THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re:	)	Chapter 11
	)	
QT, INC.,	)	Case No. 07 B 03227
	)	
Debtor.	)	Honorable Eugene R. Wedoff
	)	
In re:	)	Chapter 11
	)	
Q-RAY COMPANY,	)	Case No. 07 B 03228
	)	
Debtor.	)	Honorable Eugene R. Wedoff
	)	
In re:	)	Chapter 11
	)	
QUE T. PARK,	)	Case No. 07 B 03217
	)	
Debtor.	)	Honorable Eugene R. Wedoff
	)	

REPORT OF EXAMINER ROSS O. SILVERMAN

I. SCOPE OF INVESTIGATION

By agreed orders dated April 17, 2007 ("the Orders"), the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division ("the Court") directed the United States Trustee in these three related proceedings to appoint an Examiner pursuant to 11 U.S.C. § 1104(c)(2) to: "investigate any allegations of fraud, dishonesty, incompetence, misconduct, mismanagement, or irregularity in the management of the affairs of the Debtor or by current or former management of the Debtor, including but not limited to: (a) the finances of the Debtor, (b) any and all connections or relationships between the Debtor (and its officers, directors and employees) and any related individuals or entities, including but not limited to: QT, Inc.; Q-Ray Co.; Q-Ray International; Bio-Metal, Inc.; Ion Ray Co., Ltd.; Ion Ray, Inc.; Charles Park; James Park; Jung Joo Park; Q & T, LLC; QT Foundation; World Healing Power Ministry (aka QT

Ministries); BMT International, LLC; and Bio-Ray, and (c) any possible preferences or fraudulent conveyances."

By order dated May 3, 2007, the Court approved my appointment as Examiner by the United States Trustee. Following my appointment, I retained my law firm Katten Muchin Rosenman, LLP to serve as counsel in this matter. I also retained the accounting firm Blackman Kallick to analyze accounting issues regarding relevant related-party transactions.

Our investigation has included interviews with: (1) Que Park, the sole shareholder of QT, Inc. and Q-Ray Company, (2) Charles Park, who has been an officer of QT, Inc. and Q-Ray Company since approximately 2002, and is a shareholder, director and officer of related companies which are identified in the Orders,[1/] (3) Timothy Brzeczek, who has been the Vice President and Chief Financial Officer for QT, Inc. and Q-Ray Company since approximately October 2003, and (4) Theodore Hoppock and Edward Glennon, attorneys for the Federal Trade Commission which is the largest creditor of all Debtors.

We also reviewed voluminous documents including: (1) tax returns, bank statements, general ledgers and other financial information of the Debtors and related-parties, (2) pleadings from various proceedings, including *Federal Trade Commission v. QT, Inc. et al.,* Case No. 03 C 3578, in the United States District Court for the Northern District of Illinois ("the FTC Action"), several class action suits which were filed against the Debtors between December 2002 and March 2003, and the three related bankruptcy proceedings which were commenced by the Debtors on February 23, 2007, (3) documents relating to related-party transactions, and (4) documents relating to international transactions and assets.

1/ Charles Park has been a shareholder, director and/or officer of Ion Ray Co., Ltd., Ion Ray, Inc., QT Foundation, BMT International, LLC, and World Healing Power Ministry, Inc.

While further investigation could disclose additional relevant evidence, I am confident that the material facts are substantially as set forth in this Report. I do not believe that additional investigation would change my conclusions. The remainder of this Report sets forth the relevant background and facts, as well as my conclusion that the Debtors, at worst, have engaged in acts of fraud and dishonesty and, at best, have engaged in acts of incompetence, misconduct, mismanagement, or irregularity in the management of their affairs. Specifically, I have reached the following conclusions:

- Debtors failed to keep or produce basic business records regarding significant financial transactions with related-parties and others. This represents incompetence, gross mismanagement and irregularity in the management of the Debtors' affairs.

- The timing and circumstances of significant transactions suggest that they were intended to "park" the Debtors' funds with related-parties and others who held the funds beyond the reach of creditors and returned them to the Debtors on an "as needed" basis. This represents fraud and dishonesty in the management of the Debtors' affairs.

