



Development Specialists, Inc.

Advisory and Fiduciary Services • Corporate Restructuring and Workouts • Interim Management • Insolvency Services

8 April 2014

e-mail address: msorenson@dsi.biz

TO THE CREDITORS OF

FLAVOURS, INC.
24845 & 24855 CORBIT PLACE
YORBA LINDA, CA. 92887

Re: **GENERAL ASSIGNMENT FOR THE BENEFIT OF CREDITORS**

As we previously advised, Flavours, Inc. (the “Company”) executed a general assignment for the benefit of creditors in favor of Development Specialists, Inc., (the “Assignee”) on December 12, 2013. The Company ceased production and terminated all employees on December 11, 2013 prior to the making of the general assignment. The Company exceeded its lending line of credit, was unable to pay past due and current obligations as they came due, or find a turn-key buyer which left them with no alternatives to continue as a going concern.

The Company’s secured lender, Fifth Third Bank (the “Bank”), holds a security interest on all assets of the Company. The Assignee, through counsel of the firm Latham & Watkins LLP, has reviewed and verified the Bank’s security documents to confirm the validity of the asserted liens against the Company’s assets. The Bank was owed over \$11.5 million as of the assignment date and the Bank’s claim must be paid in full from the proceeds of the liquidation of the Company’s assets before any unsecured creditors will receive a distribution on account of their claims against the Company.

The Assignee received an offer to purchase substantially all of the assets of the Company from Gordon Brothers Commercial & Industrial, LLC (“Gordon Brothers”) and entered into an asset purchase agreement dated December 26, 2013, which was subject to higher and better bids pursuant to an auction. The Assignee advertised the notice of auction of assets for any possible overbid and was contacted by dozens of potential purchasers who executed non-disclosure agreements and expressed an interest in purchasing the Company’s assets. Unfortunately, only one qualified overbid was received by the Assignee, and the bidder ultimately determined not to bid at the auction. The Assignee and counsel conducted the auction on January 8, 2014. Gordon Brothers was determined to be the highest bidder at the auction and the Company’s assets were sold to Gordon Brothers for \$4,230,000.

The Assignee has been working on recovering assets and refunds that were excluded from the sale to Gordon Brothers. The Assignee is also finalizing its initial review of potential preferential transfers under state law and will begin the process of making demands for the return of such

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transfers on affected parties in the next month. At this time it does not appear the liquidation of the Company's assets as well as potential recoveries on preference demands will be sufficient to pay the secured claim of the Bank or other allowed priority claims in full.

Finally, the bar date for filing claims with the Assignee is May 21, 2014 as previously noted. The fact that the Assignee accepted *proofs of claim* is not a guaranty that there will be any recovery by unsecured creditors from the liquidation of the assets of the Company and, as indicated above, unfortunately we do not anticipate a recovery for the general unsecured creditors at this time. A further report will be provided to creditors in approximately sixty days with the status of the efforts to recover potential preferential transfers.

Attached hereto is the Statement of Condition, representing the financial condition of the Company as of December 12, 2013. This information was taken from the Company's books and records and does not include any consolidating information from the Company's parent or any other related entities. Information regarding the general assignment may also be found at www.dsiassignments.com. Creditors are requested to advance their files approximately sixty days, pending our next report.

Very truly yours,

Development Specialists, Inc., solely in its capacity
as Assignee for the Benefit of Creditors of FLAVOURS, INC.



By

Matthew P. Sorenson

Enclosures: (Statement of Condition)

Flavours, Inc.
Statement of Condition

As of 12/12/2013

Assets

Cash	9,624.87
Accounts Receivable	465,188.01
Prepaid Expenses	376,735.40
Total Current Assets	<u>851,548.28</u>

Other

Fixed Assets	<u>8,974,260.27</u>
Total Assets	<u><u>9,825,808.55</u></u>

Liabilities and Equities

Liabilities

Accounts Payable	2,127,947.23
Accrued Expenses	1,477,416.27
Other Payables	345,871.91
Contingent Liabilities	200,000.00
Long Term Liabilities	5,168,106.18
Revolving Line of Credit	6,565,638.91
Total Liabilities	<u>15,884,980.50</u>

Equity

Retained Earnings	(1,073,251.96)
Net Income	<u>(4,985,919.99)</u>
Total Equity	<u>(6,059,171.95)</u>

Liabilities and Equities	<u><u>9,825,808.55</u></u>
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