Court File No. CV-09-8194-00CL

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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT OF W.C. WOOD CORPORATION, LTD., W.C. WOOD CORPORATION, INC. AND W.C. WOOD HOLDINGS, INC.
(together the "Applicants")

**SUPPLEMENTAL REPORT TO THE EIGHTH REPORT OF BDO DUNWOODY LIMITED
IN ITS CAPACITY AS MONITOR**

Dated October 25, 2009

LINCOLN AND LEVI LITTELL AGREEMENTS

1. As reported in paragraph 23 of the Eighth Report of the Monitor dated October 21, 2009 (the "Eighth Report"), the Companies had retained a Transaction Advisor to manage the Going Concern Sales Process. Lincoln Partners Advisors LLC ("Lincoln") was retained as the Transaction Advisor.

2. During June and July, Management had advised the Monitor that they wished to retain Lincoln subject to the approval by the DIP Lenders. The DIP Lenders had approved the business terms proposed by Lincoln, but wished to see the final agreement prior to signing. In early July, Management provided the Monitor with the final draft of an agreement received from Lincoln and it was shared with the DIP Lenders and their counsel.

3. On July 17, 2009, certain revisions to the agreement were requested by the Monitor and the DIP Lenders and sent to the Companies' counsel. On July 21, 2009 Management provided a copy of a signed agreement (the "Lincoln Agreement") to the Monitor. The Lincoln Agreement had none of the revisions that were requested by the Monitor and the DIP Lenders.

4. On August 5, 2009 the Monitor had a discussion with Federico Mennella, the managing director of Lincoln regarding the Lincoln Agreement. The Monitor explained the urgency required in the Going Concern Sales Process and that one of the terms of the Lincoln Agreement was that it was subject to approval from

this Honourable Court and that the revisions requested were needed before the Monitor and the DIP Lenders would support such approval. The Monitor further explained that the revisions that were requested would not affect Lincoln's compensation on a going concern sale as long as the net sales proceeds were sufficient to pay out the DIP Lenders. Mr. Menella advised that he would "do his best to obtain the best deal to get the lenders paid out by the end of August" but he would not agree to change the terms of the Lincoln Agreement.

5. Lincoln was to be compensated by way of a work fee of US$50,000 and reimbursed for its out of pocket expenses and a success fee on completion of a going concern sale of the Companies. Certain assets were excluded from the compensation payable to Lincoln. Lincoln agreed to be paid its work fee by installments and is owed approximately US$18,500 for the final work fee installment and expenses.

6. Paragraph 2 of the Lincoln Agreement states "in the event that the Company's lenders, or a United States, Canadian or Mexican bankruptcy or similar court, cause the liquidation of the Company or its business, then such event will not be considered a "Transaction" and Lincoln Partners will not be entitled to any continued engagement or continued compensation therefor."

7. On June 16, 2009, Management entered into an agreement to retain Levi Littell Herbst & Co. LLC ("LLH") as a transaction advisor for the sale of both the Dehumidifier Business and the Companies' Coldtech Business (the "LLH Agreement"). LLH was to be compensated by way of a monthly work fee and a success fee on the completion of each sale. LLH has been paid its work fees to date as well as the success fee for sale of the Dehumidifier Business.

8. Management determined that it would be difficult to sell the Coldtech Business separately from the Companies' core business and on August 7, 2009, Management advised LLH not to continue to solicit interest in the Coldtech Business and the Companies and LLH signed an amendment to the LLH Agreement to reduce the success fee payable should the Coldtech Business be sold in a transaction not originated by LLH.

9. The Liquidation Process described in the Eighth Report assumes that the assets of the Companies will be sold piece meal and not as part of a going concern sale. The success fees payable under the Lincoln and LLH agreements were intended to be paid on completion of a going concern sale. The Monitor has concluded that the Going Concern Sales Process has ended and if these fees were to be paid out of the proceeds from a liquidation of assets, it will not be related to the efforts of Lincoln or LLH and the net proceeds of liquidation available to creditors would be significantly reduced.

10. Based on the above the Monitor recommends that the agreements with Lincoln and LLH should be terminated. At the same time, the Liquidation Process still allows for completion of a going concern sale. Should this be the case then the

Monitor would recommend payment of the success fees pursuant with the terms of the Lincoln and LLH agreements.

GOING CONCERN SALES PROCESS

11. Late in the day on October 22, 2009, after the Eighth Report was served, the Monitor was provided with a copy of a revised offer from the purchaser (the "October 22 Offer"). The most significant revision was that a deposit of US$500,000 was offered.

12. The DIP Lenders were made aware of the terms of the October 22 Offer. The DIP Lenders advised the Monitor that the October 22 Offer was not acceptable to them for the reasons given in paragraph 45 (a) to (c) of the Eight Report and that a deposit of US$500,000 would not sufficient to cover the Net Exposure to the DIP Lenders of $619,000 in Canada and US$224,000 as described in paragraphs 39 and 40 of the Eighth Report.

13. On the afternoon of October 23, the Monitor was advised by the Agent representing the DIP Lenders (the "Agent") that direct discussions took place between the DIP Lenders and the Offeror regarding minimum revisions to the business terms of the October 22 Offer. The Agent advised the Offeror that in order to cover the risks of funding the Companies' operations the deposit needed to be increased and made non-refundable should the purchaser not waive its conditions by the closing date, and the working capital adjustment to purchase price to be determined on closing needed to be limited or eliminated. The Agent advised the Offeror that, subject to the consent of the other lenders making up the DIP Lenders, if these business terms were met and a new agreement on acceptable terms was presented, the DIP Lenders would agree to support continuing funding the Companies according to the Revised Extended Cash Forecasts.

14. The Agent did not discuss whether the other conditions in the October 22 Offer were acceptable to the DIP Lenders. One of the conditions in the October 22 Offer is that the offer is subject to the Companies entering into a definitive agreement with a purchaser for a sale and leaseback of the Ohio realty that is satisfactory to the Offeror and that all conditions must be waived by the closing date.

15. The Monitor has been provided with a copy of a draft agreement of purchase and sale for the Ohio realty (the "Ohio Realty Offer"). The Ohio Realty Offer is subject to conditions, one of which is for the purchaser to have a period of up to 45 days following execution of an agreement of purchase and sale to conduct satisfactory due diligence. On October 25, 2009, the Monitor advised Management, and counsel to the Companies, the DIP Lenders and the Offeror aware that it is highly uncertain whether this condition will be met by the outside closing date of November 30 contained in the October 22 Offer.

16. The Monitor has continued to work with the stakeholders to determine whether an offer could be obtained on terms that the Monitor could support.

Dated October 25, 2009

BDO DUNWOODY LIMITED,
in its capacity as Court-Appointed Monitor of
W.C. WOOD CORPORATION, LTD.,
W.C. WOOD CORPORATION, INC. and
W.C. WOOD HOLDINGS, INC.
And not in its personal capacity

Per: 

Ken Pearl
Vice President