- Debtors' explanations for the timing and circumstances of significant financial transactions lack virtually any corroboration from witnesses or documents, have changed over time, and are not credible. This represents fraud and dishonesty in the management of the Debtors' affairs.

- Debtors have created and financed related companies which appear to divert retail sales revenues, park cash in the form of "loans," and facilitate the avoidance of taxes through the use of debits and credits to inter-company accounts. This represents fraud and dishonesty in the management of the Debtors' affairs.

- In various contexts, Debtors have failed to comply with their disclosure obligations either by failing to make required disclosures of assets and transactions, or by disclosing assets which did not exist or were substantially overvalued. This reflects either incompetence, gross mismanagement and irregularity, or fraud and dishonesty, in the management of the Debtors' affairs.

- Park is unwilling to produce virtually any bank statements or other documentation for at least 10 personal bank accounts in China, England, Korea and Spain, most of which he failed to disclose in his original Statement of Financial Affairs and Schedules and which are necessary to corroborate many of the significant transactions at issue. This reflects either incompetence, gross

mismanagement and irregularity, or fraud and dishonesty in the management of the Debtors' affairs.

- In July 2003, Debtors identified and agreed to freeze assets with a value of approximately $17 million to satisfy any potential judgment in the FTC Action, but have turned over to the FTC only approximately $7.3 million of those assets which is substantially less than is needed to satisfy a judgment that the FTC has obtained against them. Debtors now contend that most of the remaining assets are not subject to collection by the FTC. This reflects either incompetence, gross mismanagement and irregularity, or fraud and dishonesty, in the management of the Debtors' affairs.

II. RELEVANT FACTS

The following facts are relevant to my assessment of the Debtors' conduct in the management of their affairs:

1. The General Relationship Between QT, Inc. and Q-Ray Company

QT, Inc. ("QT") and Q-Ray Company ("QRC") are Illinois corporations with their principal place of business at 500 W. Algonquin Rd., Mt. Prospect, IL. Que Park ("Park") always has been the sole shareholder, as well as a director and officer of QT and QRC. From 1993 or 1994 to the present, QT has marketed and sold "Q-Ray ionized bracelets" ("Q-Ray bracelets") to retail customers, dealers and distributors. Until approximately the fall of 2004, QRC provided and was paid by QT for any services which consisted primarily of packaging and shipping Q-Ray bracelets to QT's customers, and other customer support services. After approximately the fall of 2004, QRC ceased providing any services and QT either provided or paid others to provide such services.

2. How It All Began And Grew Through Infomercials

In 1993 or 1994, Park and his wife bought ionized metal bracelets from a duty free shop in the Barcelona airport. Soon after they began wearing the bracelets, he experienced relief from chronic low back pain and she experienced relief from migraines. Park then approached and began a business relationship with the manufacturer of the bracelets in Mallorca, Spain, Bio-Ray,

S.A. ("Bio-Ray") and its owner Ignacio Alvarez ("Alvarez"). At that point, QT began buying bracelets from Bio-Ray at wholesale and selling the bracelets primarily to retailers and distributors in Japan and Korea.

In 1995-1996, QT began selling Q-Ray bracelets in the United States. From that time until approximately September 2000, QT marketed and sold the Q-Ray bracelets primarily to dealers and distributors, through print advertising and trade shows. During that period, QT's annual gross sales ranged from approximately $1.5 million to $2.5 million.

In about September 2000, QT began marketing and selling the Q-Ray bracelets through infomercials. Although QT's sales to distributors and dealers over the next three years remained in the range of $1.5 million to $2.5 million, retail sales directly to consumers, which were primarily through the infomercials, increased rapidly. To illustrate, QT's "net sales direct to consumers" (gross sales to consumers, minus refunds) increased from $5,538,850 in 2000, to $14,759,120 in 2001, to $37,177,379 in 2002, and $29,544,491 in the first six months of 2003.

