

ZEIFMAN PARTNERS INC.

SECOND REPORT OF ZEIFMAN PARTNERS INC.

RE: INTERNATIONAL CONDUITS LTD.

SEPTEMBER 9, 2008

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

CIT FINANCIAL LTD.

Applicant

- and -

INTERNATIONAL CONDUITS LTD.

Respondent

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

September 9, 2008

INTRODUCTION

1. This is the Second 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 activities of the Receiver from the date of its last report;
- (b) request an Order of this Honourable Court assigning the Florida Tube Corporation and Hersh Company accounts receivable to Universal Security Instruments, Inc. (the "Guarantor");
- (c) request an Order of this Honourable Court authorizing the Receiver to destroy the Non Essential Books and Records of ICL, as set out in Tab 6;
- (d) request an Order of this Honourable Court approving the conduct and activities of the Receiver to date;
- (e) request an Order of this Honourable Court authorizing the Receiver to make an interim disbursement of funds to CIT Financial Ltd., the first secured creditor, in the amount of \$2,150,000, on account of the ICL indebtedness to it;
- (f) request an Order of this Honourable Court authorizing the Receiver to retain the sum of \$269,831, which shall be held by the Receiver pending resolution of a claim of GMB Installations Inc. ("GMB") regarding the GMB claim as a repairer pursuant to the *Repair and Storage Lien Act*; the payment of future storage costs, and fees and disbursements to be incurred in dealing with the GMB Claims Process and for a motion to obtain a discharge of the Receiver;
- (g) authorizing the Receiver to initiate a claims procedure for the GMB repair lien claim whereby interested parties shall file with the Receiver all material and sworn statements in support of their position within 15 days of request to do so. Upon the Receiver determining to accept or disallow such claim, the affected party shall have a right to contest such decision and to bring a motion to determine the claim, as per S.135 of the *Bankruptcy and Insolvency Act* (Claim Process");
- (h) obtain approval of the fees and disbursements of the Receiver and its counsel.

BACKGROUND

PREVIOUS COURT REPORTS

4. The Receiver's First Report ("First report") dated June 12, 2008 to the Court was filed on June 19, 2008. The First Report provided details regarding the background of the business, including its secured creditor and shareholders; the conservatory and protective

measures taken by the Receiver, including its realization on ICL assets; the recommended sale process by way of auction of ICL equipment and machinery; the marketing and sales process undertaken by the Receiver to solicit proposals, and the analysis of the competing proposals received; and other matters relating to the realization of ICL assets. A copy of the First Report is attached hereto as Tab 2.

5. On June 25, 2008, the Honourable Madam Justice Pepall of the Ontario Superior Court of Justice issued an Order (i) approving the sale of ICL assets by public auction process; and (ii) authorized the Receiver to enter into an Auction Services Agreement with Infinity Asset Solutions Inc. A copy of the June 25, 2008 Court Order is attached hereto as Tab 3.

ACTIVITIES OF THE RECEIVER

14. From the date of the First Report, the Receiver has continued to oversee all day-to-day issues at ICL.

15. With the assistance of Universal Security Instruments Inc. ("Universal"), a shareholder and guarantor of the ICL debt, the Receiver facilitated sales of most of ICL inventory to Global Manufacturing Company, an electrical distributor based in the United States. All ICL inventory has now been sold. Total proceeds of ICL inventory sales in the receivership period equal \$1,464,015. All accounts relating to post receivership sales have been collected.

PRE-RECEIVERSHIP ACCOUNTS RECEIVABLE

16. At the date of receivership, ICL books and records reflected an aggregate accounts receivable balance of approximately \$1.1 million. As noted in the First Report, issues affecting the ability to effect collection of pre-receivership receivables included customer rebates, quality claims, rights of set-off and bad debts. At the date of the First Report, the Receiver had collected approximately \$413,933 (excluding GST) in pre-receivership accounts receivable. At the date of this Second Report, the Receiver has collected \$516,477 (excluding GST) in pre-receivership accounts receivable.

17. There remain two pre-receivership accounts receivable which the Receiver identifies as collectible in whole or in part, which are Florida Tube Corporation and Hersh Company.

Florida Tube Corporation

18. The First Report detailed the engagement of a collection agency to act on ICL's behalf regarding the delinquent account of Florida Tube Corporation ("FTC") in the amount of \$92,016 US. FTC defaulted on an agreement made with the agency 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. The Receiver has collected from FTC a total of \$19,165 US since the date of its appointment. At the date of this Second Report, the balance of the FTC receivable is in the amount of \$72,851 US.

