ROBB EVANS
Receiver of Copeland Beverage Group, Inc.

REPORT OF ACTIVITIES
AUGUST 20, 1999 TO SEPTEMBER 21, 2001

Introduction

This is my report of activities undertaken and completed as Receiver of Copeland Beverage Group, Inc. The report details the remaining limited activities needed to close the Estate, and includes a small budget for same. The report also presents a financial accounting of the estate detailing all receipts and disbursements, including those made for operating expenses, and those made for distributions to the senior secured lender, General Electric Capital Corporation (GECC), and the junior secured lender, Los Angeles Community Development Bank (LACDB). The Claim Administration process has identified a significant group of unsecured creditors who will receive nothing for their unsecured claims that total more than $4.0 million.

Appointment and Initial Actions

I was appointed Receiver of Copeland Beverage Group, Inc. (Copeland) by this court on August 20, 1999. On the same day, my colleagues and I secured control of the premises and bank accounts. During my first meeting with company management, I learned that the company had already delivered a written notice to all employees advising them the company would shut down on the next Friday, August 27th. I also learned there were substantial finished goods ready to be turned over to or shipped to customers. There was also some raw material, including milk, cheese, sour cream, and juice, partially prepared or ready to be prepared for delivery. I instituted 24-hour guard service and closed the secured premises for the weekend.

By the close of business on Monday, August 23rd, I learned I would need to keep about 20 of the 125 employees for three or four weeks to complete production and final shipments. I would then need to keep a further reduced staff to properly shut down the plant and prepare for an auction of the production assets.

Prior to my appointment, all employees had been promised that they would be paid during the week of August 23rd, whether or not they were among the production employees required to report to complete pending production. With the two weeks of held-back pay, the last week of pay, and accrued vacation pay, I needed to assemble more than $460,000 to make all Court approved payments. Those most familiar with the employee and community situation expressed great concern that failure to make the promised salary payments could result in civil disorder. I arranged for emergency temporary financing if needed, from California Bank and Trust Company, to which the fully and senior secured lender, GECC, vigorously objected.

I was able to collect sufficient receivables and did not need temporary financing that week, or at any other time during the operation of the Receivership Estate. Payroll and other staff payments were made on schedule, as promised.

Preparing for and Completing Shutdown

My colleagues and I conferred with Copeland's management and the production and facilities supervisors. We agreed on a declining level of employees that would be needed to load any final sales, and prepare the 300,000 square foot plant to be shut down. We began the week of August 30th with a total of 20 employees, including previous management, on a reducing part-time basis, to provide information and answers when needed. By September 30th, we reduced the total employees to seven, with previous management providing two person days per week. Except for the Production and Facilities Manager and the Controller, all former senior management were separated from the company before the middle of October. The Controller terminated at the end of October. We retained one mechanic and one qualified boiler operator. Both worked under the direction of the Production and Facilities Manager to maintain and

prepare the buildings for turnover to the property owner, to provide heat for the Los Angeles Unified School District (LAUSD), one of two tenants, and to prepare for the scheduled auction of the production equipment.

Sale of Fixed Assets and Turnover of the Premises

During the week of August 23, 1999 I arranged a meeting of Copeland and LACDB management with their counsel, and also included the property owner and GECC. We all agreed that the business appeared to have no "Going Concern" value and it would be unlikely for a single buyer for the land, buildings, and equipment to appear. However, we further agreed that I should seek out any such possible buyers while I made all required preparations to hold an auction of the equipment.

Early in September, I prepared an agreement with Robert Townsend and his organization, RWT Associates, LLP, to locate a buyer for the equipment in place at a price equal to or exceeding the expected auction proceeds. Mr. Townsend was the former CEO of Copeland, and was a long time employee of Knudsen Dairy and Santee Dairy, who sold the business and equipment to Copeland. He was also well known and well respected in the dairy and food processing industry. The Agreement ran for one month to October 15, 1999, 30 days before the scheduled auction. Mr. Townsend followed all leads from any source and made numerous direct calls on companies in the industry. I further agreed to let him continue discussions with a major company up to the weekend before the scheduled auction.

Unfortunately, no offer for the equipment in place ever resulted directly or indirectly from his efforts. We concluded there was no viable interest from any source to continue to use the equipment in place at Copeland's location.

