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(Affidavits)

COMPETITION TRIBUNAL	
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OTTAWA, ONT.	#33

THE COMPETITION TRIBUNAL

IN THE MATTER OF an Application by the
Director of Investigation and Research
for an order pursuant to section 75 of
the Competition Act. R.S. 1985, c. C-34,
as amended, requiring that the Respondent
accept the Exdos Corporation as a customer
for the supply of a product

BETWEEN:

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Applicant

- and -

XEROX CANADA INC.

Respondent

AFFIDAVIT OF DONALD D. BANKS, C.A. AND

C. MICHEL LAVIGNE, C.A.

I, DONALD D. BANKS, AND I, C. MICHEL LAVIGNE, both of the City of Ottawa in
the Judicial District of Ottawa-Carleton, make oath and say as follows:


1. We are Chartered Accountants in the Accounting Firm of Deloitte &
Touche. Deloitte & Touche was retained by counsel for the Director of
Investigation and Research to examine the books and records of Exdos
Corporation and 562412 Ontario Inc. (operating as Neutron Office
Products) and provide a report dealing with certain matters relating to
the impact on those companies of the refusal to supply of the
respondent herein. We were responsible for the preparation of this
report.

2. A copy of the report, which contains a detailed description of the work performed, is attached hereto as Exhibit "A". The contents of and our findings therein are true to the best of our knowledge, information and belief.

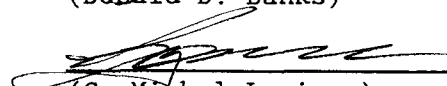
3. A copy of our respective curriculum vitae are attached hereto as Exhibit "B" and "C".

4. We make this affidavit pursuant to Rule 42(1) of the Competition Tribunal Rules.

SWORN BEFORE ME at the)
City of Ottawa, in the)
Judicial District of)
Ottawa-Carleton, this)
24th day of April, 1990)




(Donald D. Banks)



(C. Michel Lavigne)

Michael Kenneth Carson, a Commissioner etc
Judicial District of Ottawa-Carleton, for
DELOITTE & TOUCHE, Chartered Accountants and
DELOITTE & TOUCHE INC. Trustee in Bankruptcy



~~Expires February 10, 1991~~
A Commissioner of
Oaths in and for Canada



REPORT ON SPECIAL REVIEW

EXDOS CORPORATION

*This is Exhibit "A" to the
Affidavit of Donald D. Banks and
Michel Lussier sworn before me
on the 24th day of April, 1990.*

Michael Kenneth Carson, a Commissioner etc
Judicial District of Ottawa-Carleton, for
DELOITTE & TOUCHE, Chartered Accountants and
DELOITTE & TOUCHE INC. Trustee in Bankruptcy
Expires February 19, 1991

April 20, 1990

REPORT ON SPECIAL REVIEW - EXDOS CORPORATION

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LEXICON

For the purposes of this report the following abbreviations will be used.

FULL TERMS

ABBREVIATED TERMS

Xerox Canada Inc.

Xerox

Exdos Corporation

Exdos

562412 Ontario Inc. (Operating as
Nezron Office Products)

Nezron

Combined Exdos Corporation and
Nezron Office Products

Exdos-Nezron

Terrance Reid

Reid

David Wood

Wood

Lucille Hazell

Hazell

Soberman Isenbaum & Colomby
Chartered Accountants

SIC

Post 83 Xerox copier parts

Parts

October 26, 1988

Date of Refusal to Supply

Xerox freeze of sales of parts
to parties other than end users

Refusal to Supply

Independent Service Organization

ISO

Copier parts which have a limited
life expectancy due to ordinary
use.

Consumables

SCOPE OF REVIEW

The scope of review was to examine the records and financial statements of Exdos and its affiliated company, Nezron with the objective to:

- a) provide a view on the general status of the accounting records of Exdos-Nezron;
- b) provide an overview of the nature of the business of Exdos-Nezron and their inter-relationship;
- c) provide a projection of the impact of the refusal to supply in terms of the dependence of Exdos-Nezron on Xerox as a source of parts for Xerox copy machines;
- d) determine the financial effects to date, of the refusal of Xerox to supply parts to Exdos other than as an end user of Xerox copiers.

Our examination of Exdos-Nezron records covered:

all available Exdos and or Nezron accounting and or other records which we felt appropriate for the period between October 1, 1986 and February 20, 1990.

SIC's working paper files of Exdos for the years ended September 30, 1988 and September 30, 1989. SIC's working paper files of Nezron for the periods ended April 30, 1989 and September 30, 1989.

We interviewed key employees of Exdos-Nezron group namely:

Terrance Reid, President of Exdos, President of Nezron

David Wood, Service Manager, Nezron

Peter Van Velzen, General Manager, Exdos

Lucille Hazell, Office Manager, Exdos - Nezron

Robert Chittenden, Parts Co-ordinator, Exdos

Carol Ann Wheeler, Accountant, Exdos-Nezron

Due to the close business relationship of Exdos and Nezron and their numerous intercompany transactions, we have conducted our examination as though they were a joint entity.