3. Storm Clouds Gathered In Late 2002 And Early 2003

From approximately November 2002 through March 2003, storm clouds gathered over the Debtors. The first such clouds appeared when the Mayo Clinic published a study in November 2002, questioning the medical benefits of Q-Ray bracelets. Between November 2002 and March 2003, five consumer fraud class action lawsuits were filed against the Debtors, alleging false advertising in the marketing and sale of the Q-Ray bracelets. On March 13, 2003, the court in one such suit, *Casey et al. v. QT, Inc. et al.*, Case No. 03 CG 1134, in the Circuit Court of Cook County, Illinois, certified a nation-wide plaintiffs' class.[2/] In addition, in February

2/ On January 3, 2006, the court in *Casey* entered judgment in favor of the defendants on all five counts in the second amended national class action complaint.

2003, the Food and Drug Administration appeared at QT's headquarters to investigate QT's advertising claims about the medical benefits of the Q-Ray bracelets.

Park was very much aware of the new and unwelcome scrutiny. In March 2003, he instructed marketing personnel to reduce the infomercials and advertising to enable QT to fly under the radar. As discussed below, it appears that the Debtors implemented two other strategies at about this time. Specifically, they transferred more than $15 million to foreign countries and/or into related companies, and Park's children formed two related companies to sell Q-Ray bracelets in the United States and Canada. As a result of these actions, retail sales of Q-Ray bracelets in Canada and the United States were diverted to related companies which are owned by Park's children and more than $15 million was "parked" in foreign countries and/or with related companies and then returned to the Debtors on an "as needed" basis over the next few years.

4. The Debtors Transfer More Than $15 Million To Foreign Countries And/Or Into Related Companies, And Claim That None Of These Assets Are Now Available For Creditors

From December 2002 through May 2003, while storm clouds gathered overhead, the Debtors transferred more than $12 million from their accounts in the United States to related companies and others in Canada, China, England, Korea and Spain. Some of these funds were returned to the United States when they were needed by the Debtors and were immediately spent. The remainder purportedly has been dissipated or cannot be repatriated. Therefore, according to the Debtors, these funds are no longer available for creditors.

In addition to the international transfers, from December 2002 through March 2003, Park formed and donated $1.4 million to an Illinois not-for-profit corporation, QT Foundation, which has since obtained tax-exempt status under § 501(c)(3) of the Internal Revenue Code. The

Debtors contend that these funds also are not available for creditors because they do not belong to the Debtors and are owned by a § 501(c)(3) organization.

Furthermore, in March 2003, QT distributed more than $2.2 million to Park which he used to purchase the property where QT's and QRC's offices are now located. That property was immediately transferred into a limited liability company, Q & T, LLC, which is owned equally by two trusts for which Park is the beneficiary of one and his wife is the beneficiary of the other. The Debtors claim that this property and another one which is held by Q & T, LLC are also not available to creditors because Q & T, LLC is not a Debtor.[3/]

The Debtors explain that these transactions occurred in early 2003 as a result of a significant increase in sales that they experienced in the last half of 2002. They further claim that all of the above were legitimate transactions and were not done to hinder potential creditors at the time, such as the class action plaintiffs. They also contend, however, that none of these assets are now available for current creditors such as the FTC. As discussed below, the Debtors have produced no witnesses and virtually no documents to corroborate their explanations for these transactions. Given these circumstances and the timing of the above-described transactions, I have concluded that the purpose of at least most of them was to hinder potential creditors such as the class action plaintiffs who were descending upon the Debtors at the time.

5. <u>The FTC Files Suit In May 2003 And The Parties Agree to An Asset Injunction</u>

On May 27, 2003, matters grew worse for the Debtors. The FTC filed the FTC Action pursuant to § 13(b) of the Federal Trade Commission Act ("the Act") against the Debtors, as well as Bio-Metal, Inc. and Jung Joo Park (Park's wife). The FTC alleged that the Debtors engaged in unfair or deceptive acts or practices and false advertising in connection with the

3/ The Debtors produced documents establishing that they were searching for a new office location as early as the fall of 2002.

marketing and sale of their product, in violation of §§ 5 and 12 of the Act (15 U.S.C §§ 45(a) and 52) and sought monetary and injunctive relief.