Hersh Company

19. On the date of receivership, ICL records reflected an account receivable from Hersh Company ("Hersh") in the amount of \$29,076 US. At the date of this report, the Receiver has collected \$21,000 US from the total balance. The Receiver has continued to work to collect the remaining \$8,076 US with calls, letters, and email correspondence however Hersh has advised that due to cash flow constraints, they are currently unable to remit payment on the remainder of the account.

Assignment of Receivables

20. CIT Financial Ltd., the Secured Creditor, has consented to the assignment of the balance of the FTC and Hersh receivables to Universal Security Instruments, Inc. ("Guarantor"). An executed copy of the CIT Financial Ltd. Acknowledgement and Consent, regarding the assignment of the FTC and Hersh receivables, is attached hereto as Tab 4. The Receiver recommends the FTC and Hersh receivables be assigned to the Guarantor.

Sesco Inc.

21. The First Report detailed ongoing communications with Sesco Inc. ("Sesco") and

their counsel regarding the pre-receivership accounts receivable balance of approximately \$172,000 and a post receivership accounts receivable balance of approximately \$60,000. Over the course of negotiations, the Sesco position regarding claimed setoff due to customer rebate and quality concerns decreased from the initial claim of \$179,000 to \$114,000, for which a package of supplementary documents were received by the Receiver and its counsel. The Receiver reviewed and analyzed the provided documents and concluded that although certain set-offs appeared to be justified, the quantum of the claim was still unacceptable, as certain balances continued to remain unsubstantiated.

22. On June 16, 2008, following further negotiation, Sesco and the Receiver settled all outstanding accounts for an immediate one-time payment of \$150,000, representing a further reduction of customer set offs to approximately \$82,000.

INVENTORY SALES

23. The First Report detailed the Receiver's activities regarding the sale of ICL inventory, and the remaining balance of on hand inventory at that date. The Receiver has now sold all of ICL inventory with total proceeds received of \$1,464,015.

AUCTION PROCESS

24. The First Report detailed the auction tender process undertaken by the Receiver to solicit the best possible sale proposal from interested parties, as well as the Receiver's recommendation regarding the acceptance of the Infinity Asset Solutions Inc. ("Infinity") proposal and execution of the Auction Services Agreement. By Order of the Honourable Madam Justice Pepall, dated June 25, 2008 this Honourable Court authorized the Receiver to enter into the Auction Services Agreement with Infinity. The Receiver, following the granting of the Order, entered into the Auction Services Agreement.

25. A claim concerning ownership of certain pallet racking located at the ICL premises was put forth by the former President, Steve Kempf. Mr. Kempf provided the Receiver with evidence of ownership by delivery of a packing slip dated April 5, 2005 identifying the delivery of the racking to the ICL premises. The packing slip reflected Mr. Kempf's ownership by the words, "On Loan" written on the document. In addition, Mr. Kempf

also delivered to the Receiver a statutory declaration asserting ownership of the pallet racking. Pursuant to discussion with its counsel, the Receiver determined to exclude the pallet racking from the auction and to permit its removal from the ICL premises by Mr. Kempf. The removal of the pallet racking from the auction decreased the net minimum guarantee in the amount of \$11, 500.

26. The public auction of ICL assets was held at the ICL premises on July 16, 2008.

27. The auction included the sale of all remaining ICL fixed assets and certain remaining inventory for which no prospective purchaser had been found. The total proceeds realized in the auction (excluding buyers' premium and sales taxes) were \$1,044,092. According to the Auction Services Agreement, Infinity was entitled to \$60,000 in commissions, plus 15% of sales proceeds in excess of \$898,500. Infinity received a total of \$81,839 from the ICL auction, excluding the buyers' premium. Accordingly, the Receiver collected \$962,253 to the credit of the estate.

28. The realization of the assets has now been completed and the first Secured Creditor CIT Financial Ltd. will incur a significant shortfall in excess of \$2million. CIT was owed \$4,998,094 at the date of its Application to Court to appoint a Receiver and that the Receiver has been advised by CIT Financial that the debt is currently \$4,709,257 as at August 31, 2008.

VACANCY OF PREMISES

29. On June 6, 2008, the Receiver provided written notice to the Landlord advising the Landlord that the Receiver would be vacating the ICL premises in the first week of August 2008.

30. The Receiver notified LiftCapital Corporation and Forklifts First that the Receiver would be vacating the building and co-ordinated the pickup of their respective equipment.

31. On August 6, 2008, the Receiver provided written notice to the Landlord advising that effective August 6, 2008 the Receiver was vacating the ICL premises. The notice was accompanied by a cheque representing the balance of rental payments outstanding to

date of vacating.

