

May 15, 2017

e-mail: gberman@dsi.biz

TO THE CREDITORS 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 it denied the Company’s 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.). The 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. The Assignee has filed an appeal of the DOE’s final audit findings, which appeal is currently in process.

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 the Assignee has paid all monies due to the Department of Education and the Veterans Administration. Additionally, the Department issued a final audit determination wherein it asserts that additional monies are due from the Company. That determination has been appealed. The appeal is being heard by an administrative law judge, though the Assignee and the Department are attempting to resolve the final audit determination consensually. Not matter the resolution,. It is unlikely any monies will be received by the Assignee and if in fact monies are recovered, they would be subject to the secured lender's lien.

The Assignee sold the unpaid student loans to Hilco Receivables, LLC, a Delaware limited liability company in October 2016. 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. The proceeds of the sale have been turned over to the secured lender to be applied against its outstanding claims.

Attached please find a Statement of Receipts and Disbursements which summarizes all monies handled during the administration of this assignment estate. While the Assignee has been able to generate proceeds from the liquidation of the Marinello assets, those proceeds are not sufficient to retire the secured bank's more than \$20,000,000 outstanding debt. Therefore, we must advise that there will not be a recovery from the Assignment estate on any unpaid monies you may be owed by Marinello and our office is closing its file as to the unsecured creditor claims at this time.

Very truly yours,

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



By:

Geoffrey L. Berman

Enclosure (Statement of Condition)

**B&H Education, Inc.,
dba Marinello Schools of Beauty
Receipts and Disbursements**

Receipts	
A/R	417,798.34
Sale of A/R	250,000.00
Tax Refunds	2,091,514.89
Sale of Assets	30,841.39
MTA Settlement	2,500,000.00
Qui Tam Settlement **	11,000,000.00
Cash transferred from Debtor	1,575,634.00
Total Receipts	<u>17,865,788.62</u>
 Disbursements	
Administrative	7,699.33
Bank Charges	227.05
Filing Fees	50.00
Independent Contractors	74,678.00
Insurance	18,176.00
Interest	4.51
IT Support	27,639.90
Licenses and Registrations	270.47
Outside Services	350.00
Professional Expenses	
Development Specialists, Inc.	64,534.84
Powers Pyles Sutter & Verville PC	331.68
Professional Fees	
Development Specialists	670,251.12
Pachulski Stang Ziehl & Jones, LLP	575,000.00
Powers Pyles Sutter & Verville PC ***	97,478.50
Qui Tam Settlement Proceeds **	
Cotchett, Pitre & McCarthy (Qui Tam)	2,369,000.00
United States Attorney's Office (Qui Tam)	8,631,000.00
Refunds	2,694.00
Secured Lender	2,968,343.50
Storage	49,663.90
Taxes	49,717.28
Utilities	12,339.10
V.A. Refund	276,933.77
Vendor Services	16,090.83
Total Disbursements	<u>15,912,473.78</u>
 Cash Related to Tax Refunds*	 1,649,528.35
 Unrestricted Cash Balance*	 303,786.49
Total Cash Balance	<u><u>1,953,314.84</u></u>

* Remaining Cash will be used for final wind down expenses or paid to Secured Lender

** Qui Tam settlement was with the approval of the U S Attorney and impacts the Dept. of Education final audit determinations and potential claims against the assignor.

*** Legal services related to the Dept. of Education final audit determination