Appendix 1 attached outlines the examination steps undertaken in our review.

SUMMARY OF FINDINGS

1) STATE OF RECORDS

We found the records of Exdos-Nezron to be adequate for the business priorities of its management. We were able to perform the tests and examination we considered necessary to evaluate the effects of Xerox refusal to supply.

We determined that some of the monthly sales summaries were lost or misplaced apparently at the time of the dismissal of the former accountant but we were able to reconstruct the annual sales from the sales invoices themselves. Further, because of the missing sales summaries and because Exdos-Nezron kept no perpetual inventory prior to the refusal to supply we considered the monthly financial reports of the individual companies to be inadequate for our purposes.

2) OVERVIEW OF BUSINESS

a) Operations

For the period of our review:

- i) Exdos' main business was to buy and sell used Xerox copiers as a broker, with many of the sales made to ISO's including Nezron. Exdos also bought and sold Xerox parts, to ISO's chiefly, until the refusal to supply was put into effect in 1988.
- ii) Exdos' operations included the refurbishing of used copiers by Nezron technicians.
- iii) Nezron's main business was to sell, rent or lease used Xerox copiers, refurbished by Exdos, to end users along with service contracts. The parts required for performance of these contracts came entirely from Exdos. Exdos has continued to supply these parts despite the refusal to supply.
- iv) Approximately 90% of Exdos-Nezron revenue has been generated from sales or service of Xerox copiers or sales of Xerox parts and supplies (Appendix 2).
- v) Exdos and Nezron operated from the same business premises with an inter-mingling of costs, staff duties and management.
- vi) From a business planning perspective, it would be anticipated that the Nezron contribution to profits would steadily increase as the service contract operations grew to provide a larger ongoing revenue base.



b) Relationship of Exdos and Nezron

Throughout the years 1984 to 1989 inclusive, the ownership and management of Exdos and Nezron has been as follows:

i) Ownership

- Exdos has been 100% owned by Reid.
- Up to September 29, 1989, Nezron was owned 70% by Reid and 30% by Wood.
- As of September 29, 1989, Exdos acquired all of the issued shares of Nezron from Reid and Wood. Finally on October 1, 1989, Exdos amalgamated with Nezron to continue as Exdos Corporation.

ii) Management

- Reid was the President and day to day General Manager of Exdos throughout the years 1984 to 1988 inclusive. On July 4, 1989, Van Velzen assumed the duties of the General Manager while Reid continued as President and continued to oversee all operations.
- Reid was the President and General Manager of Nezron throughout the years 1984 to 1988 inclusive, and most of 1989. On October 1, 1989, Van Velzen assumed the duties of General Manager. Throughout the entire period Wood was Service Manager for Nezron.

3) IMPACT OF REFUSAL TO SUPPLY

Since Exdos-Nezron operations are very dependent upon a ready supply of parts, and since market sources other than Xerox appear to be unable to provide compatible parts in sufficient quantity or quality, the refusal to supply has placed Exdos-Nezron in a precarious position in respect of its ability to continue operations. Its inventory of parts appears to be deficient in respect of there being parts on hand or readily available to service its clients pursuant to contracts to supply parts and service. Further, the refusal to supply has caused Exdos-Nezron to alter its business operations and it has suffered some direct financial losses in the form of additional costs. These additional costs would likely have to continue as long as Exdos-Nezron's business continues.

Our analytic review indicates that Exdos-Nezron would have limited business life expectancy, in respect of its Xerox related business, because of the refusal to supply.

4) FINANCIAL EFFECTS TO DATE

Exdos reaction to the refusal to supply was to re-direct its human resources to search for a supply of Xerox copier parts from as many sources as possible. This search included:

- An immediate order of parts from Xerox in the amount of some \$60,000 before the effective date of the refusal to supply but after notification of it.
- Trying to locate manufacturers of Xerox compatible copier parts, independently and through the National Independent Service Organization.
- Increasing the purchasing activity in respect of used post-1983 Xerox copiers so that some could be used in the "cannibalization" process, whereby parts were used from one machine to keep another operating with some machines eventually being entirely cannibalized.
- Purchasing parts from Rank-Xerox of the United Kingdom through U.S. agents.
- Purchasing parts directly from Xerox for those machines wherein Exdos was considered to be an end user, approximately sixteen machines in total.

In addition Exdos instituted an inventory control system which provided a periodic report, usually bi-monthly, highlighting the inventory of each part on hand compared to a minimum and maximum level considered to be adequate for each part. The service manager, Wood, maintained this control system whereas prior to the refusal to supply, parts had been ordered from Xerox only as needed.

CONCLUSION

As a result of our analytical review and information obtained, we would conclude that Exdos-Nezron's business operations, as presently constituted, have been placed in jeopardy by the refusal to supply. Its inventory of parts, as at February 19, 1990 indicated deficiencies in the parts necessary to service its clients in accordance with existing contracts, in respect of post-1983 copiers. There does not appear to be a market source of those parts other than Xerox in quantities sufficient to maintain the necessary inventory. Accordingly the business life expectancy of Exdos-Nezron appears to be quite limited. In addition, to the extent that Exdos-Nezron is able to continue to place and service post-1983 copiers, it does so at an increased cost of staff time, with the attendant payroll cost.

