

ZEIFMAN PARTNERS INC.

FIRST REPORT OF ZEIFMAN PARTNERS INC.

RE: INTERNATIONAL CONDUITS LTD.

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

CIT FINANCIAL LTD.

Applicant

- and -

INTERNATIONAL CONDUITS LTD.

Respondent

**FIRST REPORT TO THE COURT OF ZEIFMAN PARTNERS INC.
AS INTERIM RECEIVER OF
INTERNATIONAL CONDUITS LTD.**

June 12th 2008

INTRODUCTION

1. This is the First Report to the Court filed by Zeifman Partners Inc. in its capacity as Interim Receiver (the "Receiver") of the assets, undertakings and properties (the "Assets") of International Conduit Ltd. ("ICL"). The Receiver was appointed by Order of the Honourable Madam Justice Pepall of the Ontario Superior Court of Justice dated the 11th day of February, 2008 (the "Receivership Order"). A copy of the Receivership Order is attached at Tab 1.

2. Pursuant to the terms of the Receivership Order, the Receiver was empowered, authorized and directed to take possession and control of the Assets and to manage, operate, and carry on the business of ICL and to sell the Assets out of the ordinary course of business with the approval of this Honourable Court.

PURPOSE OF THIS REPORT

3. The purpose of this Report is to:

- (a) advise this Honourable Court of the events leading up to the Receivership Order;
- (b) advise this Honourable Court of the activities of the Receiver to date;
- (c) request an Order of this Honourable Court approving the Receiver entering into an auction agreement and conducting a sale by public auction process of the Assets;
- (d) request an Order of this Honourable Court approving the conduct and activities of the Receiver to date;
- (e) obtain approval of the fees and disbursements of the Receiver and its counsel.

BACKGROUND

ICL's Business

4. ICL is an Ontario corporation which carries on business as a pipe manufacturing company, specializing in manufacturing electrical conduit. In addition, ICL carried out sales relating to electrical devices and supplies which it sold to the trades and retail merchants.

5. ICL carries on business out of a 40,000 square foot leased plant facility located at 209 Brunel Road in Mississauga.

6. Prior to the appointment of the Receiver, and specifically on January 25, 2008, ICL provided two weeks written notice of termination to all employees, effective February 8, 2008("Termination Date"). There were approximately twenty-five ICL employees on the Termination Date.

Secured Creditors

7. CIT Financial Ltd. ("CIT") has extended secured loan facilities to ICL and is the senior secured lender of ICL. As a result of defaults in the loan terms, CIT made demand for payment and issued a Notice of Intention to Enforce Security pursuant to section 244 of the *Bankruptcy and Insolvency Act* (the "BIA"). A copy of a *Personal Property Security Act* ("PPSA") search with an effective date of June 3, 2008 is attached hereto as

Tab 2 along with a summary sheet showing secured creditors and the collateral they claim interest in. All secured creditors recorded on the PPSA search have been served with notice of this motion.

SHAREHOLDERS

8. Universal Security Instruments Inc. ("USI") is a public company in the United States and owns approximately two thirds of ICL shares. USI is also an unsecured creditor of ICL, as well as a guarantor on the CIT secured loan to ICL. The remaining one third shareholder is Steve Kempf, President of ICL.

THE APPLICATION

9. CIT commenced an Application and obtained the Receivership Order on February 11, 2008.

ACTIVITIES OF THE RECEIVER

10. On the date of its appointment, the Receiver met with Steve Kempf, President of ICL, to discuss the implications of the appointment and the Receiver's intended course of action, which was to facilitate and expedite an orderly wind down of the company. Mr Kempf confirmed to the Receiver that he was committed to assist in the realization on ICL Assets.

11. The Receiver has overseen the day-to-day management of ICL's business and attended to all issues facing the business since the date of its appointment.

