

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO: 36 OF 2009

IN THE MATTER OF the Companies Law (2007 Revision)
AND IN THE MATTER OF Steel Partners II (Offshore) Ltd

PETITION

TO: The Grand Court of the Cayman Islands

THE HUMBLE PETITION of Bank of America, N.A., a United States federally chartered banking institution, as Master Trustee of ACF Master Trust (the "**Petitioner**"), of 300 Broad Hollow Road, Melville, New York, United States of America shows that:

The Company

- 1 Steel Partners II (Offshore) Ltd (previously known as Steel Partners Offshore Fund Ltd) (the "**Company**") is an open-ended investment company incorporated as an exempted company with limited liability under the laws of the Cayman Islands.
- 2 The registered office of the Company is situated at Morgan Stanley Fund Services (Cayman) Ltd, Cricket Square, Hutchins Drive, George Town, Grand Cayman, Cayman Islands.
- 3 The share capital of the Company is US\$50,000 divided into 5,000,000 voting, redeemable, participating common shares of US\$0.01 par value each.
- 4 Pursuant to the Company's Memorandum of Association, the objects for which the Company was established are unrestricted. Pursuant to the Company's Private Placement Memorandum ("**PPM**"), the Company's principal objects are:
 - 4.1 to act as an open-ended investment company;
 - 4.2 to engage in the primary investment objective of capital appreciation; and

- 4.3 to give non-US Persons and US Persons that are Exempt Organisations an opportunity to participate in an investment program that is substantially the same as that of Steel Partners II (Onshore) LP.

The Petitioner

- 5 On or about 1 July 2005, the Petitioner subscribed for 14,941.194379 Class B Series Initial shares in the Company valued as at that date at US\$15 million (the "**Shares**"). The Petitioner's subscription was in accordance with and subject to terms of a subscription agreement in writing dated in or about June 2005 between the Company and the Petitioner.
- 6 The Petitioner acquired and continues to hold the Shares in its capacity as Master Trustee of ACF Master Fund.

Background

- 7 The Petitioner subscribed for the Shares on the basis that, among other matters, pursuant to the Company's Articles of Association (the "**Articles**") and PPM:
- 7.1 the Company was open-ended, such that investors in the Company, including the Petitioner, could redeem their shares;
- 7.2 the Company would diversify its investments. In particular, the Company would not have more than 25% of its net assets invested in "Illiquid Investments and Special Situation Investments"; and
- 7.3 the Company's investment advisor, WGL Capital Corporation (the "**Investment Advisor**"), would be paid an annual management fee of 1.5% of the Company's net asset value ("**NAV**") plus a performance fee.
- 8 At all material times prior to 31 December 2008:
- 8.1 the Company invested the subscription monies which it received from investors (including the Petitioner) in its subsidiary Steel Partners II (Onshore) LP, a Delaware Limited Partnership ("**Steel Partners II (Onshore)**");

8.2 Steel Partners II (Onshore) in turn invested the subscription monies which it received from investors in its subsidiary Steel Partners II Master Fund LP, a Cayman Islands limited partnership (the "**Master Fund**"); and

8.3 the Master Fund in turn invested the subscription monies which it received from investors in its subsidiary Steel Partners II LP, a Delaware Limited Partnership ("**Steel Partners II**")

(together, the Company, Steel Partners II (Onshore), the Master Fund and Steel Partners II are referred to herein as the "**Funds**").

9 Steel Partners LLC ("**LLC**") is the investment manager to Steel Partners II (Onshore), the Master Fund and Steel Partners II but not the Company. As outlined above, WGL Capital Corporation is the Investment Advisor to the Company. Nevertheless, Mr Warren Lichtenstein is the controlling principal of LLC and the Investment Advisor.

10 As a result of the Funds' structure as described above, investors in the Company (including the Petitioner) were at all material times prior to 31 December 2008 indirectly investors in Steel Partners II, which was the ultimate investment and trading vehicle for the Funds.

11 In 2008, the Funds' NAV dropped by approximately 40%. As a result, investors submitted redemption requests to the Funds representing approximately 38% of their NAV. On 30 September 2008, the Petitioner submitted a valid request for the redemption of all its Shares as at the 31 December 2008 redemption date.

12 On 9 December 2008, LLC wrote to "all [its] Partners" and stated, among other matters, "the General Partner has taken the extraordinary step of temporarily suspending all withdrawal rights as it deems the pending withdrawals to be substantially detrimental to the Fund at this time". On the same day, an unsigned letter from the Company's Board of Directors (the "**Board**") was sent to the Company's shareholders noting that they had temporarily suspended redemptions from the Company.

13 On 31 December 2008, LLC wrote again to "all [its] Partners" outlining a plan which, if finally implemented, will fundamentally alter the structure of the Funds as described above in a manner which benefits Mr Lichtenstein's affiliates (including LLC) to the detriment of the

Company and its investors (the "**Plan**"). Although the Petitioner received the 31 December 2008 letter, neither the Petitioner nor the Company are "partners" of LLC.

14 There are at least four stages to the Plan, some of which have already been completed:

14.1 First, the Master Fund's shares in Steel Partners II – which is the ultimate investment and trading vehicle – have been exchanged for shares in WebFinancial Corporation (a virtual shell company incorporated in Delaware), such that Steel Partners II has become a subsidiary of WebFinancial Corporation.

14.2 Second, WebFinancial Corporation has been converted to a publicly traded Delaware limited partnership known as WebFinancial LP.

14.3 Third, WebFinancial LP will enter into (or alternatively, has entered into) a new management agreement pursuant to which the annual management fee will increase from 1.5% per annum to 2% per annum. By its letter of 31 December 2008, LLC noted that the book value of Steel Partners II was approximately \$1.2 billion – such that the proposed increase of the annual management fee by 0.5% equates to an additional US\$6 million being paid annually to Mr Lichtenstein's affiliates.

