Company (the “**Proposal Trustee**”). At the time of filing the NOI, the Company operated 116 stores and employed 1,682 employees, of which approximately 1,316 were hourly retail employees.
3. Roynat Asset Finance, a Division of Roynat Inc. (“**Roynat**”), CIC Asset Management Inc. (“**CIC**”) and CMT Sourcing Group Ltd. (“**CMT Sourcing**”) are the Company’s primary secured creditors. In addition, CIC is a 5% minority shareholder of CMT and CMT Sourcing is the Company’s largest inventory supplier. CMT Sourcing is 50% owned by an arm’s length third party with the remaining shareholding owned by Mr. Arif Noor, the majority shareholder of CMT.
4. The Company determined, based on its discussions with certain landlords and other stakeholders, that the nominal amount it could afford to offer to unsecured creditors would be insufficient to obtain a requisite majority of support for its proposal.

Accordingly, the Company concluded that a going concern sale of its remaining business would be in the best interests of its stakeholders.

5. The NOI six month stay extension period expired on December 22, 2011. The Company was unable to seek a further extension to file a proposal or conduct a marketing and sales process of the CB business under the provisions of the BIA.
6. On December 16, 2011, an order (the “**Initial Order**”) was sought and granted by the Court authorizing the Company to, *inter alia*, continue its restructuring proceeding under the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36 (the “**CCAA**”), appointing Farber as monitor (the “**Monitor**”) and granting an initial stay of proceedings to January 23, 2012. A copy of the Initial Order and Justice Brown’s Endorsement are attached hereto as **Appendix “A” and “B”**.
7. The Monitor has reviewed the sworn affidavit of Chris Johnson dated January 17, 2011 (the “**Johnson Affidavit**”), in support of the Company’s motion.

PURPOSE OF THIS REPORT

8. The purpose of this First Report of the Monitor’s (“**Monitor’s First Report**”) is to:
 - a) support the Company’s request to extend the initial stay of proceedings granted by the Initial Order to February 27, 2012.

DISCLAIMER

9. Farber has relied upon the financial records and financial statements of CMT, as well as other information supplied by management, accountants, auditors and financial advisors to CMT. Our procedures and enquiries did not constitute any audit or

review engagement. Farber assumes no responsibility or liability for loss or damage occasioned by any party as a result of the circulation, publication, re-production or use of this Monitor's First Report. Any use which any party, other than Court, makes of this Monitor's First Report or any reliance on or a decision made based upon it is the responsibility of such party.

SALES PROCESS AND STAY OF PROCEEDINGS EXTENSION

10. The Company entered into the NOI proceedings in order to restructure its business by selling the UB and CBX businesses, self-liquidating its underperforming UB, CB and CBX locations and preserving the CB business and locations as a going concern.
11. The Company has successfully concluded its sale of the UB business effective January 18, 2012. In addition, the Company has self-liquidated underperforming stores as authorized by the Court, and as of January 18, 2012 is now operating 40 CB locations.
12. Further, the Company has fully repaid its outstanding indebtedness to Roynat from the proceeds of sale of the UB transaction and has been notified that Roynat has terminated its blocked account agreement with the Company's banker.
13. As noted above, the Company concluded that it could not make a viable proposal to its unsecured creditors. Accordingly, the Initial Order granted approval for the Monitor, with the assistance of Ernst & Young Orenda Corporate Finance ("E&Y"), to conduct a marketing and sales process for the going concern sale of the CB property, assets and undertakings, including its wholly owned subsidiary, CMT

America Holding Inc. and its wholly owned subsidiary, CMT Wholesale Corp. (the **“Sales Process”**).

14. The Sales Process called for the submission of offers on or before January 16, 2012.

As a result of the Sales Process, the Monitor has received and is currently reviewing a total of five offers (two going concern offers and three liquidation offers).

15. The initial stay of proceedings expires on January 23, 2012. The Monitor requires an additional amount of time to review all the offers received and negotiate a sale and/or liquidation agreement (the **“Sale Agreement”**) with a prospective purchaser for the CB business.

16. The Monitor is satisfied that the Company has acted and is acting in good faith and with due diligence in the proceeding to date and, if the extension being sought is granted, will allow the Monitor sufficient time to negotiate a Sale Agreement with a prospective purchaser.

17. The Monitor is not aware of any creditor who would be materially prejudiced if the extension of the stay period being requested by the Company to February 27, 2012 is granted.

CASH FLOW STATEMENT

18. The Company is currently working on finalizing a cash flow projection for the period ended March 3, 2012 (the **“Cash Flow Statement”**). The Company intends to file the Cash Flow Statement by way of a supplemental affidavit in support of its motion.

RECOMMENDATIONS

19. As a result of the above, the Monitor respectfully recommends that this Honourable Court approve:

- a) the Company's request to extend the initial stay of proceedings granted by the Initial Order to February 27, 2012.

All of which is respectfully submitted this 19th day of January 2012.

**A. FARBER & PARTNERS INC.
IN ITS CAPACITY AS MONITOR OF
CLOTHING FOR MODERN TIMES LTD.**

A. Farber & Partners Inc.