On May 28, 2003, the FTC obtained an *ex parte* temporary restraining order ("TRO"), enjoining the Debtors from engaging in certain business practices and freezing virtually all of the Debtors' assets. The TRO ordered the Debtors to appear on June 9, 2003 to show cause why a preliminary injunction should not be entered to freeze their assets and restrict their business activities, pending a final ruling on the FTC's complaint.

On June 11, 2003, the parties agreed to and the court entered a Stipulated Order for Preliminary Injunction with Asset Transfer Restrictions and Other Equitable Relief ("the Preliminary Injunction"). (Exhibit A.) Pursuant to the Preliminary Injunction, the Debtors were enjoined from transferring, encumbering or disposing of $17 million in assets wherever located, including any assets outside the territorial United States. On July 10, 2003, the FTC and the Debtors (with counsel) agreed upon specific assets valued at $17,225,000 ("the Restricted Assets") which would be subject to the Preliminary Injunction. (Exhibit B.) The rationale for the Preliminary Injunction was to preserve at least $17 million in Restricted Assets which would be available to satisfy, at least in part, any judgment that the FTC might obtain against the Debtors.

In the summer and fall of 2003, the Debtors asked the court for permission to pay their taxes from the Restricted Assets and to remove from the Restricted Assets approximately $1.4 million which was in the QT Foundation, the Illinois not-for-profit company which had been formed by Park and which later obtained § 501(c)(3) status as a charitable organization. The FTC, on the other hand, moved the court to require additional Restricted Assets because: (1) approximately $1.1 million of the Restricted Assets were comprised of funds held by credit card

companies and credit card processing companies in reserve accounts which fluctuated in amount depending on QT's sales,[4/] and (2) an additional $125,000 of the Restricted Assets consisted of funds held in IRA and 401(k) accounts which would be shielded from collection by the FTC. The court denied both parties' motions, leaving in place the list of Restricted Assets which by that time had been amended by the Debtors to reflect that the Restricted Assets were now valued by the Debtors at $17.8 million. With the Restricted Assets in place, the FTC believed that, at the very least, most of those assets would be available to satisfy a future judgment. As discussed below, the FTC was wrong by a wide margin.

Pursuant to the Preliminary Injunction, the Debtors also were required to provide to the FTC statements identifying the nature and value of their assets and a statement verified under oath of all transfers and assignments of assets and property worth $1,000 or more since January 1, 2002. The Debtors purported to do so, although we have determined that the Debtors failed to completely and accurately disclose the nature and value of their assets as well as all transfers over $1,000 or more from January 1, 2002 through the date of the Preliminary Injunction.

6. The Court Rules In Favor Of The FTC

On September 8, 2006, following a seven-day bench trial, Magistrate Judge Morton Denlow issued a Memorandum Opinion and Order ("the Denlow Order"). Judge Denlow held that the Debtors' advertising claims regarding pain relief afforded by the Q-Ray bracelets were materially false and unsubstantiated. Judge Denlow ordered the Debtors, jointly and severally, to disgorge $22.5 million plus pre-judgment interest. In addition, Judge Denlow held that consumers who bought Q-Ray bracelets from January 1, 2000 through June 30, 2003 were

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4/ In hindsight, the FTC's concerns regarding the credit card reserves were warranted because the amount of the reserves has dropped dramatically over the last three years. I discuss this subject later in my Report.

entitled to rescission and restitution in the form of a full refund up to a total of slightly more than $87 million plus prejudgment interest. Judge Denlow ordered the parties to meet and confer to submit a proposed final judgment order to the court.

Following the Denlow Order, the parties met and conferred. As a result, on November 13, 2006, Judge Denlow issued a Final Judgment Order ("the Final Judgment"). (Exhibit C.) Pursuant to the Final Judgment, the Debtors were held jointly and severally liable for rescission and restitution up to $87,019,840 plus pre-judgment interest. In addition, the Debtors were ordered to fund a redress program by transferring $22.5 million plus pre-judgment interest of $4,604,913 to the FTC within 14 days.[5/]

To satisfy the Final Judgment, Debtors were required to transfer to the FTC all funds in two accounts belonging to QT and Park and to assign to the FTC any amounts due to the Debtors under any loan or note receivable, including one due to QT from a related company Ion Ray Co., Ltd. ("the Ion Ray Note"). (See Exhibit C at p. 27-28.[6/])