32. The Receiver vacated the ICL premises on August 6, 2008.

33. On August 11, 2008, the Receiver received an executed release from the ICL Landlord.

BOOKS AND RECORDS

34. Prior to vacating the ICL premises, the Receiver inventoried all of ICL's Books and Records, and removed them to the Receiver's rented off site storage facility. The Books and Records are organized under two categories; Receivership Files and Non Essential Files. A copy of the listing of Receivership Files and Non Essential Files is attached hereto as Tab 5 and 6. The rental cost for storage is approximately \$75 a month. The Receiver intends to hold back sufficient funds to cover future storage charges during the period same is required.

35. The Receiver is seeking the permission of this Honourable Court to destroy all Non Essential Books and Records marked at Tab 6. The Receiver has offered the Non Essential Books and Records to the Guarantor who has indicated no interest in their retention. The Receiver does not require the Non-Essential Books and Records for the ongoing administration of the estate. The Receiver is not aware of any prejudice to a party arising from the destruction of the Non-Essential Books and Records. The estimated cost of destroying the Non-Essential Books and Records is \$750. The Receiver recommends the Non-Essential Books and Records be destroyed.

OTHER MATTERS

GMB Installations Inc

36. The Receiver's First Report detailed the issues surrounding the Court Order of the Honourable Justice Snowie of the Ontario Superior Court of Justice dated January 29, 2008 (the "Snowie Judgment"), prior to the appointment of the Receiver. Pursuant to a default 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 7.

37. Pursuant to the Order of the Honourable Mr. Justice Langdon of the Ontario Superior Court of Justice, dated June 3, 2008 (the "Langdon Order"), the Honourable Court ordered the Snowie Judgement to be set aside. A copy of the Langdon Order is attached hereto as Tab 8.

38. Following the Order of Justice Langdon, the need to deal with the GMB claim remains outstanding.

39. The Receiver proposes to deal with the GMB dispute by establishing a claim process ("Claim Process") whereby interested parties can file with the Receiver their documentation and affidavit material setting out their position concerning the GMB lien, within 15 days of written request to do so. The Receiver shall then review such material and thereafter either accept/reject such claim on notice to all parties involved. Any party not satisfied with the Receiver's decision concerning the GMB claim shall have a right to appeal such rejection/acceptance by motion to the Court. The Receiver proposes that the appeal process be conducted in a manner similar to that set out in S. 135 of the *Bankruptcy and Insolvency Act* dealing with disallowance of a claim by a Trustee.

RECEIVER'S RECEIPTS AND DISBURSEMENTS ACCOUNT

40. The Receiver's Interim Statement of Receipts and Disbursements for the period February 11, 2008 to September 8, 2008 is attached at Tab 9.

PROFESSIONAL FEES

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

42. 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.

43. The total fees and disbursements of the Receiver during the period from June 1, 2008 to August 31, 2008 (the "Fee Period") amount to CAD \$54,418.23. Attached at Tab 10 is an Affidavit of Allan Rutman on behalf of the Receiver regarding the Receiver's fees and chargeable disbursements.

44. Attached to the Affidavit of Allan Rutman as Tab 10(a) is the account of the Receiver.

45. 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"), for the period from the date of the First Report to August 31, 2008 amount to CAD \$19,695.39.

46. Attached at Tab 11 is the Affidavit of Jeffrey Simpson, partner at TMCA, regarding the fees and chargeable disbursements of TMCA for the period from the date of the First Report to August 31, 2008. Attached to the Affidavit of Jeffrey Simpson as Tab 11(a) is the accounts of the Receiver's counsel, Torkin Manes Arbus Cohen, LLP.

47. 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

48. 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) grant an Order of this Honourable Court authorizing the Receiver to distribute funds to the Secured Creditor CIT Financial Ltd. in the amount of \$2,150,000;
- (c) grant an Order of this Honourable Court authorizing the Receiver to hold back the sum of \$269,831 pending resolution of the GMB claim, and to also cover future rental fees and additional fees and disbursements to be incurred in dealing with the GMB Claim and in seeking a discharge of the Receiver;
- (d) grant an Order of this Honourable Court authorizing the Receiver to initiate a Claims Process regarding the GMB claim, as set out earlier in this Report;
- (e) grant an Order of this Honourable Court authorizing the Receiver to assign the FTC and Hersh accounts receivable to the Guarantor;
- (f) grant an Order of this Honourable Court authorizing the Receiver to destroy the Non-Essential books and records of ICL, as set out in Tab 6;
- (g) Approve the accounts of the Receiver and its counsel, as submitted.
- (h) declaring that Zeifman Partners Inc. has duly and properly discharged its duties, responsibilities and obligations as Receiver.

CONCLUSION

49. All of the foregoing is respectfully submitted this 9th day of September, 2008.

**ZEIFMAN PARTNERS INC. as Court
Appointed Interim-Receiver of
INTERNATIONAL CONDUITS LTD.**



**Allan Rutman,
President**