

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**

**IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF THL-PMPL HOLDING CORP.,
PROGRESSIVE MOULDED PRODUCTS LIMITED,
PROGRESSIVE MOLDED PRODUCTS INC. AND
PROGRESSIVE MARKETING, INC.**

Applicants

**SIXTH REPORT OF ERNST & YOUNG INC.
DATED SEPTEMBER 24, 2008**

INTRODUCTION

1. On June 20, 2008, THL-PMPL Holding Corp. ("**THL-PMPL**"), Progressive Moulded Products Limited ("**PMPL**"), Progressive Molded Products Inc. ("**PMPI**") and Progressive Marketing, Inc. ("**Progressive Marketing**") (collectively "**Progressive**" or the "**Applicants**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* ("**CCAA**"). Pursuant to the Order of this Honourable Court dated June 20, 2008 (the "**Initial Order**"), Ernst & Young Inc. ("**EYI**") was appointed as the Monitor of the Applicants (the "**Monitor**") in the CCAA proceeding. The Initial Order provided for a stay of proceedings through July 9, 2008. The stay of proceedings was subsequently extended to October 31, 2008 (the "**Stay Period**") pursuant to an Order of this Honourable Court dated August 15, 2008.
2. The Applicants concurrently filed motions on June 20, 2008 for relief under Title 11 of Chapter 11 of the United States Bankruptcy Code ("**Chapter 11**") for both its Canadian operations, which include PMPL and THL-PMPL (collectively the "**Canadian Debtors**") and for its U.S. operations, which include PMPI and Progressive Marketing (collectively

the “**U.S. Debtors**”). First Day Court Orders were issued by the U.S. Bankruptcy Court on June 24, 2008. On July 31, 2008, a subsequent order was issued by the U.S. Bankruptcy Court converting the Applicants’ Chapter 11 cases to Chapter 7 cases and directing the Office of the United States Trustee to appoint a Chapter 7 trustee.

3. On October 1, 2008 a motion filed by the Chapter 7 trustee will be heard requesting the immediate discharge of the Chapter 7 trustee and dismissal of all four Chapter 7 cases.

PURPOSE

4. The purpose of this Sixth Report of the Monitor (the “**Sixth Report**”) is to report to this Honourable Court with respect to:
 - (a) The status of the orderly liquidation of Progressive’s Canadian assets;
 - (b) PMPL’s proposed independent contractor agreements; and
 - (c) The review of the First Lien Lenders security registered in Canada.

TERMS OF REFERENCE

5. In preparing this Report, EYI has been provided with and, in making the comments herein, relied upon unaudited financial information, Progressive’s books and records, financial information prepared by Progressive, and discussions with management of Progressive. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EYI expresses no opinion or other form assurance in respect of such information contained in this Report. Some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants (“**CICA**”) Handbook, has not been performed. Future oriented financial information referred to in this report was prepared based on management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not

ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

6. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.
7. Capitalized terms not defined in this Sixth Report are defined in the Initial Order, the Monitor's First through Fifth Reports or the appendices attached.

BACKGROUND

8. Progressive designed and manufactured automotive interior plastic systems and sub-systems from 13 facilities including ten manufacturing plants and one research and development facility in Ontario and one manufacturing plant in each of Texas and Missouri. Progressive also maintained a sales and engineering office in Michigan. Its head office is located in Concord, Ontario. Progressive's materials filed in connection with the commencement of CCAA proceedings state that it was a leading supplier to North American Original Equipment Manufacturers of fully integrated consoles, instrument panels and panel subsystems, air management systems and hard trim. Approximately 90% of Progressive's annual revenues were generated from its three major OEM customers, General Motors, Ford and Chrysler (collectively, the "**OEMs**").
9. As set out in the First Report, Progressive had total funded debt obligations of approximately \$546.9 million as at the date of the Initial Order including approximately \$276.9 million plus accrued interest in secured debt owed to a syndicate of lenders (the "**First Lien Lenders**").
10. As set out in the Second Report, shortly after the commencement of the CCAA proceedings, the OEMs took steps to remove their tooling and re-source their supply to other vendors. As the OEMs represented in excess of 90% of the Applicants' revenues, the Applicants determined that it was not going to be possible to proceed with a successful restructuring and that the most appropriate course of action was to implement an orderly liquidation of their business. As a result of this decision, the Applicants

entered into agreements with the OEMs (the “**OEM Term Sheets**”), with the consent of the First Lien Lenders, which set out the terms pursuant to which the OEMs could remove their customer owned tooling, pay for the costs of such removal and purchase additional secondary equipment and inventory.

11. On July 25, 2008, this Honourable Court approved the appointment of Donald MacKenzie as Chief Restructuring Officer (the “**CRO**”) of the Canadian Debtors and the related engagement of Conway MacKenzie, Inc. and its associates to assist the CRO in the execution of his duties. Pursuant to this order, the CRO will provide management of the Canadian Debtors with additional support and oversee the wind down of operations.