If these assets did not equal $27.1 million, the Debtors were ordered to transfer to the FTC any additional assets of the Debtors' choosing such that the sum amounted to $27.1 million. If the Debtors failed to do so, they were required to turn over to the FTC all proceeds from the sale of Q-Ray bracelets, to provide to the FTC an accounting of all assets outside the United States, and to repatriate and turn over sufficient assets within 35 days after the date of the entry

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5/ On January 22, 2007, as a result of post-trial motions, Magistrate Judge Denlow reduced the disgorgement aspect of the Final Judgment to $15.9 million against QT and QRC, jointly and severally, and $8.5 million against Park, individually. This reduced the amount of the prejudgment interest, although that amount is still several million dollars.

6/ Attachment A, Schedule of Defendants' Assets, to the Final Judgment was originally filed under seal. Debtors' counsel agreed to allow that schedule to be attached to this Report on the condition that section five of that schedule, which listed assets belonging solely to Mrs. Park, was redacted. The schedule attached to this Report is redacted in accordance with this agreement.

of the Final Judgment. The foreign assets which the Debtors were required to turn over to the FTC were to include an apartment and car in Spain worth $900,000, a Chinese bank account with a last known balance of $1,010,000 and a Spanish bank account with a last known balance of $70,000. As discussed below, the Debtors have not turned over any additional proceeds from the sale of Q-Ray bracelets or any of these foreign assets.

7. The FTC Attempts To Collect On Its Judgment, But To No Avail

Pursuant to the Final Judgment, the Debtors produced an accounting of Park's assets that showed the assets had lost approximately 90% of their value within less than 60 days after the date of the Denlow Order. The accounting also showed that the remaining assets were either illiquid or otherwise unavailable to satisfy the Final Judgment. These disclosures are the basis of additional allegations by the FTC, and are described next.

On January 29, 2007, the Debtors provided the FTC with an Asset List which purported to identify and provide the value of Park's assets as of August 31, 2006, and as of October 31, 2006. (Exhibit D.) According to the Asset List, assets owned solely by Park decreased in value from $7,488,399 as of August 31, 2006 (8 days before the Denlow Order) to $771,748 as of October 31, 2006. Approximately $4.2 million of the decrease was attributable to an elimination of all of Park's equity in QT and QRC because, according to Park, his stock in those two companies had no value after the Denlow Order. Approximately $2.5 million of the decrease in Park's assets related to two other assets—a "R & D Project" that had been valued at $2.1 million as of August 31, 2006 lost all of its value, and the value of an account at Citibank in Shanghai, China ("the Shanghai Account") had dropped from $410,000 to $3,500. Furthermore, virtually all of Park's purported assets as of October 31, 2006 were comprised of funds in a HSBC account in China, which allegedly cannot be repatriated, and the book value of his common stock in a related company in China, Q-Ray International, which is illiquid.

Between January 31, 2007 and February 16, 2007, the FTC and Debtors' former counsel exchanged correspondence regarding the Debtors' assets. The FTC sought explanations and documentation regarding the reductions in the value of the $2.1 million "R & D Project" to $0 and of the $410,000 in the Shanghai Account to $3,500, all of which purportedly occurred between August 31, 2006 (8 days before the Denlow Order) and October 31, 2006. The Debtors responded that they did not have any documentation regarding either of these matters.

On or about February 1, 2007, however, the Debtors produced to the FTC a document which addressed the reduction in the values of the R & D Project and the Shanghai Account. That document was a September 2006 Income Statement for Park and his wife which reflects that the Parks lost $6.2 million of "equity" that month. (Exhibit E.) A footnote to the Income Statement explains that the loss in "equity" includes a $2.1 million write-off for the R & D Project "due to Final Judgment Ruling." The September 2006 Income Statement for the Parks also reflects approximately $712,000 in expenses. A footnote to the Income Statement explains that these expenses include $400,000 for "3+ years of cumulative expenditures in China" and adds that "Chinese expenditures include marketing development costs, employees salaries and housing, sourcing costs, etc."