DETAILED OBSERVATIONS

APPROACH TO DETERMINATION OF EFFECTS

Our review indicated that the refusal to supply had caused changes in the operations of Exdos-Nezron particularly with respect to activities deemed necessary to acquire and maintain an inventory of parts. These activities were directed toward immediate survival of the business because it was believed that the market for used Xerox copier machines would dry up unless the potential purchasers could be assured that parts and service would continue to be available readily, virtually on demand. These considerations affected both the immediate and long-term viability of Exdos-Nezron.

We approached the determination and quantification of financial effects from three perspectives:

- i) Necessity of Supply
- ii) Estimate of Business Life Expectancy of Exdos-Nezron
- iii) Immediate Effects of Refusal to Supply

a) Necessity of Supply

Was it necessary to have a supply of Xerox parts readily available in order for the businesses to survive?

- i) All of the employees interviewed were of the opinion that without a ready supply of parts in the general market Exdos would not be able to continue to supply copiers to end users. Similarly they were of the opinion that Nezron's sales and service business would not be able to continue once their clients determined that prompt service could no longer be supplied.
- ii) Our analysis established that 90.8% of Nezron's placement of office machines, either by sale, lease or rental were accompanied by a service contract (Appendix 3).

Similarly, analysis of Nezron's client base (Appendix 4), shows that over 85% were on service contracts and relied upon a supply of parts. Further, our analysis shows that post 1983 copier machines, or the Marathon series, have grown from 32% of machines serviced in 1987 to 55% of machines serviced in 1989 (Appendix 5). On a revenue basis, 73% of December 1989 revenue came from sales and service of post 1983 copiers and service revenue alone, including parts, was post-1983 copier based to the level of 58% (Appendix 6).

We would conclude, therefore, that Nezron's future profitability would tend to grow as the client base expanded and that the clients, and Exdos-Nezron, require a readily available supply of pre and post 1983 Xerox parts, with more and more reliance falling on post 1983 parts.

(b) Estimate of Business Life Expectancy of Exdos-Nezron

What would the expected life of Exdos-Nezron be if none of the consumable parts could be obtained, firstly from Xerox, and secondly, from alternative sources?

Our review confirmed that Exdos-Nezron was dependent upon a readily available supply of Xerox or Xerox-compatible parts. Evidence examined together with explanations provided by key employees indicated that the general market of Xerox compatible parts plus the ISO supportive supply, together with the cannibalization process of obtaining parts would not provide the flow of parts necessary. A Xerox catalogue of parts listed approximately 18,000 parts. The parts catalogue produced by the ISO's in response to Xerox refusal to supply, listed less than 1,000 parts available, and in very limited quantities per part.

Further, we reviewed Exdos-Nezron's purchase of Xerox or Xerox compatible parts for the fiscal year ended September 30, 1989 per Appendix 7. We noted or were advised that:

- a) Xerox was still the main supplier of parts, to a value of some \$179,000. This total was composed of approximately \$77,500 of parts ordered in the ordinary course of business prior to the refusal to supply plus some \$60,000 of parts ordered on October 21, 1988 due to the impending refusal to supply and the balance ordered for Exdos as an end-user.
- b) Approximately \$7,300 of Xerox parts were obtained, through a U.S. agent, from Rank-Xerox of England. It is understood that this source no longer exists.
- c) Several of the other suppliers are no longer able to supply parts.

We analyzed Exdos-Nezron's historic use of parts in order to evaluate the consumption rate of parts and then compared this consumption rate to the inventory of parts on hand. This involved a series of steps:

- i) Wood supplied a master list of parts and supplies sold by Exdos to Nezron for the two years ended September 30, 1989. We analyzed that list and eliminated the pre-1983 parts and supplies to arrive at a list of some 450 post-1983 parts and supplies. Further analysis eliminated supplies and low-usage parts to arrive at a list of 90 post-1983 high-usage parts. In accordance with advice received from Chittenden and in order to be conservative, we also eliminated those parts where there was an alternate Xerox part available and those parts where an alternate source existed, irrespective of prices or reliability of source. We thus arrived at a list of 21 essential consumables upon which to base our evaluation.
- ii) We reduced the annual consumption amount of those selected parts to an average monthly usage figure.

- iii) For each part we divided the quantity on hand as at February 19, 1990 per Chittenden's records, by the average monthly usage figure, thereby arriving at the number of months of supply of each part on hand, per Appendix 8.

Appendix 9 presents the same information in the form of a graph and shows that for these 21 parts Exdos-Nezron had less than a four month supply on hand.

We concluded that with the refusal to supply in effect and with no known alternate source, Nezron will not be able to continue to provide service should a customer need any of these 21 parts, in particular. A similar result could also occur in respect of any of the 450 parts, consumable or durable, should it not be available when needed.

