

**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  
EDDIE BAUER OF CANADA, INC. AND EDDIE BAUER CUSTOMER SERVICES INC.**

Applicants

**SECOND REPORT OF RSM RICHTER INC.  
AS CCAA MONITOR OF  
EDDIE BAUER OF CANADA, INC. AND  
EDDIE BAUER CUSTOMER SERVICES INC.**

July 9, 2009

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**Second Report of RSM Richter Inc.  
as CCAA Monitor of  
Eddie Bauer of Canada, Inc. and  
Eddie Bauer Customer Services Inc.**

RSM Richter Inc.  
Toronto, July 9, 2009

RSM Richter is an independent member firm of RSM International,  
an affiliation of independent accounting and consulting firms.

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Appendix "B"	Monitor's First Report dated June 25, 2009 (without appendices)

Court File No. 09-8240-CL

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**July 9, 2009**

**1. INTRODUCTION**

Pursuant to an order of the Ontario Superior Court of Justice (the "Court") made on June 17, 2009 (the "Initial Order"), Eddie Bauer of Canada, Inc. and Eddie Bauer Customer Services Inc. (jointly, the "Company") were granted protection under the *Companies' Creditors Arrangement Act* (the "CCAA") and RSM Richter Inc. ("Richter") was appointed the Monitor (the "Monitor"). A copy of the Amended and Restated Initial Order<sup>1</sup> is attached as Appendix "A".

This report ("Report") is filed by Richter in its capacity as Monitor.

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<sup>1</sup> The Initial Order was amended and restated on consent shortly after its issuance to include provisions requested by counsel to certain landlords and by counsel to the US DIP Lender.

On June 17, 2009, Eddie Bauer Holdings, Inc., the Company's US based parent company, and certain other US affiliates (collectively, "Eddie Bauer US") commenced reorganization cases under chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "US Court") (the "Chapter 11 Proceedings"). The Company is not subject to the Chapter 11 Proceedings. A Cross Border Protocol ("Protocol") was approved by this Honourable Court on June 25, 2009.

(Eddie Bauer US and the Company are collectively referred to as the "Eddie Bauer Group". The Chapter 11 Proceedings and the CCAA Proceedings are referred to as the "Restructuring Proceedings".)

The primary purpose of the Restructuring Proceedings is to allow the Eddie Bauer Group the opportunity to maximize the value of its business and assets in a unified, court-supervised sale process.

## **1.1 Purposes of this Report**

The purposes of this Report are to:

- a) Provide background information about the Company and these Restructuring Proceedings, including the status of the sale process ("Sale Process");
- b) Provide an overview of the Monitor's activities; and
- c) Recommend that this Honourable Court make an order:
  - Granting the Company's request for an extension of its stay of proceedings from July 17, 2009, the date that the stay expires, to September 18, 2009; and
  - Approving the Monitor's activities, as described in this Report.

## **2. BACKGROUND**

The Eddie Bauer Group sells outerwear, apparel and accessories, as well as down products for the home, including comforters, pillows and throws.

Eddie Bauer Holdings, Inc. is a publicly traded company, the shares of which are listed on the NASDAQ Global Market under the trading symbol "EBHI". The Eddie Bauer brand is internationally recognized and Eddie Bauer products are available at approximately 370 retail and outlet stores, including approximately 36 retail stores and one warehouse store throughout Canada, through catalogue sales and on the Eddie Bauer Group's website. The Company employs approximately 933 individuals in Canada.

Further background information regarding the Eddie Bauer Group is provided in Richter's report as Proposed Monitor dated June 17, 2009 ("Pre-filing Report") and in the Affidavit of Marvin Edward Toland, the Company's Vice-President, sworn June 17, 2009 and filed as part of the Company's CCAA Application materials.

## **3. SALE PROCESS**

At a joint hearing conducted on June 29, 2009, the US Court and this Honourable Court approved the Sale Process, which involves a stalking horse bid and auction. The stalking horse bid was submitted by Rainer Holdings LLC, an affiliate of CCMP Capital Advisors, which has offered to purchase substantially all of the assets, property and undertaking of the Eddie Bauer Group, including the assets, property and undertaking of the Company (the "Stalking Horse Offer"). The Stalking Horse Offer and the bidding procedures were described in the Monitor's first report to Court dated June 25, 2009 (the "First Report"). A copy of the First Report (without appendices) is attached as Appendix "B". The only principal difference between the Sale Process that was described in the First Report and

what was approved by this Honourable Court on June 29, 2009 is that the final bidding procedures allow for bids to be submitted for certain assets as opposed to exclusively *en bloc* bids.

As at the date of this Report, the Sale Process is ongoing. The bid deadline is July 14, 2009 and the auction is scheduled to take place on July 16, 2009. Approval of any transaction is subject to the making of an approval and vesting order by this Honourable Court. In this regard, the Company has scheduled a sale approval motion for July 22, 2009 and it is expected that such hearing will be a joint hearing between this Honourable Court and the US Court.

#### **4. COMPANY'S REQUEST FOR AN EXTENSION**

The Monitor supports the Company's request for an extension of the stay of proceedings for the following reasons:

- The Company is acting in good faith and with due diligence in its restructuring efforts; and
- An extension will provide the Company the opportunity to complete the Sale Process.