As discussed below, we have concluded that there never was any basis for the $2.1 million R & D Project "asset" and that there is virtually no corroboration for the $400,000 in expenses which were purportedly incurred over three-plus years in China. Furthermore, the Debtors' monthly financial statements which were submitted to the FTC from August 2003 through August 2006 overstated the Debtors' assets by including the $2.1 million R & D Project "asset" as well as the $400,000 which Park eventually disclosed had been spent.

Between February 5, 2007 and February 20, 2007, pursuant to the Final Judgment, the Debtors turned over to the FTC: (1) approximately $7.3 million from two bank accounts which were among the Restricted Assets, and (2) the Ion Ray Note, which was not a Restricted Asset, and which had a value of approximately $865,000. Therefore, the total value of assets turned over to the FTC was approximately $8.2 million.

Pursuant to the Final Judgment, the Debtors also were required to turn over to the FTC any other assets of their choosing which were sufficient to satisfy the full amount of the judgment. In that regard, the Final Judgment called for approximately $7 million of the Restricted Assets to remain frozen so that those assets would be among those from which the Debtors could choose to turn over to the FTC to make up for any deficiencies. The Debtors, however, have refused to turn over any of these $7 million in Restricted Assets primarily because they are in bank accounts owned jointly by Park and his wife, credit card reserves, or are owned by two related companies, QT Foundation and Q & T, LLC.[7/]

Furthermore, between the date of the Final Judgment and February 5, 2007 when the Ion Ray Note was turned over to the FTC, the Debtors took certain actions which reduced the value of the Ion Ray Note from approximately $2.3 million to approximately $865,000. The Debtors did so by arranging for Ion Ray Co. Ltd. to make more than $1 million in pre-payments to QT during late 2006 and early 2007, and through an accounting adjustment made by Brzeczek, after consulting with Park, during the same period which reduced the value of the loans by another

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7/ The Debtors contend that approximately $2.3 million of the Restricted Assets are not available to the FTC because they are owned solely by Mrs. Park who was found to be not liable to the FTC. This may be true, although some of these assets are funds in bank accounts which Mrs. Park contributed to a "qualified settlement fund" which is discussed later in this Report. A substantial portion of other Restricted Assets which also were not turned over to the FTC were similarly contributed to the "qualified settlement fund." Therefore, there is at least an issue as to whether such assets might be subject to collection by the FTC, even if they are not owned by the Debtors.

$368,000. As discussed below, I have concluded that the Debtors' actions in reducing the value of the Ion Ray Note by approximately $1.4 million shortly before assigning it to the FTC involved fraud and dishonesty.

Moreover, pursuant to the Final Judgment, the Debtors were required to turn over to the FTC all other loan receivables that they owned. It appears that QT had one other such loan receivable, a $95,000 loan receivable from Charles Park, which it purportedly assigned to a related-company (Ion Ray, Inc.) on June 1, 2006. As discussed below, I question whether QT received any valid consideration for this assignment. In my view, this assignment was effected to deprive the FTC of the funds.

8. The FTC Moves For Appointment Of A Receiver

On February 21, 2007, the FTC filed a motion in the FTC Action for the appointment of a receiver for the Debtors, to conduct an accounting of assets, prevent dissipation of assets, recover fraudulently transferred assets and repatriate foreign assets to satisfy the FTC's judgment. At the time, the value of the assets that the Debtors had turned over to the FTC was $8,227,611. In support of its motion, the FTC referenced, among other things: (1) actions taken by the Debtors after the Denlow Order and before assigning the Ion Ray Note to the FTC, which reduced the value of that receivable by approximately $1.4 million, (2) the reduction in the value of Park's "R & D Project" asset from $2.1 million as of August 31, 2006 (eight days before the Denlow Order) to $0 as of October 31, 2006, and the Debtors' statement that there were no documents relating to this asset, and (3) the reduction in the funds in the Shanghai Account from $410,000 as of August 31, 2006 to $3,500 as of October 31, 2006, as well as Park's after-the-fact explanation in the September 2006 Income Statement that he submitted to the FTC that the decrease in these funds was attributable to "3+ years of cumulative expenditures" in China.