While Mr. Townsend was trying to locate buyers for the equipment in place, I was selecting a qualified organization to auction the equipment. I reviewed proposals from six qualified auctioneers. With no objection from any of the parties or stakeholders, I selected Harry Davis and Company, who had originally appraised the equipment for GECC and LACDB. Davis and company estimated the lowest net auction proceeds would be $3,000,000, the highest, but very unlikely, proceeds would be $4,000,000, and the most likely result would be about $3,500,000. Representatives of GECC, and others, including Robert Townsend agreed these estimates were reasonable.

To properly prepare the plant and the equipment for the auction, and to supervise the removal of the purchased items, I had to hire two additional on-site workers. The Davis company advertised the auction nationwide, in Mexico, and in South America. The auction was completed over two days on November 18 and 19, 1999. The final net proceeds were $4,087,405, well above the most likely estimate.

Removing the large equipment items, and the six 25,000 to 50,000 gallon silos, required the use of qualified riggers and movers. Many of the items had to be removed in sequence, with some triggering extensive repairs to walls and roofs. The property owner previously notified me in writing and in person of his strict requirements for preserving the condition of the premises and preparing the property for turnover to him.

After the holidays, the pace of removing the larger items increased. At the auction, buyers committed for 1,750 Lot items. By December 17, 1999, most activity ceased until after New Year with 609 items still to be removed. Following is a log of the removal activity:

- At January 10, 2000 267 items still to be removed
- At January 28, 2000 164 items still to be removed
- At February 18, 2000 89 items still to be removed
- At March 02, 2000 40 items still to be removed
- At March 15, 2000 34 items still to be removed

In March 2000, I notified all remaining buyers to remove their items by March 30th or lose access to the property through the Receiver. In April, after several site visits with the property owner's representative we agreed on repairs and clean up that would be required to complete the turnover of the premises. The requests were minor and centered on removing debris and trash. There were abandoned containers of oil, cleaning solvents, and other possible toxic materials. I engaged a licensed hazardous materials contractor to remove the materials, a process that required almost a month.

I briefly used an outside cleanup contractor to supplement the Copeland workers, and turned over the property to the owner effective April 30, 2000.

Actions Filed by the Property Owner; Resulting Court Order

On August 25, 1999, the fourth business day of this Receivership, I met with the property owner's representative to discuss the benefit that would accrue to the Estate from the use of the premises, and to seek a framework to work together for our mutual benefit. I had several more meetings with the West Coast and East Coast representative of the property owner, sometimes with his counsel present. From the beginning of discussions, the property owner wanted the Estate to pay the full reserved rent documented in the lease with Copeland. That rent was $150,000 each month, payable in advance on a quarterly basis. In September 1999, the property owner proposed reducing the monthly rent to $75,000, but that proposal was removed from papers later filed by him. The property owner was also the beneficiary of an irrevocable Letter of Credit in the principal face amount of $1,800,000, which he considered additional collateral and against which he refused to draw upon for any agreed-upon rent.

I proposed paying the equivalent of $75,000 monthly for the 40 days from August 20, 1999 to September 30, 1999 while the Receivership was finishing production and preparing the facilities for shut-down. I further proposed paying the property owner storage value rent for the premises of $15,000 each month, and turning over the net rent from the two sub-tenants. The property owner asked that the Estate pay the full reserved rent and property taxes until the entire premises were surrendered. The Court agreed with my request and I operated under that Order until I turned over the property.

Liquidation of Other Assets

The accounts receivable existing on August 20, 1999, and those created during the shut-down phase have all been collected, except for about $12,000. I entered into a settlement with the largest account debtor, Northern Lights, reducing the $286,401 account to $257,761, which was approved by this Court. The remaining receivables are claiming offsets and have not responded to initial demands for payment from my attorney. Further collection work by my office is not cost-justified.

The inventory, valued at about $2.0 million on August 20, 1999, proved to be much more difficult to liquidate than the receivables. Included in the total were packing materials valued at about $900 thousand. These materials included many stamped or printed paper and plastic packing and shipping supplies. We were unable to use or sell most of these items and received only scrap value for some of them.

On September 8, 1999, company management and senior personnel prepared an estimate of the expected liquidation of milk, fruits, flavors, and other inventory items. The personnel believed there could be about a 30% realization on items valued at about $800 thousand. The final liquidation produced about $225 thousand.