The Company's cash flow projection for the stay extension period is attached to the Company's affidavit filed in connection with this motion. Based on a preliminary review of the cash flow projection, the Monitor understands that the Company is operating within its cash flow, which includes payment in full of all pre-filing and post-filing vendor, landlord and normal course employee obligations, with the exception of pre-filing obligations owing to its parent, Eddie Bauer, Inc. The Monitor notes that, according to the projection, the net funding required from Eddie Bauer US to fund the Company's operations from the



commencement of the Restructuring Proceedings until September 19, 2009 is projected to total approximately US\$6.7 million, which amount is below the US\$7.5 million Intercompany Charge created by the Initial Order. The Monitor is of the view that the granting of the extension should not prejudice any employee or creditor, as arrangements are in place to continue to fund the foregoing amounts.

## **5. OVERVIEW OF THE MONITOR'S ACTIVITIES**

Over the course of the CCAA Proceedings, the Monitor's activities have included:

- Corresponding extensively with legal counsel to the Company and the Monitor in connection with the CCAA Application materials;
- Reviewing financial and other information in advance of the filing, including the cash flow projection filed with this Honourable Court;
- Drafting the Pre-filing Report;
- Reviewing all of the materials filed in connection with the Sale Process;
- Drafting and filing the First Report;
- Arranging for an appraisal of the Company's inventory and a valuation of the Company's Canadian real property leases, which information will be used by the Monitor for a liquidation analysis to be filed in the context of an expected sale approval motion;
- Reviewing and commenting on the Protocol;
- Attending at Canadian motions in these proceedings;
- Attending at a joint hearing on June 29, 2009;
- Considering issues in connection with the allocation of value to the Company's business and assets;
- Placing on the Monitor's website copies of materials filed in these proceedings;

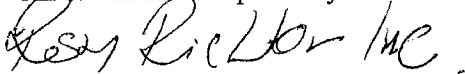
- Responding to creditor inquiries;
- Drafting this Report; and
- Other matters pertaining to the administration of this mandate.

## 6. CONCLUSION AND RECOMMENDATION

Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make the Company's proposed order.

\* \* \*

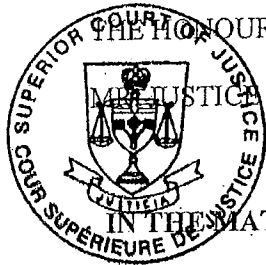
All of which is respectfully submitted,

A handwritten signature in black ink, appearing to read "RSM Richter Inc.", is written over the typed name.

**RSM RICHTER INC.  
IN ITS CAPACITY AS CCAA MONITOR OF  
EDDIE BAUER OF CANADA, INC. AND  
EDDIE BAUER CUSTOMER SERVICES INC.  
AND NOT IN ITS PERSONAL CAPACITY**

Court File No. 09-8240-CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**



HONOURABLE )  
JUDGE MORAWETZ )

WEDNESDAY, THE 17<sup>TH</sup>

DAY OF JUNE, 2009

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  
EDDIE BAUER OF CANADA, INC. AND EDDIE BAUER CUSTOMER SERVICES INC.

Applicants

**AMENDED AND RESTATED INITIAL ORDER**

**THIS APPLICATION**, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the affidavit of Marvin Edward Toland sworn June 17, 2009 (the "Toland Affidavit"), and the Exhibits thereto, and on hearing the submissions of counsel for the Applicants, counsel for Rainier Holdings LLC, counsel for Bank of America, N.A., and counsel for the proposed monitor, RSM Richter Inc. ("**Richter**"), and on reading the consent of Richter to act as the monitor of the Applicants (in such capacity, the "**Monitor**"),

**SERVICE**

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged so that this Application is properly returnable today and hereby dispenses with further service thereof.

## APPLICATION

2. **THIS COURT ORDERS AND DECLARES** that the Applicants are companies to which the CCAA applies.

## PLAN OF ARRANGEMENT

3. **THIS COURT ORDERS** that the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**") between, *inter alia*, the Applicants and one or more classes of their secured and/or unsecured creditors as they deem appropriate.

## POSSESSION OF PROPERTY AND OPERATIONS

4. **THIS COURT ORDERS** that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of their business (the "**Business**") and Property. The Applicants shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "**Assistants**") currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. **THIS COURT ORDERS** that the Applicants shall be entitled to continue to utilize the central cash management system currently in place as described in the Toland Affidavit or replace it with another substantially similar central cash management system (the "**Cash Management System**") and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter

defined) other than the Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. **THIS COURT ORDERS** that the Applicants shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay, bonuses and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
- (b) the fees and disbursements of any Assistants retained or employed by the Applicants in respect of these proceedings, at their respective standard rates and charges; and
- (c) amounts owing for goods and services actually supplied to the Applicants prior to the date of this Order.

7. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the Applicants in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Applicants following the date of this Order.

8. **THIS COURT ORDERS** that the Applicants shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicants in connection with the sale of goods and services by the Applicants; and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicants.