12. The Receiver also sought to stabilize the process by, among other things:

- (a) notifying all creditors of its appointment by Notice dated February 21, 2008 pursuant to Section 245 of the BIA, a copy of which is located at Tab 3 hereof;
- (b) notifying the landlord of its appointment and undertaking to pay Rent for the period of the Receiver's actual occupation of the leased premises;
- (c) contacting utilities and other service providers to ensure continuation of necessary services and contracts.

- (d) confirming the amount owing and compensating former employees of ICL for wages and vacation pay outstanding up to the Termination Date.
 - (e) coordinating a contract for services relationship between the Receiver and nine former employees and workers of ICL, including Steve Kempf.
13. The Receiver also undertook conservatory and protective measures, including:
- (a) changing all external locks to the premises;
 - (b) opening new trust bank accounts;
 - (c) notifying previous ICL banking institutions of its appointment and providing them with directions to forward all funds in ICL accounts as well as future deposits to the Receiver's trust accounts;
 - (d) negotiation the termination of a lock box agreement and account at the Royal Bank of Canada and arranging for delivery to the Receiver of funds remaining in the account;
 - (e) weekly bank account reconciliations;
 - (f) reviewing and analyzing insurance coverage as well as negotiating month to month ongoing commercial coverage, since the policy's expiration on February 28, 2008;
 - (g) implementing additional internal controls, including, but not limited to, the requirement of the Receiver's approval for all purchases, and the matching of packing slips to invoices prior to issuing payment;
 - (h) determining and delegating identified priority tasks to various parties assisting with accounting and warehouse matters;
 - (i) confirming ongoing terms with certain suppliers;
 - (j) posting the Receivership Order on the Receiver's website for accessibility by all affected parties;
 - (k) contacting GMB Installations Inc. ("GMB") who had obtained a default judgment pursuant to the *Repair Storage Lien Act* and causing the return by GMB of certain ICL equipment components that GMB had caused to be disabled pursuant to the judgment, back to working condition, as per the Receivership Order.
14. Since its appointment, the Receiver has terminated various ICL contracts with service providers, such as equipment leasing companies and insurance providers as each

respective service was no longer required in the orderly wind-down of ICL.

15. The Receiver entered into negotiation with previous trade purchasers to acquire some of the on hand inventory. To date, the Receiver has completed sales of inventory to third parties in the aggregate amount of \$1,044,047, which funds have all been collected.

16. As the inventory sales process slowed, and with it, the need for temporary workers, the Receiver terminated ICL's contract for services relationship with six of the initial eight temporary workers. Steve Kempf's contract was also terminated in this period, however he continues to work with the Receiver and USI in attempting to source customers for ICL's remaining inventory. ICL has two full time workers providing warehouse services and one part time worker providing accounting services on a one day a week basis.

17. On April 10, 2008, the Canada Revenue Agency ("CRA") conducted an audit of ICL's payroll account. The audit concluded that there were no amounts owing under the payroll account. The Trust Examiner concurrently took the position and also assessed that ICL's contract workers should be treated as employees of ICL, from the date of the receivership forward. Accordingly, a post receivership payroll account was opened effective February 11, 2008, which the Receiver continues to maintain.

ACCOUNTS RECEIVABLE

18. Pursuant to communications and correspondence with customers, employees, and third parties, as well as thorough reviews of ICL's books and records, the Receiver identified various issues impacting the collection of outstanding receivables, including customer rebates, quality claims, setoff rights and bad debts.

19. The Receiver continues to collect accounts receivable in the normal course. As receivables aged beyond the normal payment period, or as the accounting department advised the Receiver of non-responsive account debtors, the Receiver initiated several steps to collect the receivables in question, including both direct telephone discussions and email correspondence with delinquent customers, as well as issuing demand letters

where appropriate.

20. At the date of receivership, ICL books and records reflected an aggregate accounts receivable balance of approximately \$1.1 million. At the date of this report, the Receiver has collected approximately \$413,933 of pre-receivership accounts receivable. The Receiver continues to try and resolve collection of additional receivables.

