

ROBB EVANS
Receiver of Semco Laser Technology, et al.

Second Report to the Court
As of December 31, 2002

Final Report and Final Accounting

RECEIVERSHIP ACTIVITIES SINCE THE FIRST REPORT

On March 25, 2002 this Court appointed Robb Evans as Receiver of Semco Laser Technology, Inc. (the Company or Semco). On July 3 the Receiver filed his first report and a request for instructions. In that report the Receiver concluded the Company was not financially viable and the appraised value and the expected net sale proceeds of its assets were likely below the total of its secured liabilities, and far below the total of all liabilities.

The Receiver also reported that the company continued to process orders with a reduced work force to help provide funding required for rent, insurance, utilities, and environmental and safety requirements. Maintaining the processing operation also kept open the slim possibility that a letter of intent from a foreign company, for an amount far in excess of other expressions of interest, might develop into an actual offer to purchase Semco's assets and operations. The proceeds from sales generated by processing orders, together with periodic advances from shareholders, funded the continuing operation.

The Receiver's Report, supplemented by the Receiver's presentation to the Court at the July 18, 2002 hearing revealed that the appraised value of Semco's assets was \$5.56 million but the liquidation value was only \$930 thousand. The Court approved the Receiver's request to engage a worldwide appraisal and marketing firm to promote an auction to the international market in an effort to realize sale proceeds greater than the liquidation value and higher than the current offers.

The firm retained by the Receiver created and implemented a marketing and promotion campaign to advertise the Semco assets for sale in a sealed bid process. The marketing efforts included the following:

- 16,000 domestic and international letters with color flyers
- Two System Wide Broadcast Emails to 10,000 on mailing lists
- 170 Telemarketing Calls to potential prospects
- Three domestic and international web sites posting the sale announcement
- Display newspaper advertising in Los Angeles, San Jose, and Hong Kong

The marketing efforts resulted in 129 inquiries. The firm mailed out 28 bid packages. However none of the 28 parties that requested a bid package returned a sealed bid. Consequently, after a domestic and international marketing and promotional campaign, the Receiver received sealed bids from only the three parties originally interested. Although the Receiver continued to maintain contact until the bidding deadline with the interested foreign company that had submitted a letter of intent, that company did not submit a bid.

The Receiver accepted the following bids:

- \$1,800,000 for the Semco assets located in the City of Industry facility
- \$200,000 for the Semco assets located in the Baldwin Park facility
- \$30,000 for Semco's interest (subject to existing claims and liens) in assets located in the China facility

On October 17, 2002 this Court approved the sale of the Semco assets located in the City of Industry facility, the Baldwin Park facility, approved the cash settlement with three creditors, and approved the return of equipment to two other creditors. The Court also ordered that the sale proceeds be held subject to further Order of the Court. Since that

Court approval the Receiver has communicated with the ten secured creditors that remained after the Court approved cash settlements and return of equipment to other creditors. The ten remaining secured creditors have now each agreed to accept the pro rata share of net proceeds proposed by the Receiver.

The net proceeds of sale of the City of Industry assets, after repayment of Receivership expenses, are approximately \$1,300,000. The major expenses incurred by the Receivership during its nine-month history, totaling approximately \$550,000, were as follows:

1.	Repayment of post-receivership loans to operate Semco	\$243,200
2.	Repayment of advances from General Bank	\$36,403
3.	Auction expenses	\$54,672
4.	Mechanic's lien settlement	\$16,000
5.	Credit/Reserve for post-receivership operations after use of \$30K received for interest in China facility	\$(13,708)
6.	Receivership administrative expenses (including attorney fees and costs of \$78K, sundry expenses of \$7,500)	\$218,988
	TOTAL	\$555,555

The Baldwin Park assets were sold for \$200,000 (compared to a fair market value of \$259,800 and a liquidation value of \$124,500). Those sale proceeds therefore comprise 10% of the total sale proceeds. Therefore, 10%, or \$50,000, of the costs of the Receivership estate is being charged against that sale amount. General Bank is the only lien claimant as to the Baldwin Park assets, and will receive the net proceeds. The remaining \$500,000 in costs, as described above, is therefore being charged against the City of Industry sale proceeds.