9. **THIS COURT ORDERS** that, until such time as the Applicants deliver a notice in writing to repudiate a real property lease in accordance with paragraph 11(c) of this Order (a "Notice of Repudiation"), the Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicants and the landlord from time to time ("Rent"), for the period commencing from and including the date of this Order monthly, in advance. On the date of the first of such payments, any arrears relating to the period commencing from and including the date of this Order shall also be paid. Upon delivery of a Notice of Repudiation, the Applicants shall pay all Rent due for the notice period stipulated in paragraph 11(c) of this Order, to the extent that Rent for such period has not already been paid.

10. **THIS COURT ORDERS** that, except as specifically permitted herein, the Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicants to EB Inc. (as defined below) as of the date hereof; (b) to grant no security interests, trust, liens, charges or

encumbrances upon or in respect of any of their Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

## RESTRUCTURING

11. **THIS COURT ORDERS** that the Applicants shall, subject to any covenants contained in the New Intercompany Loan Documents (as defined below) except that subsection 11(c) below shall apply regardless of the covenants contained in the New Intercompany Loan Documents, have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of their business or operations and to dispose of redundant or non-material assets not exceeding \$250,000 in any one transaction or \$500,000 in the aggregate, subject to paragraph 11(c), if applicable;
- (b) terminate the employment of such of their employees or temporarily lay off such of their employees as they deem appropriate on such terms as may be agreed upon between the Applicants and such employee, or failing such agreement, to deal with the consequences thereof in the Plan;
- (c) in accordance with paragraphs 12 and 13, vacate, abandon or quit the whole but not part of any leased premises and/or repudiate any real property lease and any ancillary agreements relating to any leased premises, on not less than fourteen (14) days notice in writing to the relevant landlord on such terms as may be agreed upon between the Applicants and such landlord, or failing such agreement, to deal with the consequences thereof in the Plan; and
- (d) repudiate such of their arrangements or agreements of any nature whatsoever, whether oral or written, as the Applicants deem appropriate on such terms as may be agreed upon between the Applicants and such counter-parties, or failing such agreement, to deal with the consequences thereof in the Plan.

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "Restructuring").

12. **THIS COURT ORDERS** that the Applicants shall provide each of the relevant landlords with notice of the Applicants' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicants' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicants, or by further Order of this Court upon application by the Applicants on at least two (2) days notice to such landlord and any such secured creditors. If the Applicants repudiate the lease governing such leased premises in accordance with paragraph 11(c) of this Order and vacate such leased premises, they shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in paragraph 11(c) of this Order), and the repudiation of the lease shall be without prejudice to the Applicants' claim to the fixtures in dispute.

13. **THIS COURT ORDERS** that if a Notice of Repudiation is delivered, then (a) during the notice period prior to the effective time of the repudiation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicants and the Monitor 24 hours' prior written notice, and (b) at the effective time of the repudiation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicants in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicants of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

14. **THIS COURT ORDERS** that, subject to the rights of a trustee in bankruptcy, (i) subject to the paragraphs 9, 11, 12 and 13 of this Order, or except as expressly permitted by the terms of the Applicants' real property leases (collectively, the "**Leases**"), none of the Leases shall, absent further Order of the Court, be amended or varied, or deemed to be amended or varied, in any way without obtaining the prior written consent of the applicable landlords (collectively, the "**Landlords**"); and (ii) where any Leases are not, in accordance with their terms, transferable or



assignable to a purchaser without first obtaining the consent of the applicable Landlord, none of the Leases shall, absent further Order of the Court, be transferred, conveyed, assigned or vested in a purchaser by operation of this Order, save and except to the extent that respective consents have been, or are in the future, obtained from the respective Landlords.

#### **NO PROCEEDINGS AGAINST THE APPLICANTS OR THE PROPERTY**

15. **THIS COURT ORDERS** that until and including July 17, 2009, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicants or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of either of the Applicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

#### **NO EXERCISE OF RIGHTS OR REMEDIES**

16. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of either of the Applicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicants to carry on any business which the Applicants are not lawfully entitled to carry on, (ii) exempt the Applicants from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

#### **NO INTERFERENCE WITH RIGHTS**

17. **THIS COURT ORDERS** that, during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicants, except with the written consent of the Applicants and the Monitor, or leave of this Court.

#### **CONTINUATION OF SERVICES**

18. **THIS COURT ORDERS** that, during the Stay Period, all Persons having oral or written agreements with the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or the Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicants, and that the Applicants shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the Applicants and the Monitor, or as may be ordered by this Court.

#### **NON-DEROGATION OF RIGHTS**

19. **THIS COURT ORDERS** that, notwithstanding anything else contained herein, no creditor of the Applicants shall be under any obligation after the making of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicants. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

#### **PROCEEDINGS AGAINST DIRECTORS AND OFFICERS**

20. **THIS COURT ORDERS** that, during the Stay Period, and except as permitted by subsection 11.5(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicants or this Court.

