

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

B E T W E E N:

**RETURN ON INNOVATION CAPITAL LTD., as agent for ROI FUND INC., ROI SCEPTRE CANADIAN
RETIREMENT FUND, ROI GLOBAL RETIREMENT FUND and ROI YIELD PRIVATE PLACEMENT FUND and
ANY OTHER FUND MANAGED BY ROI from time to time**

Applicants

- and -

**GANDI INNOVATIONS LIMITED
GANDI INNOVATIONS HOLDINGS LLC
GANDI INNOVATIONS LLC
GANDI INNOVATIONS HOLD CO. and
GANDI SPECIAL HOLDINGS LLC**

Respondents

EIGHTEENTH REPORT OF THE MONITOR

April 30, 2012

Appendix A	The Twelfth Report without Appendices
Appendix B	Endorsement of Justice Newbould dated August 25, 2011
Appendix C	Order of Justice Newbould dated August 25, 2011
Appendix D	Endorsement of the Ontario Court of Appeal dated January 3, 2012

1. PURPOSE

1.1 The purpose of this Eighteenth report of the Monitor is to request an extension of the stay of proceedings until May 21, 2012.

2. INTRODUCTION AND BACKGROUND

2.1 Background

- 2.1.1 Gandhi Innovations Limited (“Gandhi Canada”), Gandhi Innovations Holdings LLC, (“Gandhi Holdings”) and Gandhi Innovations LLC (“Gandhi San Antonio”, and together with Gandhi Canada and Gandhi Holdings, “Gandhi”) obtained protection from their creditors under the *Companies’ Creditors Arrangement Act* (“CCAA”) pursuant to an Order (the “Initial Order”) of this Honourable Court, as amended, dated May 8, 2009.
- 2.1.2 The Initial Order appointed BDO Canada Limited (previously BDO Dunwoody Limited) as the Monitor of the Gandhi Group (the “Monitor”).
- 2.1.3 On November 25, 2009, this Honourable Court added Gandhi Innovations Hold Co. (“Gandhi Holdco”) and Gandhi Special Holdings LLC (“Gandhi Special”, and together with Gandhi and Gandhi Holdco, the “Gandhi Group”) as debtors to the Gandhi CCAA proceeding.
- 2.1.4 On June 5, 2009, the Gandhi Group also obtained protection from their creditors in the United States (“U.S.”) by applying for and obtaining recognition of the within proceeding as a foreign main proceeding pursuant to Chapter 15 of the United States Bankruptcy Code.
- 2.1.5 On November 25, 2009, this Court approved the sale of substantially all of the business and assets of the Gandhi Group to Agfa Corporation and Agfa Inc. (collectively referred to as “Agfa”).
- 2.1.6 On January 15, 2010, the Monitor closed the sale of substantially all of the business and assets of the Gandhi Group to Agfa.
- 2.1.7 On March 9, 2010, this Court granted an order which, *inter alia*, expanded the Monitor’s powers to allow the Monitor to file, on behalf of the Gandhi Group, a

plan of compromise or arrangement under the CCAA (the “Expanded Powers Order”).

- 2.1.8 On March 9, 2010, this Honourable Court also issued an order (the “Claims Procedure Order”) authorizing the Monitor to conduct a process for calling and determining claims of the Gandhi Group’s creditors (the “Claims Process”). Among other things, the Claims Procedure Order established June 30, 2010 as the Claims Bar Date.
- 2.1.9 On March 31, 2010, the U.S. Court granted an order recognizing, among other things, the Claims Procedure Order and the Expanded Powers Order.
- 2.1.10 The Claims Process was substantially completed by October 2010.
- 2.1.1 In the fall 2010, for reasons set out in the Monitor’s Twelfth Report to the Court and based on the information available to the Monitor at the time, including the claims received in the Claims Process, the Monitor determined that a consolidated plan of compromise and arrangement of the Gandhi Group represented the most equitable distribution for the unsecured creditors of the Gandhi Group and proceeded to prepare such a plan. A copy of the Twelfth Report, without appendices, is attached as Appendix A.
- 2.1.2 On January 4, 2011, this Court granted an order authorizing the Monitor to file a consolidated plan of compromise and arrangement and call a meeting of creditors of the Gandhi Group.
- 2.1.3 In December 2010, the Monitor received notice from former directors and officers of Gandhi Holdings (the “D&O Claimants”) that they intend to file claims for indemnification against each member of the Gandhi Group in respect of any award which may be made against them in an arbitration commenced by the Gandhi Group’s largest unsecured creditor and shareholder, TA Associates, together with all legal fees incurred by the D&O Claimants in defending the arbitration. The total quantum of the claims filed by the D&O Claimants was equivalent to the size of the Gandhi Group’s unsecured creditor pool.

- 2.1.4 On February 18, 2011, this Court granted leave to the D&O Claimants to file their Indemnity Claims late despite the passage of the claims bar date.
- 2.1.5 The Monitor, with the assistance of its counsel, reviewed the Indemnity Claims and disallowed them in full. The D&O Claimants disputed the disallowances.