Spare parts were carried on the balance sheet at $428 thousand. These items were replacement parts, motors, gears, and other items for the operating production equipment. There was no market for these parts except those persons attending the auction and buying the associated equipment, or already owing such equipment. Some of the parts sold during the auction. A few parts were paired with and sold with associated equipment items. We were forced to abandon many of the spare parts.

The office equipment, including some obsolete computers and ordinary office desks and chairs, were sold at a separate, publicized auction that was well attended. Sales proceeds totaled $17,000.

All prepaid items, deposits, and other asset items, including booked insurance claims, were reviewed and liquidated whenever possible. I collected $154 thousand from pending insurance claims.

Information Developed for the LACDB

At the request of the LACDB, I reviewed Copeland's files and accounting records and interviewed certain former employees to determine why the company was unable to achieve financial viability during its last year of operations.

The information we have gathered indicates that in October 1998, Copeland did prepare a revised business plan, which was approved by the LACDB on October 23, 1998. Information given to us states that the October 23rd plan incorporated the goal of finding either a substantial merger partner, or achieving the sale of the company by January 30, 1999. The plan also noted the company required a "Bump" in sales to complete either a merger or sale. The bump in sales was to come from two small acquisition candidates.

Shortly after the approval, John Grayson assumed the title and duties of Chief Executive officer. It is our understanding that Robert Townsend reduced his participation in company management and intended to limit his activities to searching for suitable merger candidates or a qualified buyer for the company. Reportedly, he was never authorized to look for a sale or merger opportunity.

The files indicate that on January 15, 1999, Copeland prepared an "update" to the October 23, 1998 business plan. The January 1999 document did not mention selling Copeland or merging Copeland into another company. Instead, the discussion focused on expanding acquisition efforts to five targets totaling $60 - $80 million. The plan also requested acquisition funding of $9.9 million and additional working capital funding of $2.2 million to carry operations to June 30, 1999.

On April 12, 1999, Copeland prepared another revised business plan. This updated plan continued to discuss acquisitions. There was no mention of selling or merging Copeland. In this plan, the acquisition-funding request was $11.5 million, and the additional working capital request was $5 million, to carry operations through December 31, 1999.

The October 23, 1998 business plan had provided $5 million for working capital, which was apparently intended to carry the company through a merger or sale. For the six months ending December 31, 1998, Copeland had lost $6.8 million, and was losing money at the rate of more than $1.0 million each month. By January 21, 1999, the undisbursed loan funds were reduced to $3 million. By February 19, 1999, the undisbursed portion was $1.2 million, and in March 1999, the balance of the loan funds was consumed.

By June 30, 1999, the twelve-month loss was $13.3 million. Retained earnings reached a negative $17.3 million. The shift in direction and goal, from an effort to sell the company or merge it with another by January 1999, clearly contributed to an increase in the cumulative operating loss.

Also at the request of the LACDB, my staff completed and forwarded a report titled *Summary of Receipts and Disbursements*. The report presented a framework to view and evaluate the thousands of transactions carried in hundreds of lines in the general ledger of Copeland. The report included a schedule of each loan transaction, with a full reconcilement to the records of both Copeland and LACDB. Following are the procedures performed by my staff to prepare the Summary of Receipts and Disbursements.

1. Completed a full download of all disbursements and receipts from Peachtree Accounting System from June 1997 through September 1999.
2. On a sample basis, reviewed invoices selected from the downloaded data. The invoices reviewed appeared to be properly paid.
3. Analyzed each and every debit and credit in the downloaded data and placed them in suitable account classifications.
4. Grouped and summarized all transactions by accounts, for the total period and for each month.
5. Reconciled the downloaded transactions summary to the bank account balance.
6. Reconciled each loan transaction to the records of Copeland and to the records of LACDB. Prepared a schedule of classification differences totaling $145,120.

The report showed that from June 1997 through September 1999 Copeland disbursed $57.8 million for payroll, inventory, plant equipment and maintenance, office expense, and loan interest. Sales and other income provided only

$34 million. The balance of the disbursements, about $24 million, were funded by loan proceeds from GECC and LACDB.