Our projection has been based primarily on parts usage and its probable effect on clients. We did not factor in the matter of employee loyalty or apprehension, considerations which would tend to accelerate the downhill slide.

(c) Immediate Effects of Refusal to Supply

What were the immediate measurable costs of reacting to the refusal to supply in terms of obtaining a supply of parts?

The financial effect of the Exdos-Nezron's reaction to the refusal to supply has been manifested in additional costs in that the duties of certain key, knowledgeable employees were changed so that they could search for, find and control the inventory of parts. In particular:

- i) Reid organized, managed and took part in the actual search for other sources of parts. We have estimated that 10% of his time was spent on these activities from September 1, 1988 to July 4, 1989 when Van Velzen was hired by Exdos to carry on as General Manager.
- ii) Van Velzen continued the management of the search for parts and personally took part in the search as well. His conservative best estimate is that 10% of his time has been used for these activities.
- iii) Wood changed his duties from a ratio of 50% as Service Manager and 50% on service calls prior to the refusal to supply, to a ratio of 80% searching for and controlling parts and 20% as Service Manager, after the refusal to supply according to his conservative best estimate. Appendix 10 is a schedule which illustrates the decrease in service calls made by Wood from 56 pre-refusal to 18 post-refusal.
- iv) Hazell changed her duties from pre-refusal to supply where she served as Executive Assistant to Reid and as an Assistant in the brokering of used Xerox copiers to post-refusal to supply duties which included contacting the same suppliers for more copiers and for parts, to searching for other parts suppliers, to ordering parts for Exdos as an end user. Her conservative best estimate is that 25% of her post-refusal time was used in the search for parts, that is, approximately 10 hours per week.

- v) Susan Holtze was hired as Sales Secretary by Nezron. It is the position of Exdos-Nezron management that the reason Holtze was hired was that Hazell no longer had sufficient time to perform the secretarial duties that she had prior to the refusal to supply.

CALCULATION OF FINANCIAL EFFECTS

We have addressed the financial effect of the refusal to supply under two aspects, firstly where Exdos-Nezron is unable to find alternative sources of the consumables Scenario One, and secondly where Exdos-Nezron is able to continue to operate by finding alternative sources of parts, Scenario Two.

SCENARIO ONE

Our analysis of Exdos-Nezron's rate of use of the consumables when compared to their inventory of parts at February 19, 1990 shows that some parts will be out of stock within one month and others may last up to four months. It is our understanding that parts can no longer be obtained from Rank-Xerox of England, as of February 1990. We project that Exdos-Nezron will not be able to fully service all of its clients, despite cannibalization and other survival source of parts, at some time in the near future, in respect of post-1983 Xerox copiers, and will therefore begin to lose clients and its business related to Xerox copiers. Appendix 11 attached shows that the annual gross margin at risk would be in excess of \$1,300,000 per annum.

SCENARIO TWO

Exdos-Nezron's cost of maintaining its operations despite the refusal to supply has manifested itself in three ways:

- the loss of contribution margin on the re-sale of Xerox parts, which we have calculated to be \$36,800 per annum, per Appendix 12. Contribution margin is the amount of profit that a line of business produces or contributes toward the fixed cost or overhead;
- the ongoing cost of several employees engaged in finding, developing and maintaining alternative sources of compatible parts. This cost is approximately \$38,000 per year at present (Appendix 15);
- out-of-pocket cost in the form of legal and accounting services. Our analysis did not include a comprehensive search for out-of-pocket costs related to the refusal to supply, but we did note legal fees of \$8,207 and that S.I.C. have provided special services directly related to the refusal to supply.

The present value of the estimated future losses of Exdos-Nezron, based on Scenario Two is approximately \$662,000 per Appendix 15. The cost to date is approximately \$100,000 per Appendix 16.

Deloitte & Touche

REPORT ON SPECIAL REVIEW - EXDOS CORPORATION

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 Wood
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**EXDOS/NEZRON
PERCENT OF REVENUE XEROX COPIER BASED**

DESCRIPTION	TOTAL REVENUE		SALES CASSELLS, BROCK		SALES METRO TORONTO		PURCHASES GESSTYNER (* 130%)		PURCHASES FUJITSU (*130%)		TOTAL XEROX COPIER REVENUE	
	(IN \$)	(%)	(IN \$)	(%)	(IN \$)	(%)	(IN \$)	(%)	(IN \$)	(%)	(IN \$)	(%)
	(1)		(2)		(3)		(4)		(5)		(+1-2-3-4-5)	
SEPT 30, 88	2,928,022	100.0%	34,304	1.2%	57,417	2.0%		0.0%	113,279	3.9%	2,723,022	93.0%
SEPT 30, 89	2,642,612	100.0%	57,146	2.2%	41,872	1.6%	178,417	6.8%	40,689	1.5%	2,324,488	88.0%
	<u>5,570,634</u>	<u>100.0%</u>	<u>91,451</u>	<u>1.8%</u>	<u>99,289</u>	<u>1.8%</u>	<u>178,417</u>	<u>3.2%</u>	<u>153,968</u>	<u>2.8%</u>	<u>5,047,509</u>	<u>90.6%</u>

legend

- ~ AGREED TO COMBINED GROSS MARGIN SUMMARY
- ! AGREED TO SUPPLIERS INVOICES
- > AGREED TO NEZRON SALES INVOICES

APPENDIX 3

EXDOS/NEZRON
PLACEMENTS ANALYSIS

***** DESCRIPTION *****	***** RENTALS & LEASES *****	***** SALES WITH SERVICE *****	***** SALES WITHOUT SERVICE *****	***** TOTAL PLACEMENTS *****
UNITS	417 =====	472 =====	90 =====	979 =====
%	42.6% =====	48.2% =====	9.2% =====	100.0% =====