14.4 Fourth, all investors in the "Steel Partners II feeder funds" (including, presumably, the Company) will have their interests in the Funds "exchanged" with shares or interests in WebFinancial LP (the "**WebFinancial Interests**"). The Petitioner anticipates that the Company will give effect to this exchange by purporting to compulsorily redeem its Shares in the Company and paying the Petitioner's redemption proceeds in kind by distributing to it WebFinancial Interests.

15 The catastrophic consequences of the Plan, if finally implemented (and/or not prohibited), will include that:

15.1 The Company's substratum will be gone. To give effect to the Plan, the Company will purport to redeem all investors. When all investors are redeemed, the Company will no longer be in a position to fulfil its principal objects.

- 15.2 The investors in the Company, including the Petitioner, will cease being investors in the Company, a private open-ended Cayman Islands investment fund, and will become investors in WebFinancial LP, an effectively closed-ended Delaware limited partnership. The investors in the Company will no longer be able to redeem their interests (that is, the WebFinancial Interests). Those interests may or may not be publicly traded on a major exchange: the Investment Advisor has stated that it hopes these interests will be listed on a stock exchange by sometime in June 2008, but that has not yet happened. In any event, the Petitioner anticipates that there will be no or no substantive market for those interests.
- 15.3 The investors in the Company, including the Petitioner, will be required indirectly to pay increased management fees to Mr Lichtenstein's affiliates.
- 15.4 The existing capital in the Company will be permanently locked-up in WebFinancial LP as the WebFinancial Interests will not be redeemable. The holders of WebFinancial Interests will be required to try to sell their interests on the secondary market (to the extent there is one). One effect of this will be that Mr Lichtenstein's affiliates will be guaranteed a 2% management fee plus continued performance fees (in the form of equity in the new company) on locked up capital for multiple years (which fees would no longer be subject to the possibility of reduction due to investor redemptions).
- 16 In short, the Plan, if finally implemented, will cause fundamental and irretrievable harm to the Company to the detriment of the Company's investors, including the Petitioner, to the material benefit of Mr Lichtenstein's affiliates, including LLC.
- 17 Although the Plan is of fundamental importance to the Company, the investors in the Company, including the Petitioner, have received no information or requests for input from the Board in respect of the Plan. Further, the investors in the Company, including the Petitioner, have not been given the opportunity to vote on the Plan. In the circumstances, the Board has shown a complete lack of probity in connection with the Plan.
- 18 In its letter dated 31 December 2008, LLC stated that the Plan had been approved and effected as at 1 January 2009, "subject to post-closing adjustments and confirmation by the

Master Fund on or before June 30, 2009". To date, to the best of the Petitioner's knowledge and belief, the Company has not purported to redeem its investors and the Petitioner remains a shareholder in the Company.

19 For the reasons set out above, there is no appropriate alternative to liquidation for the Company. The Company can no longer carry out the principal objects for which it was formed and the substratum of the Company has failed. Further, the Petitioner has justifiably lost confidence in the Board's conduct and management of the Company's affairs.

20 The shareholders of the Company, including the Petitioner, have a legitimate interest in ensuring that independent liquidators manage the affairs of the Company and investigate the conduct of the Company's directors and service providers, as well as the Investment Advisor, Steel Partners II (Onshore), the Master Fund and Steel Partners II in connection with the Plan and generally.


21 In the circumstances, it is just and equitable that the Company should be wound up.

YOUR PETITIONER THEREFORE HUMBLY PRAYS AS FOLLOWS:

- (1) That the Company be wound up by the Court under the provisions of the Companies Law (2007 Revision).
- (2) That the Court appoint Joint Official Liquidators of the Company (the "**Liquidators**"), and that they have power to act jointly and severally.
- (3) That the Liquidators not be required to give security for their appointment.
- (4) That in addition to all their other powers, the Liquidators do have all the powers set out in Section 109 of the Companies Law (2007 Revision) and may exercise such powers without the sanction of the Court, and for the avoidance of doubt:
 - (a) the Liquidators be at liberty to appoint agents and attorneys, solicitors, barristers and other professionally qualified persons, in the Cayman Islands and elsewhere, to assist them in the performance of their duties on such terms as they think fit and to remunerate them out of the assets of the Company as an expense of the liquidation;

- (b) all the powers bestowed upon the Liquidators may be exercised by them within and outside the Cayman Islands and all such powers may be exercised by all or any of the Liquidators.
- (5) That the Liquidators be entitled to receive remuneration for their services by reference to the time properly given by them and their staff in attending to matters arising in the winding up; and that the hourly rates and the amount of such remuneration be determined in accordance with the Law and Practice Direction number 1 of 2006.
- (6) That a meeting of the Company's shareholders be convened by the Liquidators as soon as reasonably practical and in any event within three months of the date of the winding up order, or as the Court may direct, for the purposes of proposing a resolution of shareholders for the establishment of a liquidation committee comprising of not less than three and not more than five shareholders.
- (7) That the Liquidators do report to this Court within 3 months of the hearing of this Petition, or such other period as the Court may think fit, and thereafter at such intervals as the Liquidators do think fit or as the Court shall direct.
- (8) That the costs of presenting this Petition be paid out of the assets of the Company as an expense of the Liquidation.
- (9) Such further or alternative orders and/or directions that the Court should think fit.

DATED the 23rd day of January 2009


Maples and Calder

NOTE: It is intended to serve this Petition on Steel Partners II (Offshore) Ltd

This Petition is presented by Maples and Calder, attorneys for the Petitioner, whose address for service is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. (Ref: AAG/CPL/648696/15959057)