### **DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE**

21. **THIS COURT ORDERS** that the Applicants shall indemnify their directors and officers from all claims, costs, charges and expenses relating to the failure of the Applicants, after the date hereof, to make payments of the nature referred to in subparagraphs 6(a), 8(a), 8(b) and 8(c) of this Order which they sustain or incur by reason of or in relation to their respective capacities as directors and/or officers of the Applicants except to the extent that, with respect to any officer or director, such officer or director has actively participated in the breach of any related fiduciary duties or has been grossly negligent or guilty of wilful misconduct.

22. **THIS COURT ORDERS** that the directors and officers of the Applicants shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on the Property, which charge shall not exceed an aggregate amount of \$2,000,000, as security for the indemnity provided in paragraph 21 of this Order. The Directors' Charge shall have the priority set out in paragraphs 39 and 41 herein.

23. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 21 of this Order.

### **APPOINTMENT OF MONITOR**

24. **THIS COURT ORDERS** that Richter is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Property and the Applicants' conduct of the Business with the powers and obligations set out in the CCAA or set forth herein and that the Applicants and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations.

25. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicants' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) assist the Applicants, to the extent required by the Applicants, in their dissemination of financial and other information to EB Inc. and Bank of America, N.A. (as agent to the lenders providing certain debtor-in-possession financing to EB Inc. and certain of its affiliates in connection with EB Inc.'s and certain of its affiliates' bankruptcy petitions under chapter 11 of title 11 of the United States Code) (the "U.S. Lender") on a periodic basis as agreed to between the Applicants, the U.S. Lender and EB Inc., which information may be used in these proceedings;
- (d) advise the Applicants in their preparation of the Applicants' cash flow statements and reporting required by EB Inc., which information shall be reviewed with the Monitor;
- (e) advise the Applicants in their development of the Plan and any amendments to the Plan;
- (f) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) have full and complete access to the books, records and management, employees and advisors of the Applicants and to the Business and the Property to the extent required to perform its duties arising under this Order;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (i) consider, and if deemed advisable by the Monitor, prepare a report and assessment on the Plan; and

- (j) perform such other duties as are required by this Order or by this Court from time to time.

26. **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

27. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

28. **THIS COURT ORDERS** that that the Monitor shall provide any creditor of the Applicants and the U.S. Lender with information provided by the Applicants in response to reasonable requests for information made in writing by such Person addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicants may agree.

29. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

30. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor and counsel to the Applicants shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicants as part of the costs of these proceedings. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicants as and when accounts their respective accounts are rendered.

31. **THIS COURT ORDERS** that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

32. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, and the Applicants' counsel and financial advisors shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of \$1,000,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 39 and 41 hereof.

#### **INTERCOMPANY FINANCING**

33. **THIS COURT ORDERS** that the Applicants are hereby authorized and empowered to obtain and borrow under intercompany promissory grid notes (the "**New Intercompany Promissory Notes**") issued by the Applicants in favour of Eddie Bauer, Inc. ("**EB Inc.**") in order to finance the Applicants' working capital requirements and other general corporate purposes and capital expenditures (the "**Intercompany Financing**"), provided that borrowings in connection with such Intercompany Financing, from and after the date hereof, shall not exceed U.S.\$7,500,000 unless permitted by further Order of this Court.

34. **THIS COURT ORDERS** that the Intercompany Financing shall be on the terms and subject to the conditions set forth in the New Intercompany Loan Documents.

35. **THIS COURT ORDERS** that the Applicants are hereby authorized and empowered to execute and deliver the New Intercompany Promissory Notes, general security agreements and other definitive documents (collectively, the "**New Intercompany Loan Documents**"), as are contemplated in connection with the Intercompany Financing or as may be reasonably required by EB Inc. pursuant to the terms thereof, and the Applicants are hereby authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to EB Inc. under and pursuant to the New Intercompany Loan Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

36. **THIS COURT ORDERS** that the EB Inc. shall be entitled to the benefit of and is hereby granted a charge (the "**Intercompany Charge**") on the Property, which charge shall not exceed U.S.\$7,500,000 plus accrued and unpaid interest, allowable costs and expenses. The Intercompany Charge shall have the priority set-out in paragraphs 39 and 41 hereof.

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37. **THIS COURT ORDERS** that, subject to the provisions of this Order:

- (a) EB Inc. may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the Intercompany Charge or any of the New Intercompany Loan Documents;
- (b) upon the occurrence of an event of default under the New Intercompany Loan Documents, EB Inc., upon seven (7) days notice to the Applicants and the Monitor, may exercise any and all of its rights and remedies against the Applicants or the Property (save that any such rights and remedies relating to Leases shall be subject to the terms of the applicable Leases) under or pursuant to the New Intercompany Loan Documents and the Intercompany Charge, including without limitation, to cease making advances to the Applicants and set off and/or consolidate any amounts owing by EB Inc. to the Applicants against the obligations of the Applicants to EB Inc. under the New Intercompany Loan Documents or the Intercompany Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver,

receiver and manager or interim receiver, or for a bankruptcy order against the Applicants and for the appointment of a trustee in bankruptcy of the Applicants, and upon the occurrence of an event of default under the terms of the New Intercompany Loan Documents, EB Inc. shall be entitled to seize and retain proceeds from the sale of the Property and the cash flow of the Applicants to repay amounts owing to EB Inc. in accordance with the New Intercompany Loan Documents and the Intercompany Charge, but subject to the priorities as set out in paragraphs 39 and 41 of this Order; and

- (c) if, as and when EB Inc. executes a collateral assignment of the New Intercompany Loan Documents to the U.S. Lender, the foregoing rights and remedies of EB Inc. shall be enforceable by the U.S. Lender in accordance with the terms of the New Intercompany Loan Documents, including without limitation the agreement evidencing such collateral assignment,

the foregoing rights and remedies of EB Inc. and the U.S. Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicants or the Property.

