



Development Specialists, Inc.

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

e-mail: gberman@dsi.biz

March 10, 2016

TO THE CREDITORS AND SHAREHOLDERS OF:

B&H EDUCATION, INC.,
dba MARINELLO SCHOOLS OF BEAUTY
501 SOUTH BEVERLY DRIVE
BEVERLY HILLS, CALIFORNIA 90212

AND

12449 PUTNAM STREET
WHITTIER, CALIFORNIA 90602
AND RELATED SCHOOL LOCATIONS

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

Please be advised that the above company (“Marinello” or “Company”) executed a general assignment for the benefit of creditors in favor of Development Specialists, Inc. (the “Assignee”) effective on Friday, February 26, 2016. This action was taken by the Company after, among other things, the U.S. Department of Education (“DOE”) notified the Company on February 1, 2016 that, after reviewing its application for recertification to participate for 5 of its Office of Postsecondary Education Identification numbers (encompassing 23 locations) in financial assistance programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended (20 U.S.C. §1070 et. seq.), such application was denied effective February 29, 2016 with the right to appeal by February 16, 2016. Marinello disagreed with the denial of recertification and was resolute that it would appeal the denial in a timely fashion.¹ The Company submitted its appeal on February 16, 2016.

The Company operated a chain of for-profit, postsecondary schools training students to become Cosmetologists, Barbers, Estheticians, Manicurists, and other professionals skilled in the art of skin, nails, and hair care. The Company was in its 110th year of operation before it closed. At the time of closure, operations encompassed 54 locations in five states, including California, Nevada, Utah, Kansas, and Connecticut.

¹ Marinello asserted refutations of all of the DOE’s allegations, citing its belief that the schools were never subject to adverse actions by any regulatory agency while under current management, contending that the DOE’s actions did not follow prescribed regulations, and asserting that Marinello did not fabricate any high school diplomas for its students and had worked with students to educate them as to the appropriate amount of monies to borrow for their educations.

LOS ANGELES

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The Company has advised the Assignee that for over sixty days before closing, the DOE denied it access to Student Aid funds. Additionally, after receipt of the DOE's application denial letter, in accordance with their loan documents, the Company's senior secured lenders exercised their right of setoff with respect to the Company's cash in an account subject to a control agreement in favor of the lenders. Thus, the Company has also advised the Assignee that, without sufficient liquidity, it recognized an appeal of the DOE's February 1st determination would not change the outcome for its students and employees and would not enable the Company to continue operations without the immediate infusion of significant amounts of capital. Because such an infusion was simply not possible to obtain in such a short period of time, the Company closed the schools and terminated employees beginning on February 5, 2016.

Before the cessation of operations at the schools, and in addition to the funds ordinarily derived from the Government under the provisions of Title IV, the Company's operations had been financed in large part by a senior secured credit facility with a number of private lenders (the "senior lenders"). Marinello owed the senior lenders over \$20 million under this credit facility when it closed. The credit facility was secured by a lien on substantially all of Marinello's assets.

The Assignee has retained Pachulski, Stang, Ziehl & Jones LLP, in Los Angeles, CA, to act as its counsel in this general assignment estate. The Assignee, after consulting with its counsel, does not believe that the lien in favor of the senior lenders merits attack. As such, the senior lenders will be entitled to the net proceeds of the liquidation of Marinello's assets until such debt is repaid in full. The Assignee does not presently believe the liquidation will generate the full amount of what the senior lenders are owed.

Further, the DOE and the Veterans Administration (the "VA") may be owed certain monies. Federal Law entitles the DOE and the VA to priority over the claims of any other unsecured creditors if there are any other distributable funds. As a result of the senior lenders' claim and the potential DOE/VA claims, the Assignee does not believe there is any recovery possible for general unsecured creditors.

For those of you unfamiliar with general assignments, the process is similar to liquidations administered under Chapter 7 of the Bankruptcy Code. However, in this instance, California's law, rather than federal (bankruptcy) law controls. Experience has proven that in circumstances such as those present here, estates administered through general assignments typically return a greater recovery for creditors, quicker and more economically than the bankruptcy process, even though, in this particular instance, any enhanced recovery will not benefit general unsecured creditors. More information regarding general assignments for the benefit of creditors may also be found at www.dsiassignments.com.

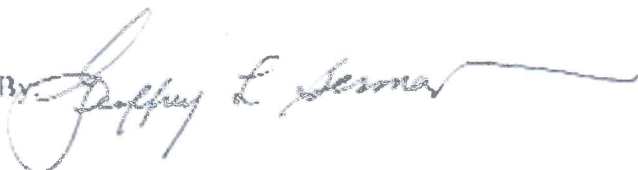
Enclosed with this letter you will find a Proof of Claim form. Although general unsecured creditors presently are not believed to be likely to receive any recovery from the liquidation of Marinello's assets, in the event any general unsecured creditor wishes to preserve the possibility of receiving a distribution should funds become available, such general unsecured creditor and

governmental creditors should complete the Proof of Claim form and return it to the Assignee's Los Angeles, CA office. Claims must be received by September 7, 2016 to participate in any distribution from the company's assets. Creditors who fail to file their proofs of claim by that date will not be entitled to share in any distribution under the Assignment for the Benefit of Creditors should there in fact be any funds available for distribution to unsecured creditors. The Assignee will accept proofs of claim via facsimile, so long as the facsimile is received by the claims bar date September 7, 2016 and the original signed proof of claim is received by the Assignee not later than September 12, 2016. Please remember to include copies of your supporting invoices or statements with your proof of claim. The fact that the Assignee is accepting proofs of claim is not a guaranty that there will be sufficient funds to make a distribution to unsecured creditors.

After returning the form Proof of Claim, 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
B&H Education, Inc.

By: 

Enclosure (Proof of Claim)

PROOF OF CLAIM

In the Matter of:

B&H EDUCATION, INC.,
dba MARINELLO SCHOOLS OF BEAUTY
501 SOUTH BEVERLY DRIVE
BEVERLY HILLS, CALIFORNIA 90212
AND
12449 PUTNAM STREET
WHITTIER, CALIFORNIA 90602
AND RELATED SCHOOL LOCATIONS

The undersigned creditor of B&H Education, Inc. hereby submits its claim in the general assignment estate created upon the execution and acceptance of the general assignment in favor of Development Specialists, Inc. as of February 26, 2016, in the amount as set forth below, and substantiated by the attached invoices or statement of account.

Date Submitted: _____

Amount of Claim: _____

Name of Creditor: _____

By: _____
Title

Address: _____

City, State & Zip: _____

() _____ () _____
Telephone Facsimile

E-mail address: _____

NOTE: Interest is applicable only to the date of the assignment and then only in the event a written agreement exists between you and the debtor providing for the payment of interest.

*Return completed form to Development Specialists, Inc.
70 West Madison Street, Suite 2300, Chicago, IL60602
(312) 263-4141/FAX (312) 263-1180*

Note: If faxing the proof of claim, the original must be received by the Assignee by August 22, 2016