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8 **SUPERIOR COURT OF CALIFORNIA**  
9 **COUNTY OF LOS ANGELES, EAST DISTRICT**

10 CATHAY BANK., a California banking  
11 corporation,

12 Plaintiff,

13 v.

14 K2DC HOLDINGS, LLC, a Maryland limited  
15 liability company; and DOES 1 through 100,  
16 inclusive,

17 Defendants.  
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CASE NO. KC 053283 H

Assigned to Hon. Bruce R. Minto, Dept H

**STIPULATION FOR AN ORDER (1)  
APPROVING FINAL REPORT OF  
RECEIVER'S ACTIVITIES &  
ACCOUNTING FROM INCEPTION  
THROUGH AUGUST 31, 2008,  
INCLUDING THE RECEIVER'S  
REQUEST FOR DISCHARGE SET  
FORTH THEREIN; (2) DISCHARGING  
THE RECEIVER; AND (3)  
EXONERATING THE RECEIVER'S  
BOND AND PLAINTIFF'S BONDS; AND**

**ORDER THEREON**

1 This Stipulation is entered into by and among Robb Evans and Associates LLC, the duly  
2 appointed and acting receiver ("Receiver") for defendant K2DC Holdings ("K2DC"), plaintiff  
3 Cathay Bank ("Bank"), and defendant K2DC, in consideration of and reference to the following:

4 **RECITALS**

5 A. By order entered July 1, 2008, in this action, the Court appointed the Receiver as  
6 the receiver for K2DC.

7 B. By order entered August 8, 2008, in this action, the Court approved the Receiver's  
8 sale of K2DC's business assets to WNHL, Inc. for \$1 million, with the net proceeds payable to the  
9 Bank in partial satisfaction of the amount owing to it as the priority secured lender.

10 C. As discussed in detail in the Final Report of Receiver's Activities & Accounting  
11 from Inception through August 31, 2008 ("Final Report") (attached hereto as Exhibit A), the  
12 Receiver has paid all post-receivership debts and expenses that it incurred, and included all  
13 vacation pay and other amounts due to the employees. The Receiver also paid medical insurance  
14 premiums through August 2008 and explained the employees' rights under the Health Insurance  
15 Privacy and Portability Act.

16 D. The Receiver has incurred fees and expenses as summarized in Receivership  
17 Expenses from Inception (July 1, 2008) to August 31, 2008 and Closing, and which fees and  
18 expenses are detailed in the Receiver's invoices ("Final Receivership Expense Report") (attached  
19 as Tab 1 to the Final Report, Exh. A hereto).

20 E. As reflected in the Final Report, the Receiver took control of cash balances totaling  
21 \$39,895.76, and while the receiver was operating the business, cash collecting exceeded operating  
22 expenses by \$97,857.88. After deducting the actual receivership expenses and the estimated  
23 expenses to close the estate totaling \$52,160.06, the Receiver will turnover \$85,593.58 to the Bank  
24 as primary secured lender for K2DC. In addition, any amount unused for estimate expenses will  
25 also be turned over to the Bank.

26 F. Because the amount owing to the Bank by K2DC exceeded \$3.8 million, the net  
27 sale proceeds from the asset sale were insufficient to pay off the secured debt; consequently, there  
28 are no proceeds or other assets available to pay any other creditors.

1 G. Except as specified above, there are no remaining assets of K2DC for use in  
2 satisfying any of its remaining debt to the Bank.

3 H. Based on the facts specified herein, the Receiver provided notice to all junior  
4 secured and unsecured creditors of K2DC of the intent of the Receiver and the parties to submit  
5 this Stipulation no less than 10 days after providing all such creditors notice of this Stipulation (a  
6 copy of the Notice of Stipulation, including proof of service, is attached hereto as Exhibit B).

7 NOW THEREFORE, with reference to the facts set forth above, the Receiver, K2DC and  
8 the Bank stipulate and agree as follows:

9 **STIPULATION**

10 1. That the actions and accounting of the Receiver, as described in the Final Report,  
11 be approved and ratified;

12 2. That the Court approve payment of the final receivership expenses as described in  
13 the Final Report and the attachments thereto;

14 3. That the Court authorize the Receiver to remit to the Bank the funds of \$85,593.58  
15 plus any unused expenses after payment of receivership expenses in full;

16 4. That the Court authorize the Receiver to abandon the books and records of K2DC  
17 not claimed by the Bank or WNHL, Inc.;

18 5. That the Court discharge and relieve the Receiver, and its members, officers, agents  
19 employees, attorneys and representatives of all duties, liabilities and responsibilities in this action;

20 6. That the Court exonerate the Receiver's bond;

21 7. That the Court exonerate each of the Bank's bonds; and


22 8. That the Court approve the limited notice procedure to the junior creditors as  
23 described above and completed by the Receiver's service of the Notice of Stipulation.