Sesco Inc.

21. Sesco Inc. ("Sesco"), a division of Home Depot Supply, constitutes one of ICL's largest customers. Sesco has an outstanding pre-receivership accounts receivable balance of approximately \$172,000 together with an outstanding post-receivership accounts receivable balance of approximately \$60,000. After the Receiver's repeated requests for payment and a detailed position were unsuccessful, the Receiver engaged its counsel to correspond with Sesco with a view to trying to effect collection. On or around March 28, 2008, in response to counsel's communication to Sesco, counsel received a response with attachments, outlining Sesco's position of claimed offsets totaling approximately \$179,000 dealing with the total receivable, which claim was comprised of claimed customer rebates and alleged defective claims/reserves.

22. The Receiver reviewed and analyzed the alleged Sesco setoff claim, taking into account the documentation provided by Sesco, ICL's books and records, and historical billing trends between the two parties. Based on its review and discussion with ICL, the Receiver concluded that the alleged customer rebate Sesco claimed it was owed was not substantiated, given the absence of any correspondence or contracts and the fact that ICL had no record of any rebate historically taken by Sesco. The Receiver also concluded that the alleged quality claims advanced by Sesco were also not substantiated, given the lack of documentation provided by Sesco, as well as the expiration of any warranty periods to the relevant sales in question.

23. On April 2, 2008 the Receiver's counsel wrote to Sesco and advised that its position was not acceptable and the Receiver would immediately be filing a Claim. On April 8, 2008 a Claim was filed against Sesco seeking payment of amounts outstanding to

ICL. On April 18, 2008 counsel for SESCO filed a Notice of Intent to Defend.

24. On May 8, 2008, an additional package of supplementary documents was received from SESCO's counsel, comprised of material in support of the alleged setoff claim of approximately \$114,000. The Receiver is currently involved in the review and analysis of the documentation provided to it.

Florida Tubing Corporation

25. Prior to the appointment of the Receiver, ICL had contracted a collection agency to act on its behalf regarding the delinquent account of Florida Tube Corporation ("FTC") in the amount of \$92,016 US. An agreement was put in place with FTC for it to pay the delinquent account balance in equal monthly installments of \$3,833 US from February to June 2008, and the payment of the balance would be then subject to further review and discussion. FTC defaulted on the payment agreement in March 2008. In May 2008, the Receiver retained US counsel, through the collection agency, to file a Claim against FTC in a US District Court. This matter continues to be dealt with by the Receiver.

INVENTORY SALES

26. Upon the Receiver's appointment, it was advised by USI that negotiations with an ICL customer had been tentatively finalized regarding the sale of the majority of ICL on hand inventory. The Receiver contacted the customer to try and conclude a sale, however while the customer purchased and paid for part of the inventory, a large part of the inventory contemplated to be sold under the tentative arrangement of purchase and sale did not materialize. Accordingly, the Receiver took a series of steps to try and realize value on the remaining inventory, including contacting customers of ICL and other retailers in the conduit industry, to solicit interest in the possible purchase of inventory in part or in bulk. Inventory schedules, along with requests to submit offers to purchase were prepared and sent to identified possible purchasers. A copy of a typical schedule and request to submit offers is attached hereto at Tab 4. This effort resulted in some sales occurring, however it appears that ICL customers were largely disinterested in purchasing conduit from the Company at a fair market price and according to standard liquidation

terms.

27. The Receiver also engaged Steve Kempf to assist in the sale of remaining ICL inventory. Mr. Kempf retained many relationships with ICL customers and also has extensive familiarity with the industry in general. The Receiver continues to work with Mr. Kempf and USI in sourcing prospective purchasers for remaining ICL inventory. At the date of this report, the Receiver has sold approximately \$1 million in ICL inventory and continues to receive offers for remaining inventory. The Receiver currently has on hand inventory that it believes is merchantable and is on the books of ICL for \$755,647. The Receiver continues to offer this inventory for sale at liquidation discount pricing.