The Receiver initially considered two different approaches to allocation of the City of Industry net proceeds. The first approach was to distribute pro rata, based on fair market value of the assets. The fair market value, according to the appraiser retained by the Receiver, is \$5,239,000. The second approach was to distribute pro rata, based on each claimant's principal loan/lease balance, net of deposits held. According to the figures on Semco's books at the inception of the Receivership, the total principal loan balances totaled \$5,130,953.

The Receiver proposes to balance the two approaches, by giving 2/3 weight to the fair market value, and 1/3 weight to the loan/lease balance. This is based on the view that market value was a far more important consideration to the buyer in determining the sale price, while still giving some weight to the creditors' loan/lease balances. Thus, the pro rata distribution to the secured creditors is around 25%.

Following is a list of unpaid City of Industry secured creditors, and the Receiver's proposed distribution that each has agreed to accept for its claim on the net proceeds. Secured creditors who received payment pursuant to the Court Order described above are also included on this chart.

Amembal Capital Corp.	13,163.30
Atlas Commercial Finance, LLC	12,752.83
Fisher Anderson (Paid by Agreement)	15,000.00
GE Capital (Paid by Agreement)	80,000.00
General Bank	813,215.07
Grand Pacific Financing Corp.	288,754.76
Information Leasing Corp.	6,454.33
Irwin Union Bank and Trust Co.	12,020.70
Landmark Financial Corp.	6,462.81
NEC America, Inc.	1,664.84
Quintel Corporation (Paid by Agreement)	20,000.00
Santa Barbara Bank & Trust	5,000.65

Total**1,300,000.00**

After the distribution of the City of Industry net proceeds of \$1,300,000 and the distribution of the Baldwin Park net proceeds of \$150,000, there are no funds available for additional payments to secured creditors, or for any payments to unsecured creditors and shareholders.

The following creditors have security interests in equipment located at Semco's facility in China. The Receiver has confirmed the location of the equipment from Semco's books and records and from interviews with company officers.

NAME	AMOUNT CLAIMED
BSB Leasing Inc.	\$60,724.20
JDR Capital (Citicorp Vendor Finance)	\$29,403.91
JLA Credit Corp. (Citicapital)	\$56,183.98
Old Kent Leasing	\$28,871.12
Sovereign Bank	\$29,499.81

The Receiver did not sell any of this equipment, none of the net sale proceeds is related to such equipment, and the listed creditors will not receive any of the proceeds. The Receiver sold only Semco's interest in the assets at the China facility, subject to all existing liens and claims. The creditors may exercise any remedy available to them.

ADMINISTRATIVE EXPENSES

Under Tab 1 is the report of expenses for the period of July 1, 2002 through December 31, 2002, and a recap of receivership expenses over its nine month life. Receivership expenses of \$218,988 include \$78,188 for legal fees and costs. The Receiver has carefully reviewed the statements submitted by his attorney. The hourly rate, and all the documented activities, are appropriate and accurate. The Receiver's fees for the nine months are less than \$8,000. The detail of the fees for the Receiver's staff is provided under Tab 1.

REQUEST

The Receiver respectfully requests that:

1. The actions and activities undertaken and completed by the Receiver be approved;
2. The expenses of the Receivership, including the Receiver's fees and expenses, those of his staff and his attorney, post-Receivership advances, auction expenses, and other expenses, be approved for payment;
3. The proposed distributions of the City of Industry net proceeds to the secured creditors, which have been accepted in writing by each secured creditor, be approved for payment;
4. The proposed distribution of the Baldwin Park net proceeds to General Bank be approved for payment;
5. The sale of Semco's interest (subject to existing claims and liens) in assets located in the China facility for \$30,000 be approved;
6. The Court accept this Final Report and accounting, terminate the Receivership, discharge the Receiver from his duties and responsibilities, release the Receiver and his staff from all liability, and exonerate the Receiver's and Plaintiff's bonds.

Respectfully Submitted

Robb Evans, Receiver