Summary of Receipts and Disbursements From August 20, 1999 to September 15, 2001

A Summary of Receipts and Disbursements and a detailed list of disbursements are under Tab 1. The detailed listing is divided between the following activity periods:

- Payments due August 27,1999 that were required by prior agreements.
- Disbursements during the final operating and shut-down period prior to the scheduled auction.
- Expenses related to the November 1999 auction of equipment and the following removal process.
- Cost of the Receivership Administration related to the same activity periods.
- Residual business operating costs and cost of the Receivership Administration for the period after April 30, 2000.

Based on the unsuccessful attempts to find a viable operator to take over the operations combined with the early estimates of the ultimate liquidation value of the fixed assets and inventory and the potential claims against the assets of the company, I did not anticipate a significant recovery for the creditors. However, as can be seen from the financial detail under Tab 1, GECC was paid in full and the LACDB will be paid nearly $2 million.

Issues that Prolonged Closure of the Estate

As detailed above, the major activities to liquidate assets were completed by April 30, 2000. However, other issues remained and required resolution prior to closing the Estate and making a final distribution to the LACDB.

The Security Milk Producers Association filed suit against the LACDB and Copeland for unpaid invoices and under a guaranty previously signed by the LACDB. The matter was settled by the LACDB and the Receivership Estate made a payment of $250,000 to the Security Milk Producers Association in August 2000.

I filed an $82,000 claim against one of Copeland's insurance companies for premium refunds which arose post-receivership. The insurance company claimed a pre-receivership offset for additional premiums due for a worker's compensation policy. After many months of pursuing this matter, the insurance company notified my counsel in mid-2001 that it had rejected my claim. My counsel advised me that the cost and risk associated with protracted litigation would not be warranted and that I should abandon this claim.

Pending resolution of the above insurance matter, I pursued other potential claims on behalf of the Receivership Estate.

The largest unliquidated deposits, $200 thousand with the Los Angeles Department of Water and Power, and $15,000 with the Southern California Gas Company were improperly set off by them for pre-receivership liabilities.

After unsuccessful attempts to collect the deposit with the Los Angeles Department of Water and Power, the matter was referred to the LACDB for consideration. In mid-2001, the LACDB concluded that they were not able to pursue this deposit and that it would not be cost-beneficial for the Receivership Estate to continue to pursue the deposit.

The Southern California Gas Company rejected my claim on the deposit. Upon further analysis, I determined it would not be cost effective to litigate this matter.

I allowed the property owner to use a boiler to supply heat to his tenant, the LAUSD. Previously, the property owner erroneously claimed the boiler was his because it was part of the heating and air conditioning system. Actually, the boiler was an essential component of the manufacturing process, and furnished steam heat for the subtenant only as an incidental by-product. The amount in dispute was about $35,000 and the property owner refused to enter settlement discussions. I have concluded that it would not be cost effective to pursue litigation of this matter.

Actions Required to Close the Estate

Very few additional activities are required to close this Receivership Estate.

Federal and State tax returns for 2000 and closing tax returns for 2001 will be completed and filed.

I have developed and allowed claim for a list of unsecured claimants based on the books and records of Copeland Beverage Group and supplemented by correspondence and documents provided by them and others. All unsecured creditors will be notified with the filing of this report that there are no funds available to pay their allowed claims. Federal and State tax authorities will also be notified of the closure of the Receivership Estate.

There is litigation filed by and against the LACDB related to Copeland. I will develop consensus among the parties about who should hold the computer and paper records now held in my office. The LACDB holds a perfected security interest on all assets and probably owns the company's books and records.

Proposed Final Budget

The budget to complete the estate is $28,500. This amount includes about $15,500 for my accounting firm to complete the 2000 tax filings and a closing tax return. It also includes an estimate for my colleague's time to conclude negotiations for records retention and the time required to attend a hearing to close the Estate, if the Court chooses to conduct a hearing. Any residual funds of the Estate will be distributed to the LACDB because its unpaid allowed secured claim exceeds remaining assets.

Requests of the Court

The Court is respectfully requested to:

1. Approve this Report and confirm the actions of the Receiver described therein.
2. Authorize payment of the expenses of the Receiver as detailed under Tab 2.
3. Upon faithful completion of the above items to discharge and relieve Robb Evans as Receiver, his agents, employees and representatives of all duties, liabilities and responsibilities and exonerate the Receiver's bond.

Respectively submitted,

Robb Evans
Receiver