9. The Debtors File Petitions For Bankruptcy

On February 23, 2007, the Debtors responded to the FTC's motion by filing voluntary petitions for bankruptcy pursuant to Chapter 11 of the Bankruptcy Code. Between March 14 and March 26, 2007, the Debtors filed Statements of Financial Affairs and Schedules, and on March 29, 2007, Park testified at the § 341 meeting for each Debtor. Following his testimony, Park filed an amended Statements of Financial Affairs and Schedules to disclose foreign bank accounts held by Park which were not disclosed in the original version of those documents. The undisclosed accounts foreign bank accounts are discussed below.

At about the time that the Debtors filed their amended Schedules and/or Statements of Financial Affairs, QT also produced to the FTC corporate tax returns. Those returns included an original and an amended federal income tax return which QT filed for the year 2003. QT's original return for the year 2003 reported $14.5 million of ordinary income. Because QT is a S corporation, this income passed through to Park as its sole shareholder, and resulted in a significant tax liability for him. Park could not pay the tax liability due to the Preliminary Injunction, and requested from the IRS a waiver of all penalties and interest that might be due as a result of his inability to pay the taxes.

In 2005, QT filed an amended federal income tax return for the year 2003, which was prepared by its accounting firm Virchow Krause. The most significant amendment to that return was a $9.5 million increase in "other deductions" which reduced QT's ordinary income for that year to $5 million. This, in turn, reduced Park's personal tax liability by approximately $3.5 million. In a memo which accompanied the amended 2003 return, QT's attorneys explained that approximately $9.4 million of the increase in "other deductions" was attributable to treating virtually all of the bank accounts among the Restricted Assets as a "qualified settlement fund"

("QSF") pursuant to the Internal Revenue Code.[8/] The filing of the amended 2003 return triggered an audit by the IRS. By letter dated April 4, 2006, the IRS informed QT that it would accept the amended 2003 return as filed and would make no changes. We did not have the time to investigate whether the IRS based its decision on complete and accurate information, but we have no information which suggests that the IRS was in any way misled about the QSF.

The FTC did not learn that QT and Park had designated any Restricted Assets as being part of any QSF until April 2007 when the Debtors produced to the FTC copies of QT's original and amended tax returns for the year 2003. The FTC now alleges that the Debtors should have disclosed the QSF to the FTC and to the court in the FTC Action when it occurred and in the monthly financial statements that the Debtors provided to the FTC, that the "transfer" of Restricted Assets into the QSF might have violated the terms of the Preliminary Injunction, that the Debtors had no right to use the interest earned on the bank accounts which were "transferred" to the QSF to pay their attorneys (or for any other purpose), and that the Debtors misled the court in the FTC Action by not disclosing that information when they sought and obtained the court's permission to use more than $500,000 in interest from those accounts to pay their attorneys. Finally, the FTC contends that it might be entitled to all the Restricted Assets which were transferred to the QSF, even if those assets were owned solely by Mrs. Park or entities other than the Debtors.

The Debtors and Brzeczek claim to have a very limited understanding regarding the technicalities of the QSF. They contend that they relied on the advice of an accountant from Virchow Krause and an attorney from Ungaretti & Harris for all actions taken with respect to the QSF. Their understanding—whether it be right or wrong—is that the establishment of the QSF

8/ The only accounts among the Restricted Assets which were not included in the "qualified settlement fund" were those belonging to QT Foundation.

was appropriate, that it was a proper tax strategy for accelerating a deduction for Park for the year 2003, and that any Restricted Assets which were not used to satisfy the Final Judgment would be returned to the parties who contributed each Restricted Asset to the QSF. They did not believe that they were violating terms of the Preliminary Injunction by "transferring" Restricted Assets into the QSF in 2003, or by asking the court in 2006 for permission to use interest from bank accounts in the QSF to pay their attorneys fees to Ungaretti & Harris. Finally, the Debtors claim that they took no affirmative act to conceal QSF's existence from anyone.

