

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

**IN THE MATTER OF THE PROPOSAL 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**

THIRD REPORT OF THE PROPOSAL TRUSTEE

SEPTEMBER 9, 2011

Contents

INTRODUCTION	1
PURPOSE OF THIS REPORT	3
DISCLAIMER	3
EXTENSION OF STAY OF PROCEEDINGS.....	3
RECOMMENDATIONS	4

Appendices

APPENDIX A – Certificate of Filing a Notice of Intention to Make a Proposal

APPENDIX B – July 11 Order and July 11 Endorsement

APPENDIX C – July 22 Order

INTRODUCTION

1. On June 27, 2011, Clothing for Modern Times Ltd. (“**CMT**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) under 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**”). A copy of the Certificate of Filing a Notice of Intention to Make a Proposal is attached hereto as **Appendix “A”**.
2. CMT is an Ontario-incorporated company that has designed, produced and marketed trendy apparel styles under the retail banners: Urban Behavior (“**UB**”), Costa Blanca (“**CB**”) and Costa Blanca X (“**CBX**”). At the date of the NOI filing, CMT operated 116 leased store locations throughout Canada and has head office premises at 300 Supertest Road, Toronto.
3. At the time of filing the NOI, the Company employed 1,682 employees, of which approximately 1,316 are hourly retail employees.
4. CMT has experienced declining sales and reduced profit margins over the past three years attributed mainly to the poor economic climate for retail operations and the entry of direct competitors in the Canadian marketplace.
5. On June 24, 2011, the Company’s primary secured lender, Roynat Asset Finance, a Division of Roynat Inc. (“**Roynat**”) demanded repayment of its loans and issued a Notice of Intention to Enforce Security under Section 244 of the BIA. CMT consented to the immediate enforcement of Roynat’s security.

6. Roynat, CMT and other related entities to CMT, as guarantors, entered into a forbearance agreement dated June 24, 2011 (the “**Forbearance Agreement**”), whereby Roynat agreed to forbear from taking certain actions under its security and agreed to maintain its credit facilities pursuant to the Roynat Loan (as defined below), subject to the terms and conditions contained in the Forbearance Agreement.
7. Pursuant to an Order of the Honourable Madame Justice Hoy dated July 11, 2011 (the “**July 11 Order**”), the Court approved, *inter alia*, (i) the post-filing advances and Over-Advances to the Company by Roynat, (ii) a super-priority charge in favour of Roynat to secure payment of the money advances by Roynat post-filing, (iii) an Administration Charge to secure the reasonable fees and disbursements of CMT’s legal and financial advisors, the Proposal Trustee and its legal counsel; (iii) a self-liquidation plan by CMT of 21 stores identified for closure (the “**Liquidation Stores**”); and (iv) a key employee retention and incentive plan for certain key employees of CMT working in the Liquidation Stores during the liquidation period. Copies of the July 11 Order and Justice Hoy’s endorsement (the “**July 11 Endorsement**”) are attached hereto as **Appendix “B”**.
8. Pursuant to an Order of the Honourable Madam Justice Hoy dated July 22, 2011 (the “**July 22 Order**”), the Court approved, *inter alia*, (i) extending the self-liquidation plan by CMT to 7 additional stores identified for closure (the “**Additional Stores**”); (ii) a process for the removal of fixtures in the stores scheduled for closure; (iii) extending the key employee retention plan for key employees working in the Additional Stores; (iv) a process for the marketing and sale of the UB and CBX chains; (v) a charge in favour of certain of CMT’s real property landlords; and (vi) a

45-day extension for the Company to file a Proposal on or before September 12, 2011. Copy of the July 22 Order is attached hereto as **Appendix “C”**.

PURPOSE OF THIS REPORT

9. The purpose of this Third Report of the Proposal Trustee (“**Third Report**”) is to recommend that the Company be granted a short extension to September 23, 2011 for the filing of its Proposal pursuant to the BIA.

DISCLAIMER

10. 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 Third Report. Any use which any party, other than Court, makes of this Third Report or any reliance on or a decision made based upon it is the responsibility of such party.

EXTENSION OF STAY OF PROCEEDINGS

11. The stay of proceedings expires on Monday September 12, 2011.
12. The Company has filed its materials with the Honourable Court including an affidavit by Chris Johnson sworn on September 9, 2011 providing the Company’s reasons for seeking to extend the NOI stay of proceedings to September 23, 2011.
13. The Proposal Trustee is satisfied that the Company has acted and is acting in good faith and with due diligence in the Proposal to date and, if the short extension being

sought is granted, will allow the Company additional time to complete its negotiations of offers received during the Sales Process and return to Court to report on the results.

14. The Proposal Trustee is not aware of any creditor who would be materially prejudiced if the extension of the NOI stay period being requested by the Company to September 24, 2011 is granted.

RECOMMENDATIONS

15. Accordingly, the Proposal Trustee supports the Company's request that an eleven day extension until September 23, 2011 be granted to the Company, for the reasons set out above.

All of which is respectfully submitted this 9th day of September 2011.

**A. FARBER & PARTNERS INC.
IN ITS CAPACITY AS TRUSTEE *IN RE*
THE PROPOSAL OF CLOTHING FOR MODERN TIMES LTD.**

A. Farber & Partners Inc.
