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10 **UNITED STATES DISTRICT COURT**
11 **CENTRAL DISTRICT OF CALIFORNIA**
12 **WESTERN DIVISION**

13 FEDERAL TRADE COMMISSION,

14 Plaintiff,

15 v.

16 JASON CARDIFF, et al.,

17 Defendants.
18

Case No. 5:18-cv-02104-DMG-PLA

**RECEIVER’S JANUARY 22, 2021,
VPL OPERATING REPORT**

Hon. Dolly M. Gee

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20 **TO: THE HONORABLE DOLLY M. GEE, JUDGE OF THE UNITED**
21 **STATES DISTRICT COURT:**
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24 **COMES NOW** Robb Evans & Associates, LLC, the duly appointed Receiver
25 in this matter ("Receiver"), and reports to the Court on the status of the operations of
26 VPL. In its September 9, 2020, Order, the Court directed the Receiver to file status
27 reports every 60 days “to provide updates on VPL’s business operations,
28 income/expenses, and earnings projections.”

1 The Receiver’s third status report on VPL operations as directed by the Court,
2 dated January 22, 2021, is attached hereto.

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4 DATED: January 22, 2021 FRANDZEL ROBINS BLOOM & CSATO, LC

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7 By: /s/ Michael Gerard Fletcher
8 MICHAEL GERARD FLETCHER
9 Attorneys for Robb Evans & Associates
10 LLC, Acting in its capacity as the duly
11 appointed Receiver over VPL
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EXHIBIT

**Robb Evans & Associates LLC
Receiver of
Redwood Scientific Technologies, Inc. et al.
and
VPL Medical, Inc.**

**RECEIVER'S REPORT OF VPL MEDICAL, INC.
UPDATE ON OPERATIONS
Dated January 22, 2021**

Overview

In its September 9, 2020, Order, the Court directed the Receiver to file status reports every 60 days “to provide updates on VPL’s business operations, income/expenses, and earnings projections.”

This is the third status report on VPL operations as directed by the Court.

The VPL Executives and Their Salaries

Jason Cardiff (Executive Vice President) and Bobby Bedi (Chief Executive Officer) have been hired by the Receiver under employment term sheets to be the two senior-most executives who are responsible for managing the affairs and operations of VPL on a day-to-day basis (“VPL Management”). The VPL Management are compensated for their executive positions by the salaries agreed in their employment term sheets, which equates to \$40,000 per month in the aggregate for both.

All of the VPL Management salary has been paid current by VPL through the Receiver.

As to Cardiff, in the November 20, 2020, Order regarding Jason Cardiff’s motion for release of his salary to pay living expenses, the Court ordered that “The Cardiff’s may not use any released living expenses to pay the mortgage on their residence in Upland, California.” Accordingly, Jason Cardiff has been paid for nine payroll periods, and the Receiver is holding additional Jason Cardiff net pay of \$18,246.68 in a segregated account, after payment to or for the benefit of the Cardiffs their agreed and ordered monthly living expenses.

VPL Weekly Discussions.

As previously reported, beginning on September 18, the Receiver's team instituted with Jason Cardiff and Bobby Bedi a weekly conference call to review the VPL current week's operational activity and the projected activities by VPL Management for the coming week and thereafter. These meetings have continued and have been productive.

The Operations.

Also, as previously reported, the Receiver previously believed that the progress in getting the production facility operational was approximately four weeks behind the schedule originally projected. That was due to multiple factors at that time, but primarily due to erratic responses from various vendors who were needed to make the production facility functional. Since the first status report, the situation with various vendors has been largely resolved. However, operations are now 18 weeks or 4 1/2 months behind the original estimates.

The following three sections of this report detail specific items that the VPL Management misgauged resolution time or have not yet been able to resolve, which continue to hinder full VPL operations and production.

Production facility progress. The production facility is still a work in progress after over four months of effort by the VPL Management as to its operations.

- The air filtration system was installed in 18 days instead of quoted 5 days.
- Sealing of door gaps took 2 plus months to complete.
- Installation of an alarm system took almost 3 months to complete.
- Relocation and replacement of air compressor dryer electrical outlet is still pending after 1 1/2 months.
- Replacement of skylight and sealing of skylights are still pending after 2 1/2 months.
- Men's toilet leak has not been fixed for over 3 months.

Mask assembly machine status. At the close of business, Thursday 1/21/21, there were no fully functional or operating machines.

From the Receiver's perspective, the overall quality of the equipment purchased by VPL pre-receivership is questionable, including critical parts of the equipment breaking after less than 1 month of operation. The VPL Management have not been able to date to address that the machines are very sensitive and easily break down without warning, or that machine alignment can shift by simply pushing against them, or that simply changing production material also can cause machine malfunction, resulting in wasted time and material. As to each of the 7 machines, the following is their operational status as of close of business on Thursday 1/21/21.

- Machine #1 (single line machine) has never worked. VPL Management has been working on obtaining and installing new parts for Machine # 1 since September.
- Machine #2 (single line machine) stopped making acceptable masks on January 8, pending repair.
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- Machine #3 (double line machine) has never worked. VPL Management has been working on obtaining and installing new parts for Machine # 3 since September.
- Machine #4 (double line machine) stopped making masks January 15.
- Machine #5 (double line machine) stopped making acceptable masks January 15.
- Machine #6 (single line machine) stopped making acceptable masks since January 12.
- Machine #7 (double line machine) has never worked, pending receipt of parts.

Lack of process and quality control. VPL Management has not found a full-time experienced factory manager to oversee the operation, or established product specifications and acceptable quality level specifications for incoming raw materials or finished goods, or put into place a clear inventory control system or procedure. All of these matters have been brought to the attention of VPL Management by the Receiver.

Mask Testing

Masks have been sent to Nelson Labs to test for the following:

- Bacterial Filtration Efficiency
- Differential pressure
- Synthetic blood penetration
- Flammability
- Particle Filtration Efficiency

Most test results have been received and the majority of the results were positive and within acceptable limits. One test report and clarification on one test result are pending.

No Sales

VPL Management identified two inside sales personnel two months ago, and based on that recommendation, the Receiver accordingly hired them both. Additionally, Cardiff and Bobby both have sales experience. But, no sales contracts have been signed to date. According to VPL Management, there are indications that sales contracts may be on the horizon, but none have materialized as of the date of this report.

Financial Information

The Receiver has continued to analyze, review, and approve purchases materials and services recommended by VPL Management prior to making any disbursement for those items.

At the end of the last reporting period \$1,802,378.12¹ was in VPL's operating bank account and \$325,000 was in the receivership cost and fees holding account. As of the date of this report \$1,427,970.89 is in the VPL operating bank account and \$500,000 is in the receivership cost and fees holding account.

As previously reported, the Receiver and VPL management are engaged in discussions about creating a revised budget to present to the Court². That budget will contain expense and earnings projections that will be based on far more facts than were known when the prior budget was created.

¹ The Receiver transferred the balance of \$99,500 from Citizen's Business Bank's VPL account to the VPL operating account.

² A meaningful budget cannot be created until there is more certainty about the mask assembly machines and product sales.

Conclusion

The Receiver remains cautiously optimistic that VPL can be operated lawfully and profitably and that the VPL Management can overcome the continuing problems, and commence full operations, including manufacturing and sales. However, as the cash position continues to shrink, it is imperative that VPL Management finds a permanent solution to the operation of the mask assembly machines and generates sales.

Respectfully submitted,

/s/

Robb Evans & Associates LLC
Receiver