38. **THIS COURT ORDERS AND DECLARES** that EB Inc., solely in its capacity as the provider of the Intercompany Financing, and the U.S. Lender, solely in its capacity as collateral assignee of the New Intercompany Loan Documents, shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicants under the CCAA, or any proposal filed by the Applicants under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the New Intercompany Loan Documents..

#### **VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER**

39. **THIS COURT ORDERS** that the priorities of the Directors' Charge, the Administration Charge and the Intercompany Charge, as among them, shall be as follows:

First – Administration Charge (to the maximum amount of \$1,000,000);



Second -- Intercompany Charge (to the maximum amount of U.S.\$7,500,000 plus accrued and unpaid interest, allowable costs and expenses payable by the Applicants); and

Third -- Directors' Charge (to the maximum amount of \$2,000,000).

40. **THIS COURT ORDERS** that the filing, registration or perfection of the Directors' Charge, the Administration Charge or the Intercompany Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

41. **THIS COURT ORDERS** that each of the Charges shall constitute a charge on the Property and shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person.

42. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicants also obtain the prior written consent of the Monitor, EB Inc. and the beneficiaries of each of the Charges.

43. **THIS COURT ORDERS** that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Applicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the New Intercompany Loan Documents shall create or be deemed to constitute a breach by the Applicants of any Agreement to which they are a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges, or the execution, delivery or performance of the New Intercompany Loan Documents; and
- (c) the payments made by the Applicants pursuant to this Order, the New Intercompany Loan Documents, and the granting of the Charges, do not and will not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable, voidable or reviewable transactions under any applicable law.

44. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicants' interest in such real property leases.

#### **SERVICE AND NOTICE**

45. **THIS COURT ORDERS** that the Applicants shall, within ten (10) business days of the date of entry of this Order, send a copy of this Order to their known creditors, other than employees and creditors to which the Applicants owe less than CAD\$1,000, at their addresses as they appear on the Applicants' records, and shall promptly send a copy of this Order (a) to all parties filing a Notice of Appearance in respect of this Application, and (b) to any other interested Person requesting a copy of this Order, and the Monitor is relieved of its obligation under Section 11(5) of the CCAA to provide similar notice, other than to supervise this process.

46. **THIS COURT ORDERS** that the Applicants and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or notice by

courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

47. **THIS COURT ORDERS** that the Applicants, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time and the Monitor may post a copy of any or all such materials on its website at: <http://www.rsmrichter.com/Restructuring/EddieBauer.aspx>.

#### **GENERAL**

48. **THIS COURT ORDERS** that the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their respective powers and duties hereunder.

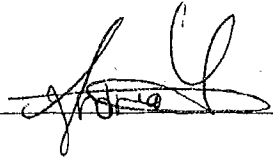
49. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

50. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

51. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

52. **THIS COURT ORDERS** that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.


53. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

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ENTERED AT / INSCRIT A TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO.:

JUL 07 2009

PER / PAR:

A handwritten signature in black ink, appearing to be 'J. J.', is written next to the 'PER / PAR:' label.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS  
AMENDED

Court File No: 09-8240-CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF EDDIE BAUER OF  
CANADA, INC. AND EDDIE BAUER CUSTOMER SERVICES INC.

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST  
Proceeding commenced at Toronto

INITIAL ORDER

GOODMANS LLP  
Barristers & Solicitors  
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Toronto, Canada M5B 2M6

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Lawyers for the Applicants

## **RSM Richter**

### **First Report of RSM Richter Inc. as CCAA Monitor of Eddie Bauer of Canada, Inc. and Eddie Bauer Customer Services Inc.**

RSM Richter Inc.  
Toronto, June 25, 2009

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Court File No. 09-8240-CL

**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  
EDDIE BAUER OF CANADA, INC. AND  
EDDIE BAUER CUSTOMER SERVICES INC.**

**FIRST REPORT OF RSM RICHTER INC.  
AS CCAA MONITOR OF  
EDDIE BAUER OF CANADA, INC. AND  
EDDIE BAUER CUSTOMER SERVICES INC.**

**June 25, 2009**

**1. INTRODUCTION**

Pursuant to an order of the Ontario Superior Court of Justice (the "Court") made on June 17, 2009 (the "Initial Order"), Eddie Bauer of Canada, Inc. and Eddie Bauer Customer Services Inc. (jointly, the "Company") were granted protection under the *Companies' Creditors Arrangement Act* (the "CCAA") and RSM Richter Inc. ("Richter") was appointed the Monitor (the "Monitor"). A copy of the Initial Order is attached as Appendix "A".

This report ("Report") is filed by Richter in its capacity as Monitor.