MACHINERY & EQUIPMENT

28. The equipment primarily consists of Tube Mills, which together constitutes a working line capable of production of Piping.

29. The Receiver attempted to solicit quotes, offers or expressions of interest with respect to ICL's machinery and equipment in order to try and sell the machinery at a fair market value. In March 2008, Mr. Kempf, while contracted by the Receiver, visited various equipment dealers in and around Detroit, MI in order to attempt to solicit interest in ICL's mill lines. While certain offers have been received, they have not been acceptable as to terms or price.

SALE BY AUCTION

30. As attempts to coordinate orderly sales of the machinery and equipment have proven to be unsuccessful, the Receiver determined and recommends to this Honourable Court that ICL equipment be sold by way of public auction for the following reasons:

- There would be considerable advertising of the pending auction sale.
- An auction setting would facilitate the attendance of all prospective purchasers and allow for a competitive bidding process.
- Given that the market for tube mills is limited, prospective purchasers of this type of specialty equipment from both within and outside the country are difficult to canvas in private solicitation.

- An auction would include the Receiver entering into an auction agreement whereby the Receiver would receive an up front deposit on a net minimum guarantee sale price as opposed to sales via equipment dealers in which terms can be consignment or long-term payments. Payment by the auctioneer of the balance of the net minimum guarantee would occur shortly after the auction was completed and all funds accounted for.
- The Receiver would receive a percentage of any sale proceeds beyond an agreed threshold figure.
- Equipment that was sold would not require additional costs to the Receiver of removal and/or storage.
- Prospective purchasers would be able to view and purchase equipment in its working state, and on site, thereby potentially increasing value.
- An auction would offer a mechanism of selling off any remaining inventory, as well as the removal of all items from ICL's Premises.

AUCTION PROCESS

31. On or around May 13, 2008, the Receiver contacted six liquidators and requested net minimum guarantees and sharing in excess thereof. The liquidators were also given the opportunity to submit offers to purchase the assets or offers to provide auction services at a commission. A deadline of May 21, 2008 was provided in writing to the interested parties along with a list of equipment available for auction.

32. The Receiver received six proposals in response to its requests. The Receiver reviewed and analyzed all six proposals, two of which were significantly higher than the rest. The Receiver was of the view that requesting the two liquidators, representing the highest proposals, to improve their offers would increase the realization on the assets. Accordingly, in consultation with USI, the Receiver requested resubmissions by May 26, 2008.

33. On May 26, 2008, the Receiver received revised proposals from both liquidators. The Receiver reviewed and analyzed the revised proposals and organized a meeting via conference call for May 30, 2008 with CIT (the "First Secured Creditor") and USI ("Guarantor") to discuss the proposals and finalize the selection of a liquidator.

34. On May 28, 2008, the Receiver received an unsolicited second revised proposal

from one of the contending liquidators. Given that the Receiver did not formally request the second revision from both liquidators, the Receiver approached the other liquidator offering them an equal opportunity to revise their proposal. The Receiver received a second revised proposal from the other liquidator on May 29, 2008.

35. On May 30, 2008 via conference call, the Receiver reviewed and analyzed the two second revised proposals with both CIT and USI. USI advised the Receiver it was waiting on a prospective purchasers' response regarding the private sale of the mills and the Receiver deferred its selection until June 2, 2008, to determine if such offer was forthcoming.

36. On June 2, 2008, after determining no offer for a private sale had come forth, the Receiver determined that the proposal submitted by Infinity Asset Solutions Inc. ("Infinity") represented the most advantageous auction scenario for the machinery and equipment of ICL. The Net Minimum Guaranteed Amount offered by Infinity in their proposal was higher than its competitor and the liquidator commission was lower, resulting in a larger realization on ICL assets.

37. The Receiver advised Infinity that their proposal was accepted subject to entering into an auction services agreement and the approval of this Honourable Court.