NOTE 1 ALL RENTALS & LEASES INCLUDE A SERVICE CONTRACT AGREEMENT

NOTE 2 REVIEW COVERED ALL NEZRON'S ACTIVE AND INACTIVE CUSTOMER FILES

APPENDIX 4

EXDOS/NEZRON
ANALYSIS OF CLIENT BASE - PARTS DEPENDENCY

***** DESCRIPTION *****	***** RENTALS & LEASES *****	***** SALES WITH SERVICE *****	***** SALES WITHOUT SERVICE *****	***** SERVICE WITHOUT SALES *****	***** SUPPLIES *****	***** OTHER *****	***** TOTAL *****
UNITS	417	472	90	566	91	44	1,680
%	24.8%	28.1%	5.4%	33.7%	5.4%	2.6%	100.0%

NOTE 1 ALL RENTALS & LEASES INCLUDE A SERVICE CONTRACT AGREEMENT

NOTE 2 REVIEW COVERED ALL NEZRON'S ACTIVE AND INACTIVE CUSTOMER FILES

EXDOS/NEZRON
MACHINES SERVICED
10 MONTH PERIOD ENDED NOVEMBER 1987, 1988, 1989

***** DESCRIPTION *****	***** PERIOD ENDED NOV 1987 NUMBER % SERVICED *****	***** PERIOD ENDED NOV 1988 NUMBER % SERVICED *****	***** PERIOD ENDED NOV 1989 NUMBER % SERVICED *****	***** TOTAL FOR PERIODS NUMBER % SERVICED *****
MARATHON (POST 83)	107 / 32.0%	174 / 43.7%	256 / 54.9%	537 44.8%
PRE MARATHON SERIES	227 / 68.0%	223 / 56.0%	209 / 44.8%	659 55.0%
OTHER (NON COPIERS)	0 / 0.0%	1 / 0.3%	1 / 0.2%	2 0.2%
TOTAL SERVICE	----- 334 100.0% -----	----- 398 100.0% -----	----- 466 100.0% -----	----- 1,198 100.0% -----

LEGEND

/ AGREED TO WORKING PREPARED BY EXDOS PERSONNEL (M/C SVC 87,88,89)



EXDOS/NEZRON
PURCHASES ANALYSIS

APPENDIX 7

***** DESCRIPTION *****	***** XEROX *****	***** RANK XEROX *****	***** OTHER STILL AVAILABLE *****	***** OTHER NOT AVAILABLE *****	***** TOTAL *****
DOLLARS	179,300 /	7,367 /	89,011 /	16,365 /	292,043
PERCENT	61.40%	2.52%	30.48%	5.60%	100.00%

/ AGREED TO WORKING PAPER PREPARED
BY EXDOS PERSONNEL



EXDOS/NEZROM

PROJECTION OF FINANCIAL EFFECT OF REFUSAL TO SUPPLY - SCENARIO ONE

*****	*****	*****	*****	*****	*****	*****	*****
PART#	DESCRIPTION	MODEL	TOTAL CONSUMPTION Y/E SEP 89	TOTAL CONSUMPTION OCT 1 89 TO FEB 19 90	AVGERAGE MONTHLY CONSUMPTION (ROUNDED)	QTY ON HAND FEB 90	NUMBER OF MONTH OF SUPPLIES
*****	*****	*****	*****	*****	*****	*****	*****
122P60326	EXP LAMP	1025	10.0	4.0	1	1.0	1
125S60365	CHG.COR.ASSY	2830	5.0	9.0	1	3.0	3
125S60366	T./DT/COR ASSY	2830	9.0	16.0	2	0.0	0
126S60506	HEAT ROD	1025	6.0	6.0	1	1.0	1
130S4120	THERMISTOR	1045	12.0	13.0	2	2.0	1
19P60793	FINGER	2830	92.0	103.0	14	12.0	1
19P61089	FNGR/PRESS	1038	87.0	104.0	14	11.0	1
1R64	DRUM	1055	4.0	8.0	1	2.0	2
22S63290	HEAT ROLL	1055	8.0	8.0	1	1.0	1
33S60129	CL BLADE	1055	3.0	10.0	1	0.0	0
33S60137	METER BL	2830	9.0	14.0	2	0.0	0
33S60198	MT BLADE	1055	5.0	9.0	1	1.0	1
33S60271	ADH FEED ROLL	1038	13.0	13.0	2	7.0	4
423W8502	BELT	1045	10.0	17.0	2	8.0	4
55K520	DICORTRON SHIELD	1090	9.0	23.0	3	5.0	2
5P61105	PAPER FEED CLUTCH	1020	4.0	15.0	2	3.0	2
600K3170	DEV REPAIR KIT	1040	5.0	17.0	2	1.0	1
600K6640	WICK ASSY KIT	1045	19.0	20.0	3	2.0	1
600S7077	INVERTER STOP	1075	11.0	11.0	2	1.0	1
6S62590	FEED ROLL	1035	25.0	20.0	3	0.0	0
94K880	CVR WICK	1040	30.0	62.0	7	7.0	1

