

July 12, 2016

e-mail: gberman@dsi.biz

TO THE CREDITORS AND SHAREHOLDERS OF:

B&H EDUCATION, INC.,
dba MARINELLO SCHOOLS OF BEAUTY
501 S. 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**

As creditors were previously advised, 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 five 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.

Before the Company ceased operations it had been financed in large part by a senior secured credit facility with a number of private lenders (the “senior lenders”), along with funds ordinarily derived from the Government under the provisions of Title IV. 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.

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.

Since accepting the general assignment, the Assignee has been actively working to reconcile the monies due the Department of Education as required under the terms of the Department's Title IV program. The reconciliation process has been completed and all filings with both the Department of Education and the Veterans Administration have now been filed and monies due under those programs have been paid.

The Assignee also has worked with the landlords for the more than fifty leased school locations as to the termination of those leases and addressing the Company's personal property left behind when the schools closed. That process has been substantially completed with the properties returned to the respective landlords. The Assignee completed the work to preserve student records in electronic format, which project was initiated before the general assignment was made. Our office continues to respond to requests from students for their records as quickly as we can.

Certain unpaid student loans are continuing to be collected by the third party service used by the Company prior to its closing. The loans in question are generally those to graduated students due directly to the Company and not the Department of Education or the Veterans Administration. While there remain millions of other outstanding loans, the Department of Education recently proposed regulations that would affect collection of student loans from for-profit schools where, among other things, schools closed before students completed their education. The proposed rules can be found at <http://www2.ed.gov/policy/highered/reg/hearulemaking/2016/index.html>. If the regulations are approved, they will make the collection of much, if not most of the remaining student loans unlikely.

Attached hereto is a Balance Sheet for the Company as of the date of the general assignment. This Balance Sheet was prepared from the Company's books and records however it has not been reviewed or audited by any outside accounting firm. Creditors are reminded that while the Balance Sheet shows equity in the business, with the cessation of funding from the Department of Education and the nature of the unpaid student loans, there is little likelihood of any monies from the liquidation of the Company being paid to any creditor other than the senior lenders.

Finally, creditors are reminded that September 7, 2016 is the last day to file claims to participate in any distribution from the Company's assets. 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. 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.

Our next report to creditors will be sent in approximately ninety-to one hundred twenty days.

Very truly yours,

Development Specialists, Inc. solely in its capacity
as Assignee for the Benefit of Creditors of
B&H Education, Inc.

A handwritten signature in blue ink that reads "Geoffrey L. Berman". The signature is written in a cursive style with a long, sweeping tail on the letter "n".

By:
Geoffrey L. Berman

Enclosure (Balance Sheet)

B&H Education
2016 Results
Balance Sheet - Consolidated

(\$ in '000)	2016
<u>Assets</u>	
Current Assets	
Cash and Cash Equivalents	\$776
Accounts Receivable	39,799
Prepaid Expenses and Others	1,199
Total Current Assets	\$41,774
Long-Term Assets	
Net Fixed Assets	\$11,001
Goodwill & Intangible Assets	21,796
Total Long-Term Assets	\$32,797
Total Assets	\$74,571
<u>Liabilities & Shareholders' Equity</u>	
Current Liabilities	
A/P	\$1,700
Notes Payable – ST	–
Term Loan – ST	20,149
Deferred Taxes – ST	–
Total Current Liabilities	\$21,849
Shareholders' Equity	
Common Stock	0%
Additional Paid-in Capital	13,321
Current Earnings	(8,342)
Retained Earnings	47,743
Total Shareholders' Equity	\$52,723
Total Liabilities & Shareholders' Equity	\$74,571