38. The Receiver has identified Infinity Asset Solutions Inc. as the auctioneer of choice and recommends to this Honourable Court that an auction agreement be concluded with Infinity and that this Honourable Court approves Infinity as the auctioneer to conduct a public auction of the machinery and equipment and such inventory of ICL as the Receiver may elect to put in the auction, such sale would be conducted in accordance with an Auction Services Agreement entered into with Infinity and the Receiver. A copy of the Auction Services Agreement is included in this Report as Confidential Tab 5 for review by this Honourable Court, however for confidentiality purposes, the Auction Services Agreement and the Infinity proposal is tendered to the Court under separate sealed cover pending the auction taking place. In addition, a copy of the proposal from Corporate Assets Inc, being the second of the final two proposals negotiated with the

Receiver, is included in this Report as Confidential Tab 5B.

OTHER MATTERS

GMB Installations Inc

39. Pursuant to a default judgment, dated January 29, 2008, issued by the Honourable Justice Snowie of the Ontario Superior Court of Justice (the "Snowie Judgment"), GMB was declared a non-possessory lien holder as defined under the Repair and Storage Lien Act, R.S.O. 1990, c.R.25. ("RSLA"). A copy of the Snowie Order is attached to this report at Tab 6.

40. Prior to the appointment of the Receiver, ICL was working together with USI and counsel, McLeod Dixon LLP ("MD") in preparing a motion to have the Snowie Judgment set aside and for a determination regarding the validity of the GMB lien claim. Upon consultation with USI, who is an unsecured creditor of ICL (as well as a Guarantor) and MD, the Receiver agreed to have MD act as special counsel to the Receiver regarding the GMB matter provided that USI agree to enter into an indemnity agreement to cover all professional fees and disbursements and to indemnify the Receiver fully for any costs and claims or potential claims resulting from the motion, in order that receivership realization is not impaired or reduced by the GMB matter.

41. GMB and the Receiver have agreed on a resolution setting aside the Snowie Judgment. The balance of the motion dealing with validity of the GMB lien claim and quantum of same will be withdrawn without prejudice to the Receiver, GMB, or any other creditor bringing proceedings in the receivership for a determination of the validity and quantum of the GMB lien claim. A copy of the order setting aside the Snowie Judgment is attached at Tab 7. Pending determination of the GMB claim and quantum of same, Receiver intends to retain sufficient funds to cover the GMB claim.

NTD Precision Limited

42. NTD Precision Ltd. ("NTD") is a supplier and creditor of ICL and has confirmed to the Receiver that they are in possession of certain components (the "Components") relating to the Turek & Heller ("T&H") Tube Mill owned by ICL. NTD has claimed it did

repair work on the Components at the request of ICL. Despite the absence of supporting documentation being provided to the Receiver, NTD has insisted that it had authorization by ICL to do various work to the Components and accordingly invoiced ICL approximately \$65,000 as compensation for the work.

43. The Receiver, accompanied by Steve Kempf, attended the NTD premises and surveyed the Components. While Mr. Kempf confirmed that work had been done to the Components, he took the position that the value of the work was not accurately reflected in the compensation that NTD demanded. Furthermore, an appraisal of the T&H Tube Mill effected a much lower value and did not justify payment by the Receiver of \$65,000 regarding the Components.

44. In an effort to settle the matter, on a without prejudice basis, the Receiver offered NTD an interest in the sale of the T&H Tube Mill, however the Receiver's offer was rejected. NTD counter offered that a certified cheque in the amount of \$45,000 be delivered upon pickup of the Components in satisfaction of their claim.

45. The Receiver has determined that the Auction Services Agreement, and in particular the net minimum guarantee under same, places a higher value on the Components than the \$45,000 requested by NTD. Accordingly, the Receiver has determined it is of economic value to the estate that it resolve the NTD dispute for \$45,000 and have the Components included in the auction.