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**WHEREFORE**, the Receiver, K2DC and the Bank respectfully stipulate and ask that the Court enter its order accordingly.

DATED: October \_\_, 2008

ROBB EVANS & ASSOCIATES LLC

By:   
KENTON JOHNSON  
Deputy Receiver

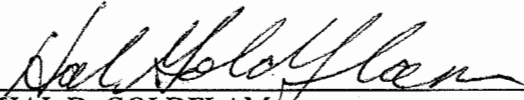
DATED: July \_\_, 2008

STUTMAN TREISTER & GLATT, A  
PROFESSIONAL CORPORATION

By: \_\_\_\_\_  
GARY E. KLAUSNER  
Attorneys for Defendant K2DC Holdings, LLC

*November 4*  
DATED: October \_\_, 2008

FRANDZEL ROBINS BLOOM & CSATO, L.C.  
MICHAEL GERARD FLETCHER  
HAL D. GOLDFLAM

By:   
HAL D. GOLDFLAM  
Attorneys for Plaintiff Cathay Bank



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**ORDER**

Based upon the Stipulation by and among the Receiver and the parties, and finding good cause therefore, IT IS HEREBY ORDERED THAT:

1. The Final Report is approved and ratified in its entirety, including the activities and accounting described therein;
2. The Receiver is authorized to make payment of the final receivership expenses as described in the Final Report and the attachments thereto, and such payment is hereby approved;
3. The Receiver is authorized to remit to the Bank the funds of \$85,593.58 plus any unused expenses after payment of receivership expenses in full, and such payment is hereby approved;
4. The Receiver is authorized to abandon the books and records of K2DC not claimed by the Bank or WNHL, Inc., and such abandonment is hereby approved;
5. The Court discharges and relieves the Receiver, and its members, officers, agents employees, attorneys and representatives of all duties, liabilities and responsibilities in this action;
6. The Receiver's bond is exonerated;
7. The Bank's bonds, and each of them, are exonerated; and
8. The Receiver's Notice of Stipulation served on the interested parties listed in the proof of service accompanying the Notice of Stipulation is hereby deemed sufficient and is approved.

Dated:

\_\_\_\_\_  
R. BRUCE MINTO  
JUDGE OF THE SUPERIOR COURT

**ROBB EVANS & ASSOCIATES, LLC**

Receiver of  
K2DC HOLDINGS, LLC dba  
Kings Two Dental Supply

**FINAL REPORT OF RECEIVER'S ACTIVITIES & ACCOUNTING  
FROM INCEPTION THROUGH AUGUST 31, 2008**

**Summary of Activities**

This is the first and final report and accounting to the Court. The Receiver<sup>1</sup> has completed its duties required by the orders issued by this Court. The purpose of this report is to provide a summary of major issues confronted and addressed by the Receivership Estate and the liquidation and resolution of the business enterprise. This report also presents a final accounting, and requests payment of the Receiver's fees and out-of-pocket expenses, the discharge of the Receiver, and the exoneration of the bond.

After its appointment on July 1, 2008, the Receiver met with the sole officer and shareholder of the debtor and inspected the premises, the inventories, and the dental equipment. The Receiver reviewed the QuickBooks accounting records and subsidiary ledgers, which were complete and posted up to date. The Receiver quickly learned that the company was hopelessly insolvent.

As of June 30, 2008 the company had total liabilities of \$6.8 million and a deficit net worth of \$3.9 million. For the six-month period, total sales were \$4.5 million, creating a net loss of \$609,000. During discussions of the financial records and assets with the officer and shareholder he indicated the inventory figure of \$2.5 million was probably overstated by 20% to 25% because of problems with a conversion of the perpetual record-keeping system. He also disclosed that accounts receivable of \$750,000 were also subject to a 25% reduction because of uncollectible accounts.

The Receiver determined that liquidating the business was the only workable option to create a substantial payment on the secured debt held by the plaintiff, Cathay Bank. The Receiver considered collecting the receivables and hiring a sales team to try to sell the inventory of supplies and dental equipment with quasi-retail prices to existing and new customers. Initially, the Receiver believed this sale method would

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<sup>1</sup> Reference to the Receiver in this report means the Receiver, the Receiver's Officers and staff, and its counsel.

produce greater net proceeds than the offers previously received for the entire operating business.

However the Receiver discovered that much of the inventory was not fresh and it would be very difficult to sell dental equipment without installation, warranty, or after-sales service. Based on the anticipated reduced prices, and the cost of completing such a sales campaign, the Receiver decided to keep the business operating and seek better offers than previously presented for the entire operating business.