2.2 Motion to Determine Preliminary Issues with the Indemnity Claims

- 2.2.1 On August 18, 2011, the Monitor brought a motion to determine the following threshold issues with respect to the Indemnity Claim:
- a) a determination as to which Gandi Group entities granted indemnities in favour of the D&O Claimants; and
 - b) a determination of whether a substantial portion of the Indemnity Claims constitutes equity claims, which rank behind claims of unsecured creditors.
- 2.2.2 On August 25, 2011, Justice Newbould issued an endorsement which determined that: (i) the D&O Claimants are not entitled to any indemnification from Gandi Canada, Gandi Special and Gandi San Antonio; and (ii) a significant portion of the D&O Claimants' claim for indemnity in the amount of \$50 million is an equity claim subordinated to claims of the unsecured creditors. Copies of Justice Newbould's endorsement and order are attached as **Appendix B** and **C**.
- 2.2.3 On September 9, 2011, the Claimants served a Notice of Motion for leave to appeal Justice Newbould's ruling and order.
- 2.2.4 On January 3, 2012, the Court of Appeal dismissed the motion for leave to appeal Justice Newbould's order. A copy of the Court of Appeal's Endorsement is attached as **Appendix D**.

2.3 New Plan(s) of Compromise and Arrangement

- 2.3.1 Due to the quantum of the Indemnity Claims and the D&O Claimants claims of entitlement to indemnity from all members of the Gandi Group, the Monitor did not proceed with the previously filed consolidated plan of compromise and arrangement until the preliminary issues with the Indemnity Claims were resolved.

- 2.3.2 Based on Justice Newbould's decision, the Indemnity Claims, if any, are limited to claims against Gandhi Holdings (which can be asserted by each of the D&O Claimants) and claims against Gandhi Hold Co (which can only be asserted by James).
- 2.3.3 In light of Justice Newbould's decision, the Monitor has determined that the consolidated plan of compromise and arrangement that includes all members of the Gandhi Group, previously filed with the Court, no longer represents the most equitable distribution for the unsecured creditors of the Gandhi Group.
- 2.3.4 At the time of the Monitor's last appearance before the Court on April 2, 2012, the Monitor advised the Court that it is working with its legal counsel to prepare a new plan or plans of compromise and arrangement for one or more members of Gandhi Group in order to distribute to unsecured creditors the remaining proceeds of approximately \$20 million from the sale of the Gandhi Group's business and assets to Agfa. The total net proceeds were \$40.3 million. A portion of these proceeds and cash balances were used to repay \$29 million due to the secured creditors.
- 2.3.5 Since the Monitor's last appearance before the Court, the Monitor, with the assistance of its counsel, has completed a draft plan of compromise and arrangement in respect of Gandhi Canada and Gandhi San Antonio and commenced discussions with the Gandhi Group's largest unsecured creditor, TA Associates, in respect of such plan. TA Associates' claims against Gandhi Canada and Gandhi San Antonio represent in excess of 50% of the value of the total proven claims against these entities.
- 2.3.6 TA Associates has requested additional time to review and consider the impact of the plan on its claims.
- 2.3.7 The D&O Claimants' claims for indemnity are contingent upon the resolution of the arbitration between the D&O Claimants and TA Associates. The Monitor is not in the position to finally determine the value of the Indemnity Claims until the arbitration is completed and a decision is released. This impairs the Monitor's ability to make a meaningful distribution to creditors of Gandhi

Holdings and Gandhi Holdco without providing for a holdback for the contingent the D&O Claimants' claims.

2.3.8 Given the size of these indemnity claims, the amount of the holdback required would preclude a meaningful distribution to creditors of Gandhi Holdings and Gandhi Holdco. Accordingly, no distribution to unsecured creditors of these entities is contemplated by the Monitor at the present time.

2.3.9 No claims were filed against Gandhi Special. As a result, the Monitor will not prepare or file a plan of compromise and arrangement of Gandhi Special at this time.

3. STAY EXTENSION

3.1.1 On April 2, 2012, this Court extended the stay period for a limited time period to May 1, 2012, to allow the Monitor time to prepare a plan(s) of compromise and arrangement.

3.1.2 The current stay period expires on May 1, 2012. The Monitor requests a three week extension of the stay period to May 21, 2012 to allow the Monitor time to complete discussions with TA Associations in respect of the draft plan of Gandhi Canada and Gandhi San Antonio and to bring a motion for an order authorizing the Monitor to file the plan and call a meeting of creditors.

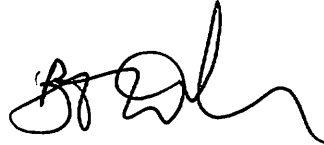
3.1.3 The Monitor is working diligently and in good faith to finalize a plan of compromise and arrangement for Gandhi Canada and Gandhi San Antonio in order to affect a distribution to unsecured creditors of these entities (which represent all creditors of the Gandhi Group, with the exception of the D&O Claimants). The Monitor anticipates that it will be in a position to finalize and file a consolidated plan before the expiration of the stay period sought.

4. SUMMARY AND RECOMMENDATIONS

4.1.1 The Monitor respectfully requests the Court approve the Monitor's request for and an order granting an extension of the Stay Period to May 21, 2012.

All of which is respectfully submitted this 30th day of April, 2012.

BDO CANADA LIMITED
Monitor in the CCAA proceeding of
Gandi Innovations Limited,
Gandi Innovations Holdings LLC,
Gandi Innovations LLC,
Gandi Innovations Hold Co., and
Gandi Special Holdings LLC
Per:

A handwritten signature in black ink, appearing to read "B. Davidson", with a long horizontal flourish extending to the right.

Blair F. Davidson, CA•CIRP, CBV, CMC
President