MHR Hydraulics Limited

46. MHR Hydraulics Limited ("MHR") is a supplier and unsecured creditor of and is owed \$18,020. Upon the Receiver's appointment, Steve Kempf advised the Receiver that MHR was in possession of a Turkshead Component (the "Turkshead") relating to the Yoder Tube Mill owned by ICL. The Receiver reviewed ICL records, and found no documentation supporting MHR's possession of the Turkshead. The Receiver placed numerous calls to the owner of MHR who consistently maintained that MHR was not in possession of any components whatsoever owned by or related to ICL.

47. In coordination with the Receiver, Mr. Kempf attended at the premises of MHR

and determined while on site, that the disassembled Turkshead owned by ICL was present. Mr. Kempf has advised the Receiver that the value of the Turkshead was approximately \$10,000. In light of both the amount owing to MHR of \$18,020 and that the Turkshead would add minimal value to a sale of the overall mill, the Receiver determined that pursuit of the Turkshead would not be cost efficient nor ultimately benefit the creditors or estate. No further discussion regarding the Turkshead has been held with MHR.

RECEIVER'S RECEIPTS AND DISBURSEMENTS ACCOUNT

48. The Receiver's Interim Statement of Receipts and Disbursements for the period February 11, 2008 to June 6, 2008 is attached at Tab 8.

PROFESSIONAL FEES

49. The Receiver and its legal counsel have maintained detailed records of their professional time and costs since the Appointment Order.

Pursuant to paragraph 17 of the Appointment Order, any expenditure or liability which shall properly be made or incurred by the Receiver, including the fees of the Receiver and the fees and disbursement of its legal counsel, incurred at the standard rates and charges of the Receiver and its counsel, shall be allowed to it in passing its accounts and shall form a first charge on the Property in priority to all security interest, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person.

50. The total fees and disbursements of the Receiver during the period from the date of its appointment to May 31, 2008 (the "Fee Period") amount to CAD \$118,319.18.

51. The total fees and disbursements incurred by the Receiver for services provided by the Receiver's independent legal counsel, Torkin Manes Cohen Arbus LLP ("TMCA"), during the receivership proceedings amount to CAD \$25,584.36. Attached at Tab 9 is an Affidavit of Allan Rutman on behalf of the Receiver regarding the Receiver's fees and chargeable disbursements. Attached to the Affidavit of Allan Rutman as Tab 9(a) is the account of the Receiver.

52. Attached at Tab 10 is the Affidavit of Jeffery Simpson, partner at TMCA, regarding the fees and chargeable disbursements of TMCA for the period from February 11, 2008 to May 29, 2008. Attached to the Affidavit of Jeffrey Simpson as Tab 10(a) is the accounts of the Receiver's counsel, Torkin Manes Arbus Cohen, LLP.

53. It is the Receiver's opinion that the fees and disbursements of the Receiver and TMCA are fair and reasonable and justified in the circumstances, and accurately reflect the work done on behalf of the Receiver by legal counsel in connection with the receivership and administration of the Assets during the relevant periods. The Receiver recommends approval of TMCA's accounts by this Honourable Court.

RECOMMENDATIONS OF THE RECEIVER

54. In light of the foregoing., the Receiver respectfully requests this Honourable Court to:

- (a) Ratify and approve the Receiver's activities to date, including the Receiver's fees and disbursements and that of its counsel;
- (b) Authorize and direct the Receiver to enter into the Auction Services Agreement with Infinity Asset Solutions Inc. and to cause a public auction of the equipment and inventory of ICL as contemplated to be undertaken;
- (c) Approve the accounts of the Receiver and its counsel as submitted.

CONCLUSION

55. All of the foregoing is respectfully submitted this 12th day of June, 2008.

ZEIFMAN PARTNERS INC. as Court
Appointed ~~Interim-Receiver~~ of
International Conduits Ltd.



Allan Rutman
President