The Receiver located the names of all local dental supply competitors and made contact with each of them. The Receiver also made contact with a company that previously agreed to purchase the business and then canceled. A total of five companies either inspected the inventory, or reviewed the accounting information. After about 10 days, the Receiver determined that none of the potential prospects would make an offer for the business assets and confirmed the lack of interest with personal contact.

The Receiver renewed contact and discussions with the former owner of the business, who previously sold the trade name and business assets to the existing debtor. Earlier, the former owner had offered \$800,000 to repurchase the business assets and trade name. After lengthy and intense negotiations the Receiver and the former owner concluded a sale of the business assets to the prior owner for an immediate and full payment of \$1,000,000. The sale was concluded after notice to all parties as required by the Court Order and approval by this Court of a stipulation by all parties approving the sale and its terms.

While the Receiver was seeking buyers for the business assets and then negotiating and concluding the sale to the prior owner, the Receiver operated the business with a reduced staff, and preserved cash by following up on receivable collections and making additions to inventory only for pre-ordered and prepaid transactions. During the period of the receivership, from July 1, 2008 through August 8, 2008, the Receiver paid all post-receivership debts and expenses that it incurred, and included all vacation pay and other amounts due to the employees. The Receiver also paid medical insurance premiums through August 2008 and explained the employees' rights under the Health Insurance Privacy and Portability Act (HIPPA).

## **Administration of Creditor and Other Claims**

Because the amount owing to the priority secured lender, Cathay Bank, was about \$3.8 million, the net sale proceeds of \$1.0 million were insufficient to pay off the secured debt, and none of the sale proceeds or remaining cash was available for other creditors. The Receiver is providing notice to all creditors of the hearing for the final report and accounting, will post this report on the Receiver's web site, and will provide a full copy of the report upon request. The notice to the creditors includes a statement that the secured debt of the primary secured lender was not paid in full and no proceeds are available to pay other creditors.

## **Financial Report**

Under Tab 1 is the Receiver's Final Receivership Expense Report. The Receiver took control of cash balances totaling \$39,895.76. While the Receiver was operating the business, cash collections exceeded operating expenses by \$97,857.88. After deducting the actual receivership expenses and the estimated expenses to close the estate totaling \$52,160.06, the Receiver will turnover \$85,593.58 to the primary secured lender and plaintiff, Cathay Bank. Additionally, any amount unused for estimated expenses will also be turned over to the plaintiff. The net sales price of \$1,000,000 for the business assets was paid directly to Cathay Bank.

## **Requests of the Court**

The Court is respectfully requested to:

1. Approve this Report and confirm the actions of the Receiver described therein.
2. Approve payment of the expenses of the Receiver as detailed under Tab 1, Receivership Administrative Expenses from Inception to Closing.
3. Authorize the Receiver to abandon the books and records of the Receivership Defendants not claimed by the new owner or the debtor.
4. Discharge and relieve Robb Evans & Associates LLC as Receiver, and its members, officers, agents, employees, attorneys and representatives of all duties, liabilities and responsibilities, and exonerate the Receiver's bond.

Respectfully submitted,

/s/

Robb Evans & Associates LLC  
Receiver

**TAB 1**

Robb Evans & Associates LLC, Receiver of K2DC Holdings LLC

Receiver's Fees & Expenses

From Inception (July 1, 2008) to  
August 31, 2008 and Closing

	Jun 30, 08	Jul 31, 08	Aug 31, 08	7/1/08- 8/31/08	Estimate to Close	TOTAL
Receiver's Fees & Expenses						
Receiver Fees						
Receiver						
R. Evans	0.00	468.00	108.00	576.00	360.00	936.00
K. Johnson	1,386.00	14,049.00	6,867.00	22,302.00	2,100.00	24,402.00
A. Jen	0.00	12,894.00	8,148.00	21,042.00	2,520.00	23,562.00
Total Receiver	1,386.00	27,411.00	15,123.00	43,920.00	4,980.00	48,900.00
Accounting						
C. DeCius	0.00	15.00	30.00	45.00	375.00	420.00
Total Accounting	0.00	15.00	30.00	45.00	375.00	420.00
Supporting Staff						
Total Receiver Fees	0.00	662.60	964.60	1,627.20	360.00	1,987.20
Receiver Expenses						
Office Telephone & Supplies	0.00	0.00	40.06	40.06	129.43	169.49
Out of Pocket Expense	0.00	351.00	0.00	351.00	0.00	351.00
Postage	0.00	1.26	131.11	132.37	100.00	232.37
Bond Premium	0.00	100.00	0.00	100.00	0.00	100.00
Total Receiver Expenses	0.00	452.26	171.17	623.43	229.43	852.86
Total Receiver's Fees & Expenses	1,386.00	28,540.86	16,288.77	46,215.63	5,944.43	52,160.06