SOURCE & CRITERIA

SELECTION WAS MADE JUDGEMENTLY AS THE MOST SIGNIFICANT OF TOTAL PARTS INVENTORY WHICH ARE LISTED ON "PARTS CONSUMPTION RATE ANALYSIS FOR NEW TECHNOLOGY XEROX COPIERS" LISTING.

REDUCED WHEN ALTERNATE SOURCES OF PARTS WERE AVAILABLE

REDUCED WHEN ALTERNATE PARTS WERE AVAILABLE

DEPLETING SUPPLIES WERE EXCLUDED

2830 SERIES CONSIDERED AS PART OF XEROX REFUSAL TO SUPPLY PER CHITTENDEN VERIFICATION



EXDOS / NEZRON

PROJECTION OF FINANCIAL EFFECT OF REFUSAL - SCENARIO ONE

of Months of Supplies

5					
4	33S60271 423W8502				
3	125S60365				
2			1R64		
1				22S63290 33S60198	122P60326 126S60506 130S4120 19P60793 19P61089
0			55K520 5P61105	600K3170 600K6640 600S7077 94K880	- 125S60366 - 33S60129 - 33S60137 - 6S62590

PART NUMBER

EXDOS/NEZRON
DAVID WOOD SERVICE CALLS ANALYSIS
SUMMARY

DESCRIPTION	TOTAL CALLS PERIOD OF 12 MONTH ENDING OCT 31			D WOOD TOTAL CALLS PERIOD OF 12 MONTH ENDING OCT 31		
	1987	1988	1989	1987	1988	1989
TOTAL CALLS (PER ANALYSIS)	517	1,196	2,473	135	56	18
D. WOOD CALLS vs TOTAL CALLS (IN PERCENT)				26.11%	4.68%	0.73%
ANNUAL INCREASE		131.3%	106.8%			



**EIDOS/NEZROM
COMBINED GROSS MARGIN
12 MONTH PERIOD ENDED SEPTEMBER 30,**

***** DESCRIPTION *****	***** 1989 *****		***** 1988 *****	
	\$	%	\$	%
*****	*****	*****	*****	*****
REVENUE	2,642,612	100.0%	2,928,022	100.0%
COST OF SALES	938,039		1,453,800	
GESTETNER INVOICES	137,244		0	
FUJITSU INVOICES	31,299		87,138	
TOTAL COST OF SALES	1,106,582	41.9%	1,540,938	52.6%
GROSS MARGIN	1,536,030	58.1%	1,387,084	47.4%



EXDOS/NEZRON
 ESTIMATED LOSS OF NET CONTRIBUTION MARGIN-PARTS SALES
 12 MONTH PERIOD ENDED SEPTEMBER 30, 1989

	***** Y/E SEPT 30 89 1 *****	***** Y/E SEPT 30 88 2 *****	***** DIFFERENCE 2-1 *****
TOTAL EXDOS SALES	405,657 ~	515,367 ~	109,710
LESS; INTERCO	405,828 ~	244,794 ~	(161,034)
SALES TO 3rd PARTIES	(171)	270,573	270,744
MULTIPLIED BY CONTRIBUTION MARGIN RATE (APPENDIX 13)			* 18.1%
ESTIMATED LOST CONTRIBUTION			49,055
LESS; TAXES (@ A RATE OF 25%)			12,264
ESTIMATED LOST NET CONTRIBUTION (AFTER TAXES)			\$36,791

LEGEND

~ AGREED TO COMBINED REVENUE (APPENDIX 14)

EXDOS/NEZRON
PERCENTAGE CONTRIBUTION MARGIN-PARTS SALES

	\$	%
TOTAL SALES PER SAMPLE OF INVOICES	43,754	100.0%
TOTAL COSTS PER SAMPLE OF INVOICES	35,828	81.9%
CONTRIBUTION MARGIN	7,926	18.1%