On June 17, 2009, Eddie Bauer Holdings, Inc., the Company's US based parent company, and certain other US affiliates (collectively, "Eddie Bauer US") commenced reorganization cases under chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "US Court") (the "Chapter 11 Proceedings"). The Company is not subject to the Chapter 11 Proceedings.

(Eddie Bauer US and the Company are collectively referred to as the "Eddie Bauer Group". The Chapter 11 Proceedings and the CCAA Proceedings are referred to as the "Restructuring Proceedings".)

The primary purpose of the Restructuring Proceedings is to allow the Eddie Bauer Group the opportunity to maximize the value of its business and assets in a unified, court-supervised sale process.

### 1.1 Purposes of this Report

The purposes of this Report are to:

- a) Provide background information about the Company, including the pre-filing marketing efforts carried out by the Eddie Bauer Group with the assistance of Peter J. Solomon Company, L.P. ("Solomon"), an investment banking firm retained by the Eddie Bauer Group for this purpose;
- b) Summarize the "stalking horse" offer submitted by Rainer Holdings LLC ("Rainer"), an affiliate of CCMP Capital Advisors, to purchase substantially all of the assets, property and undertaking of the Eddie Bauer Group (the "Stalking Horse Offer");
- c) Summarize the proposed sale process pursuant to which the business and assets of Eddie Bauer US and the Company would be marketed for sale ("Sale Process"), including the bidding procedures to be used in connection with the Sale Process (the "Bidding Procedures");
- d) Detail issues around the allocation of value between the business and assets of Eddie Bauer US and the Company potentially resulting from any sale transaction; and
- e) Recommend that this Honourable Court make an order:
  - Approving the Stalking Horse Offer; and
  - Approving the Sale Process, including the Bidding Procedures, and authorizing and directing the Company to conduct the Sale Process on the basis detailed herein.

## **1.2 Currency**

Unless otherwise noted, all currency references in this Report are to Canadian dollars.

## **2. BACKGROUND**

The Eddie Bauer Group sells outerwear, apparel and accessories, as well as down products for the home, including comforters, pillows and throws.

Eddie Bauer Holdings, Inc. is a publicly traded company, the shares of which are listed on the NASDAQ Global Market under the trading symbol "EBHI". The Eddie Bauer brand is internationally recognized and Eddie Bauer products are available at approximately 370 retail and outlet stores, including approximately 36 retail stores and one warehouse store throughout Canada, through catalogue sales and on the Eddie Bauer Group's website. The Company employs approximately 933 individuals in Canada. The Company's workforce is not unionized.

The Company's background information was summarized in the Affidavit of Marvin Edward Toland sworn June 17, 2009 (the "Toland Affidavit") and filed in connection with the Company's CCAA Application Record.

## **3. PRE-FILING MARKETING EFFORTS**

According to the Toland Affidavit, Solomon was retained on December 1, 2008 by the Eddie Bauer Group in order to evaluate financial and strategic alternatives to preserve the Eddie Bauer Group as a going concern and to pursue a sale process. The objective was initially to attempt to restructure the Eddie Bauer Group's term loan obligations, after which the focus was to solicit interest in the Eddie Bauer Group from private equity buyers and strategic parties with the potential to acquire substantially all of the Eddie Bauer Group's assets. The

Company was not marketed independently given its integration with the Eddie Bauer US business. As detailed in the Toland Affidavit, and for the reasons set out in Richter's preliminary report dated June 17, 2009 as proposed Monitor (the "Preliminary Report"), the Company does not appear able to carry on the Eddie Bauer business without the branding and support of Eddie Bauer US.

A description of Solomon's sale process is as follows:

- Fifty-five prospective financial and strategic purchasers were identified and contacted;
- Approximately twenty of these parties entered into a confidentiality agreement ("CA") with the Eddie Bauer Group and were provided extensive diligence materials;
- Financial and other diligence information was made available to prospective purchasers on an electronic data site, access to which was granted to prospective purchasers upon execution of a CA; and
- Meetings with management and the Eddie Bauer Group's advisors were arranged upon request.

The process resulted in five non-binding letters of intent. The Eddie Bauer Group provided a draft asset purchase agreement to three of these parties. Following an extensive negotiation and review process with its advisors, the Eddie Bauer Group determined that pursuing a transaction with Rainer was in the best interests of the Eddie Bauer Group.

#### 4. THE STALKING HORSE OFFER

On June 16, 2009, the Eddie Bauer Group entered into an Asset Purchase Agreement with Rainer (the "Stalking Horse APA"), pursuant to which:

- Rainer would acquire substantially all of the assets, property and undertaking of Eddie Bauer US and the Company for a purchase price of US\$202.3 million, including a deposit in the amount of US\$5,057,500. (The APA does not allocate value between the US and Canadian businesses and assets. This issue is discussed in Section 5.1 of this Report.);
- Pursuant to the Stalking Horse APA, at least 250 real property leases will be assumed by Rainer, including all 38 Canadian real property leases (including a lease for the Company's call centre), to the extent these leases are assignable and/or consents have been obtained;
- In respect of the Canadian real property leases that are assignable without first obtaining landlord consent or for which consents are obtained, the Company shall assign those leases to Rainer and Rainer shall assume such leases. For the Canadian real property leases that are not assignable without first obtaining landlord consent, the parties shall use commercially reasonable efforts prior to closing the transaction to obtain all consents necessary to assign such leases to Rainer. Other than the payment of amounts necessary to cure defaults, if any, and the payment of all actual and pecuniary losses that have resulted from such defaults, the Company shall be under no obligation to compromise any right, asset or benefit or to expend any amount or incur any obligation in excess of a cap established under the Stalking Horse APA for this purpose. The failure to obtain any or all consents shall not entitle Rainer to terminate the Stalking Horse APA, subject to obtaining consents and/or assigning Canadian real property leases which contribute at least 75% of Eddie Bauer of Canada, Inc.'s EBITDA for the year ended December 31, 2008;
- Rainer intends to extend offers of employment to all or substantially all of the employees of the Company and Eddie Bauer US;
- The Stalking Horse APA contemplates that Rainer would assume all of the ordinary course liabilities to customers of the business, including gift card, loyalty program reward and return liabilities, liabilities under designated contracts, liabilities arising in the ordinary course under purchase orders with suppliers, accounts payable and certain liabilities relating to employees;
- The Stalking Horse APA is subject to the approval of the US Court and this Honourable Court. Approval is to be sought from the US Court on June 29, 2009;

- The Stalking Horse APA contemplates a Sale Process would be carried out in the context of the Restructuring Proceedings. The contemplated Sale Process and related timelines are described in Section 6 of this Report; and
- In the event that Rainer is not the successful purchaser, it is entitled to a breakup fee payable by the Eddie Bauer Group of US\$5,057,500, being 2.5% of the purchase price (the "Breakup Fee"). Rainer would also be entitled to be reimbursed for its expenses associated with its offer (US\$250,000) (the "Expense Reimbursement").

A copy of the Stalking Horse APA is attached to the Company's Affidavit filed in connection with this motion.

## 5. SALE PROCESS AND BIDDING PROCEDURES

The Stalking Horse APA contemplates approval of the Bidding Procedures, which are summarized as follows:

- Prospective purchasers shall have until July 10, 2009 to become a "Qualified Bidder". To become a Qualified Bidder, a prospective purchaser must deliver, *inter alia*: (i) an executed CA; (ii) a letter indicating the estimated value of a prospective transaction (indicating total cash consideration); and (iii) information to be used by the Eddie Bauer Group to determine whether the party has the financial wherewithal to complete a transaction.
- The DIP lenders in the Chapter 11 Proceedings, together with certain other secured lenders of Eddie Bauer US (collectively, the "Secured Lenders") and Rainer are deemed to be Qualified Bidders.
- The determination of whether a bidder meets the criteria to be deemed a Qualified Bidder shall be made by the Eddie Bauer Group within three business days after a potential bidder provides the requisite information, in consultation with the Official Committee of Unsecured Creditors (the "Committee"), the Secured Lenders and the Monitor.
- The deadline for Qualified Bidders to submit a bid is 5:00 p.m. on July 14, 2009 (the "Bid Deadline"). The Monitor is to receive copies of all bids.
- For a bid to be a "Qualified Bid", it must meet certain criteria established by the Bidding Procedures, including: (i) a purchase price equal to or greater than US\$208.5 million; (ii) an executed asset purchase agreement with marked revisions to the Stalking Horse APA; (iii) a cash deposit of US\$5,057,500 (being the amount of the Breakup Fee); (iv) it must not

contemplate a breakup fee, expense reimbursement provision or the like; (v) it cannot be subject to any diligence, financing or regulatory conditions of any kind; and (vi) certain other requirements provided for in the Bidding Procedures.

- If the total cash consideration of the Stalking Horse APA is determined to be insufficient to repay, in full, Eddie Bauer Group's indebtedness owing to the Secured Lenders, then the Secured Lenders may submit a "credit bid" for all or substantially all of the Eddie Bauer Group's assets. A credit bid must include a cash deposit of US\$5,057,500, being the amount of the Breakup Fee. In the event a Secured Lender submits a credit bid, that lender would not be consulted for the purposes of determining whether the bids received are Qualified Bids.
- If no Qualified Bids are submitted by the Bid Deadline, the Stalking Horse APA shall be accepted.
- If Qualified Bids are received, an auction is to be conducted on July 16, 2009 with respect to all or some of the assets (the "Auction").
- Bidding at the Auction shall begin initially with the highest Qualifying Bid and continue in increments of no less than US\$500,000.
- With respect to any "overbid" submitted, the consideration offered must exceed the Stalking Horse offer by at least US\$6.2 million. The Monitor notes that the overbid amount exceeds the sum of the Breakup Fee and Expense Reimbursement (totalling US\$5,307,500). The Monitor understands that the difference represents the "topping amount", which is meant to cover the incremental costs of the Auction and, potentially, fees associated with an alternative transaction. The Monitor believes this is reasonable in the circumstances.

The Sale Process contemplates a sale approval motion to be heard before the US Court and this Honourable Court on or around July 17, 2009. The Monitor understands that it is the Eddie Bauer Group's intention for any transaction(s) resulting from the Sale Process to be completed by the end of July, 2009.