STATUS OF THE ORDERLY LIQUIDATION

12. Progressive is working diligently to complete the orderly liquidation and wind down of its business. Progressive is continuing to invoice GM, Ford and Chrysler for raw materials, packaging, finished inventory, secondary tooling and machinery and equipment purchased pursuant to the OEM Term Sheets and to collect the related receivables. In addition, Progressive is continuing to reconcile and collect pre filing trade and tooling accounts receivable as well as post filing accounts receivable. This process is taking some time to complete due to numerous issues including, without limitation, the manual nature of the invoicing, pricing discrepancies between Progressive and the OEMs, and various other reconciliation issues. It is anticipated that this process will take some time to complete. The Monitor continues to assist Progressive in this process.
13. Liquidation of the remaining assets, including machinery and equipment, in Canada is ongoing. On August 15, 2008, this Honourable Court approved the auction services agreement (the “**Auction Services Agreement**”) entered into by Progressive with Danbury Industrial and Infinity Asset Solutions Inc. (collectively referred to as the “**Auctioneer**”) for the purpose of liquidating all of the non-leased assets, including machinery and equipment, located in the Canadian manufacturing plants. In accordance with this Auction Services Agreement, the Auctioneer is holding an auction on

September 23, 24 and 25, 2008. PMPL hopes to be in a position to vacate most if not all of the Canadian leased facilities before the winter.

14. Progressive is currently assessing how to dispose and realize upon the remaining property and assets owned by PMPI and located in the United States. The Chapter 7 trustee who was appointed in the U.S. to administer the Chapter 7 cases has filed a motion to dismiss the cases citing the inability to obtain an appropriate funding for professional fees that would be incurred. This motion is scheduled be heard on October 1, 2008.
15. All of the activities outlined above are ongoing and continue to require staff to complete the work. On July 15, 2008, this Honourable Court made an order approving an employment retention program (the “**ERP**”) for certain employees whose continuing assistance was required. However, this program ends on September 30, 2008. Progressive and the CRO believe that it would be beneficial to retain the expertise of certain existing employees of Progressive who have knowledge of historical transactions, and Progressive’s products and understand the accounting systems, invoicing process and customer agreements.

INDEPENDENT CONTRACTOR AGREEMENTS

16. Attached as Exhibit “A” to the Kotas Affidavit is the proposed template agreement (the “**Independent Contractor Agreement**”) that PMPL and the CRO will use to enter into independent contractor arrangements with 12 existing employees of PMPL and one existing employee of PMPI for the purpose of assisting with the completion of the wind down of Progressive’s business.
17. PMPL proposes to engage 13 individuals who are presently employees as independent contractors in order to decrease the administrative responsibilities of PMPL associated with the retention of employees, while at the same time increasing its flexibility to contract required services on an “as needed” basis only. The existing employees who agree to provide services to PMPL as independent contractors (the “**Independent Contractors**”) will have the opportunity to continue to earn an income while looking for

alternate employment and work from a location or for a party other than Progressive at the same time.

18. PMPL will not be responsible for payment of any federal or provincial taxes, employee-related withholdings, pension plan, medical benefits or other employment related expenses or benefits for these Independent Contractors. The hourly rates for services provided were set at the equivalent of 2.5 times the hourly rate calculated by assuming the person's previous annual salary from PMPL (or PMPI, as the case may be) was for a 40 hour week.
19. The Monitor reviewed the list of existing employees and believes that these are the appropriate people who have specific expertise that would be beneficial to retain as independent contractors for this purpose. The hourly rate that PMPL is proposing to pay these individuals is reasonable in the circumstances.

REVIEW OF FIRST LIEN LENDERS' SECURITY

20. The Monitor's counsel has now completed its review of certain security documents relating to the debts and other obligations of each of PMPL and THL-PMPL to the First Lien Lenders pursuant to a credit agreement dated as of August 16, 2008 between THL-PMPL, PMPL, PMPI, and each subsidiary party thereto as a guarantor.
21. The Monitor has received an opinion from its counsel which states that, subject to the assumptions and qualifications set out therein, the Canadian Guarantee and Collateral Agreement made as of August 16, 2004 by THL-PMPL Acquisition Corp., now PMPL and THL-PMPL and the leasehold debentures dated August 16, 2004 by PMPL in favour of JPMorgan Chase Bank, Toronto Branch in relation to the leased facilities on Keele St., 21 Graniteridge Road, both in Vaughan, and 125 Villarboit Crescent in Concord, are properly perfected in respect of PMPL and THL-PMPL's assets located in Ontario.
22. As a result of the opinion with respect to the validity of the First Lien Lenders' security, Progressive and the CRO, in coordination with the Monitor, are in the process of

preparing an estimate of an interim distribution to the First Lien Lenders for which Progressive will seek approval from this Honourable Court in the near future.

MONITOR'S RECOMMENDATION

23. PMPL is seeking this Honourable Court's approval to enter into independent contractor arrangements with at least 13 of PMPL and PMPI's existing employees to provide services to PMPL on an independent contractor basis to assist with the orderly liquidation and wind up of the Applicants' businesses.
24. The Monitor reviewed the list of existing employees and believes that these are the appropriate people who have specific expertise that would be beneficial to retain for this purpose. The hourly rate that PMPL is proposing to pay these individuals is reasonable in the circumstances.
25. Accordingly, the Monitor recommends that this Honourable Court approve PMPL entering into the independent contractor arrangements on the terms as substantially set out in the Independent Contractor Agreement as presented.

All of which is respectfully submitted this 24th day of September, 2008.

ERNST & YOUNG INC.
in its capacity as the Court Appointed Monitor of
THL-PMPL Holding Corp.,
Progressive Moulded Products Limited,
Progressive Molded Products Inc., and
Progressive Marketing, Inc.

Per:



Alex Morrison
Senior Vice President