NOTE

SALES INVOICES FROM THE TOTAL POPULATION WERE
SELECTED JUDGEMENTALY

EXDOS/NEZRON
 COMBINED REVENUE (PER CATEGORY)
 12 MONTH PERIOD ENDED SEPTEMBER 30, 1989 & 1988

DESCRIPTION	YEAR ENDED SEP 30 1989				YEAR ENDED SEP 30 1988			
	EXDOS	NEZRON	INTERCO	TOTAL	EXDOS	NEZRON	INTERCO	TOTAL
	1	2	3	1+2-3	5	6	7	5+6-7
SALES EQUIPMENT	1,216,576 "	494,126 /	316,960 <	1,393,742	1,551,861 "	318,170 /	214,682 <	1,655,349
SUPPLIES & PARTS	405,657 "	245,329 /	405,828 <	245,158	515,367 "	141,682 /	244,794 <	412,255
SERVICE	0 "	758,405 /	0 <	758,405	0 "	379,879 /	0 <	379,879
RENTAL	(33) "	186,384 /	0 <	186,351	5,500 "	358,335 /	0 <	363,835
OTHER	41,789 "	17,167 /	0 <	58,956	111,465 "	5,239 /	0 <	116,704
TOTAL REVENUE	\$1,663,989 "	\$1,701,411	\$722,788	\$2,642,612	\$2,184,193 "	\$1,203,305	\$459,476	\$2,928,022

LEGEND

-
- " AGREED TO EXDOS CLOSING TRIAL BALANCE SUMMARY REPORT
 - / AGREED TO NEZRON MONTHLY TRIAL BALANCE & INVOICES SUMMARY REPORT
 - < AGREED TO EXDOS INTER-COMPANIES TRANSACTIONS REPORT



APPENDIX 15

EYDOS/NEZRON

PROJECTION OF FINANCIAL EFFECT OF REFUSAL TO SUPPLY
SCENARIO TWO

TOTAL COST PAYROLL COST APPLICABLE TO PARTS	51,790
LESS; TAX BENEFIT @ 25%	(12,947)
NET COST AFTER TAXES	38,842
LOST NET CONTRIBUTION MARGIN PARTS SALES PER ANNUM (APPENDIX 12)	36,791
TOTAL LOST PER ANNUM	75,633
PRESENT VALUE FACTOR APPLICABLE FOR 10 YEARS @ 2.5%	8.7521
PRESENT VALUE OF ESTIMATED FUTURE LOSSES	\$661,951

ASSUMPTIONS

1. A PERIOD OF TEN YEARS HAS BEEN USED AS A REASONABLE, FORESEABLE TIME FRAME CONSIDERING THE AGE OF REID AND VAN VELZEN
2. EYDOS AND NEZRON ARE CANADIAN CONTROLLED PRIVATE CORPORATIONS IN ONTARIO ELIGIBLE FOR THE SMALL BUSINESS DEDUCTION OF 25%.

APPENDIX 16

EXDOS/NEZRON
FINANCIAL EFFECTS - COST TO DATE
CALENDAR YEAR PERIODS ENDED DECEMBER 31, 1988 AND 1989

TOTAL

TOTAL PAYROLL COST APPLICABLE TO PARTS	83,945
LOSS MARGIN ON SALE OF PARTS (APPENDIX 12)	49,055

	133,000
LESS; TAX EFFECT @ 25%	(33,250)

NET COST AFTER TAXES	\$99,750

ASSUMPTIONS

SEPTEMBER 1, 1988 IS THE COMMENCEMENT OF THE LOSS BASED ON XEROX NOTICE
DATED AUGUST 1988

EXDOS AND NEZRON ARE CANADIAN CONTROLLED PRIVATE CORPORATIONS
IN ONTARIO ELIGIBLE FOR THE SMALL BUSINESS DEDUCTION OF 25%.

This is Exhibit "B" to the Affidavit
of Donald D. Banks and Michel Lavigne
Sworn before me this 24th day of April, 1990.

DONALD D. BANKS, C.A.

Manager, Forensic Auditing

Michael Kenneth Carson a Commissioner of the
Judicial District of Ottawa-Carleton for
DELOITTE & TOUCHE, Chartered Accountants and
DELOITTE & TOUCHE INC. Trustee in Bankruptcy
Expires February 19, 1991



Professional Experience

Mr. Banks joined the firm as our forensic auditing specialist in January 1986. Mr. Banks has 32 years' experience as a Chartered Accountant, most of them with Revenue Canada, Taxation. Included in his experience at Revenue Canada were terms in middle and senior management positions such as:

- Tax Avoidance Project Leader (Hamilton)
- National Audit Project Co-ordinator
- Chief of Special Investigations (Hamilton)
- Chief of Basic Files (Hamilton)
- Chief of Complex Investigations (Toronto)
- Chief (Director) of Investigations (Canada)
- Special Advisor to the Deputy Minister (Security)
- Director of Security

In the latter three positions he was responsible for developing and recommending policy for the Department in respect of audit and investigation techniques and programs, liaising with the Internal Revenue Service, U.S.A. in exchange of information programs and development of a program for Simultaneous Investigations under the tax treaty, representing Canada at the O.E.C.D. in Paris in respect of tax treaties and exchange of information, developing policies for security of information, personnel and property and organizing and staffing the Security Division.

Special Expertise

- ° Forensic auditing
- ° Investigations involving fraud
- ° Testimony
- ° Teaching forensic auditing

While in the Special Investigations Division of Revenue Canada, Taxation, he conducted or managed approximately 150 tax investigations of which over 100 went to prosecution with a conviction rate of over 97%. As an investigator or supervisor directly involved in the trials, Don testified in 29 contested cases where the defendant was found guilty.