## 5.1 Allocation

The Sale Process does not address the allocation of value between the Company and Eddie Bauer US. The Monitor is in the process of obtaining information from the Eddie Bauer

Group which it requires to perform an estimate of the liquidation value of the Company's business and assets. This will provide a floor allocation which the Monitor will consider in determining whether the allocation by the ultimate buyer is reasonable. The Monitor may consider the value allocated by other bidders to the Canadian business. The Monitor is cognizant, however, of the reliance of the Company on Eddie Bauer US, including that Eddie Bauer US maintains the licences and marks related to the Company's business and its ability to trade as Eddie Bauer.

In the event that the Secured Lenders submit a credit bid and it is the offer approved by this Honourable Court, the Monitor will require that the portion of the purchase price allocable to Canada be funded in cash (as contemplated by the Bidding Procedures).

In the event that Rainer is the successful bidder, there is also a possibility that the allocation issue is of minimal significance. ~~The Stalking Horse APA~~ contemplates that the vast majority of the Company's vendor obligations and realty leases would be paid and/or assumed and the vast majority, if not all, of the Company's employees would be provided employment. In such a circumstance, the majority of the value allocable to the Company would be used to repay the Company's obligation to Eddie Bauer, Inc.<sup>1</sup> (net of amounts owing in respect of the charges provided in the Initial Order), with any residual amount being paid to the Company's shareholder, being Eddie Bauer, Inc., a US entity. Should an alternative transaction result from the Sale Process, there is a similar possibility that the allocation issue is of minimal significance, to the extent that the treatment of the Company's obligations is consistent with the Stalking Horse APA.

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<sup>1</sup> According to the Company's May 30, 2009 internal financial statements, the Company's obligation to Eddie Bauer, Inc. totals approximately US\$7.3 million.



## 5.2 Recommendation

The Monitor believes that the proposed Sale Process and Bidding Procedures are reasonable in the circumstances for the following reasons:

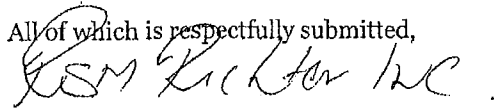
- With the assistance of Solomon, the Eddie Bauer Group has marketed its business and assets since December, 2008;
- In the Monitor's view, the Sale Process is commercially reasonable and the Bidding Procedures and Auction, if any, provide an opportunity for a result superior to the transaction contemplated by the Stalking Horse APA;
- The Sale Process presents the Company with an opportunity to continue as a going-concern should a transaction be completed with Rainer or another party;
- The Monitor understands that the economic stakeholders in these Restructuring Proceedings, including the DIP lenders and the Committee, support the proposed Stalking Horse APA and the Sale Process;
- The debtor-in-possession financing facility, from which the Restructuring Proceedings are being funded, is conditioned on the contemplated Sale Process. Absent this source of funding, the Company may not have the ability to continue operating in the normal course;
- The use of a "stalking horse" offer, together with a breakup fee and expense reimbursement mechanism, is commonly used in US insolvency proceedings and has been used on many occasions in Canadian insolvency proceedings. The Breakup Fee and Expense Reimbursement fee do not appear to be excessive in the circumstances; they are consistent with other Canadian insolvency proceedings. In the Monitor's view, the Breakup Fee and the Expense Reimbursement are not so large as to discourage a third party from submitting an offer that is superior to the Stalking Horse Offer; and
- Given its reliance on Eddie Bauer US for, *inter alia*, the use of the intellectual property owned by Eddie Bauer US which is integral to the Company's business, it does not appear that an independent sale of the Company on a going-concern basis is likely. Accordingly, subject to appropriately addressing the value allocation issue described herein, inclusion of the Company's business and assets in a "joint" Sale Process appears to be appropriate in the circumstances.

**6. CONCLUSION AND RECOMMENDATION**

Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make the Company's proposed order.

\* \* \*

All of which is respectfully submitted,

A handwritten signature in dark ink, appearing to read "RSM Richter Inc.", written over the typed name.

**RSM RICHTER INC.  
IN ITS CAPACITY AS PROPOSED CCAA MONITOR OF  
EDDIE BAUER OF CANADA, INC. AND  
EDDIE BAUER CUSTOMER SERVICES INC.  
AND NOT IN ITS PERSONAL CAPACITY**

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C.36,  
AS AMENDED

Court File No: CV-09-8240-CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF EDDIE BAUER  
OF CANADA, INC. AND EDDIE BAUER CUSTOMER SERVICES INC.

<b>ONTARIO</b> <b>SUPERIOR COURT OF JUSTICE</b> <b>COMMERCIAL LIST</b> Proceeding commenced at Toronto
<b>SECOND REPORT OF THE MONITOR</b> <b>(dated July 9, 2009)</b>
<b>DAVIES WARD PHILLIPS &amp; VINEBERG LLP</b> 1 First Canadian Place 44th Floor Toronto ON M5X 1B1  Mathew Gottlieb Jay Swartz  Tel: 416.863.0900 Fax: 416.863.0871  Lawyers for the Monitor