**Deloitte &
Touche**



Since 1961 Don has pioneered the use of Forensic Auditing practices in criminal court, establishing Investigation Auditing Techniques to accumulate evidence sufficiently admissible to prove that a particular person, group or corporation was involved in an offence. These techniques included the use of cash flow, source and application of funds, comparative net worth, statistical projections and oral chains of evidence to establish facts beyond a reasonable doubt where documentary evidence was not available.

In civil court matters Don has testified at District Court, Federal Court and Supreme Court of Ontario. He has assisted counsel at the Ontario Court of Appeal and has assisted and testified at many Examinations for Discovery.

Clients Served

In addition to various police forces in criminal investigations major clients have been law firms where he has provided assistance in civil and criminal matters such as:

- ° loss of income and claims for damages due to negligence, accidents or breach of contract;
- ° tracing income or assets believed to have misappropriated by managers, trustees or employees;
- ° family law investigations to trace excluded property, evaluate businesses and make section 6 elections (F.L.A.);
- ° income tax prosecution defences;
- ° tracing of misuse of government funds.

Education and Professional Designations

- ° C.P.A., University of Toronto, 1957
- ° C.A., Institute of Chartered Accountants of Ontario, 1962

CURRICULUM VITAE

Michel C. Lavigne

2173 Prom. Halifax
Ottawa (Ontario) K1G 2W3
tel.: (613) 521-4364
Né le 17 avril 1959 à Rockland, Ontario
Langues: français et anglais (parlé et écrit)
Marié

Michael Kenneth Carson, a Commissioner etc,
Judicial District of Ottawa-Carleton, for
DELOITTE & TOUCHE, Chartered Accountants and
DELOITTE & TOUCHE INC. Trustee in Bankruptcy
Expires February 19, 1991

This is Exhibit "C" to the
Affidavit of Donald D. Banks
and Michel Lavigne sworn before
me this 24th day of April, 1990,

Michael

ETUDES ET DIPLOMES

Ordre des Comptables Agréés du Québec

Obtenu officiellement la désignation professionnelle de comptable agréé le 6 janvier 1987.

Institut Canadien des Comptables Agréés

Réussi les examens uniformes finaux du C.A. et terminé mon stage d'apprentissage en décembre 1986.

Université du Québec à Hull

Module des Sciences comptables - "coaching" de l'été 1986 en vue de la préparation des examens uniformes finaux.

Université d'Ottawa

Faculté d'Administration, Baccalauréat avec spécialisation en sciences commerciales avec mention Cum Laude (avril 1984)

Faculté d'Administration, Baccalauréat en administration avec mention Cum Laude (avril 1983)

EXPERIENCE

Depuis février 1989

Maheu Noiseux-Collins Barrow (fusionné au groupe Deloitte & Touche)

Chef d'équipe, responsable de la vérification d'une grande société de la couronne. Responsable de la planification, coordination et révision des dossiers de petites et moyennes entreprises.

Responsable de la gestion du personnel de son équipe et de la planification générale du bureau. Coordonateur du programme français de formation de l'examen final uniforme.

Novembre 1987 à janvier 1989

Bureau du Vérificateur Général du Canada

Vérificateur, membre de l'équipe des sociétés de la couronne.

Participation à la vérification d'une grande société de la couronne.

Participation à la vérification d'un petit ministère lors de la vérification des comptes publics. Participation à deux projets spéciaux.



Juillet 1986 à novembre 1987

Samson Bélair

Premier vérificateur, dirige une équipe de vérificateurs assignés à une moyenne entreprise. Participe à la planification, coordination et révision des dossiers. Participation à la vérification d'un minitère lors de la vérification des comptes publiques. Membre de l'équipe fiscale.

Juillet 1985 à juin 1986

Samson Bélair

Vérificateur adjoint, exécution des mandats de vérification et de comptabilité de courte durée dans les petites entreprises. Exécution, sous supervision, de travaux plus complexes dans des moyennes entreprises. Initiation aux autres services offerts par le cabinet. Membre de l'équipe fiscale.

Septembre 1984 à juin 1985

Samson Bélair

Stagiaire, responsable de travaux simples de comptabilité et vérification sous surveillance. Membre de l'équipe fiscale.

Mai 1983 à avril 1984

Service de consultation aux petites entreprises de l'Université d'Ottawa

Consultant, conseiller les dirigeants de petites entreprises dans les diverses fonctions de la gestion et de leur entreprise, plus spécifiquement;

Gestion de l'encaisse et planification financière

Système de tenue de livres

Contrôle des stocks

planification du marketing, distribution et promotion

1979 à 1983

Boutique Zodiaque

Teneur de livre (temps partiel)

ACTIVITES ET INTERETS

Chargé de cour à l'Université d'Ottawa (été 1987)

Bricolage et rénovations domiciliaires

Photographie amateur

Musique: piano, orque et piano électrique

Golf, sqash, racket-ball, ski alpin