Issues relating to the QSF are very complex and will require extensive expert analysis. Given the time constraints and scope of my Report, I have not reached any conclusions regarding the Debtors' actions with respect to the QSF or the legal consequences. These issues will need to be resolved another day in another context.

Based upon the omissions in the Debtors' disclosures and the existence of little, if any, documentation or other corroboration for the Debtors' explanations regarding their assets and activities, the United States Trustee's Office and the FTC both moved for the appointment of a trustee in each of the three related bankruptcy proceedings. The parties then agreed to request an order directing the United States Trustee's Office to appointment an examiner to investigate the issues described above, and I was appointed to do so.

III. <u>THE DEBTORS' CONDUCT IN THE MANAGEMENT OF THEIR AFFAIRS</u>

In correspondence, discussions, and its motions for appointment of a receiver and trustee the FTC has made allegations regarding several instances which it believes involved fraud, dishonesty, incompetence, misconduct, mismanagement, or irregularity in the management of the Debtors' affairs. Given the time constraints of our investigation, we have focused on particular events which support my conclusion that, at worst, the Debtors have engaged in fraud and dishonesty, and, at best, incompetence, misconduct, mismanagement or irregularity in the

management of their affairs. Each of the relevant events is summarized in this section of the Report.

A. $1.4 Million Transferred By Park To The QT Foundation Between December 2002 and March 2003

On December 12, 2002, Park formed the QT Foundation as an Illinois not-for-profit corporation. In August 2004, it received tax exempt status under § 501(c)(3) of the Internal Revenue Code. QT Foundation's mission is to provide funding for Christian Missionaries, as well as science and research, and to support other charitable organizations.[9/] Park and his family members are the directors and officers of the QT Foundation.

On December 13, 2002 and March 25, 2003, Park made donations of $1 million and $400,000, respectively, to the QT Foundation. On July 10, 2003, the Debtors included the $1.4 million which belonged to the QT Foundation among the $17 million in Restricted Assets which were subject to the Preliminary Injunction. (Exhibit B.) On August 21, 2003, the Debtors filed a motion seeking to remove the QT Foundation's funds from the Restricted Assets because they were "erroneously included" in the first place. In support of their motion, the Debtors argued that the QT Foundation was a separate legal entity which was not a defendant in the FTC Action, and that as a not-for-profit organization its assets could not be used to satisfy any judgment against the Debtors. The Debtors motion was denied, and $1.4 million of the QT Foundation's cash remains part of the Restricted Assets which were supposed to secure any judgment against the Debtors. The Debtors, however, refuse to turn these funds over to the FTC or the estate

9/ It is worth noting that approximately 90% of the grants and contributions that the QT Foundation made in 2004 and 2005 were to World Healing Power Ministry, Inc., another not-for-profit organization formed and controlled by members of the Park family and employees of QT.

because, they argue, the assets were erroneously included at the outset of the FTC Action and they are prohibited from transferring the assets under Illinois and federal law.

On July 10, 2003, Debtors obtained a benefit by including $1.4 million in the accounts of the QT Foundation among the Restricted Assets. If the Debtors had not done so, they likely would have had to subject approximately $1.4 million of their other assets to the restrictions of the Preliminary Injunction. They may very well be correct that the QT Foundation's assets are not part of the Debtors' estate and are not available to satisfy the Final Judgment. If so, the funds available to the FTC for consumer redress will be at least $1.4 million less than the $17 million which the Debtors initially set aside at the beginning of the FTC Action for that purpose. In effect, the Debtors gained a benefit by including the $1.4 million among the Restricted Assets at the beginning of the FTC Action, but now seek to avoid any cost from doing so.

B. A $3 Million Loan To Bio-Metal, Ltd. (Korea) On 2/28/03

On February 28, 2003, QT transferred $3 million purportedly to a company in Seoul, South Korea called Bio-Metal, Ltd. (Korea) ("Bio-Metal Korea"). An August 21, 2003 letter from the Debtors' former counsel to the FTC disclosed the two transfers involved in this transaction.[10/]

Debtors contend that this was a loan, and they have produced a promissory note which is signed by Wondo Hyun, Managing Director of Bio-Metal Korea. Pursuant to the promissory note, Bio-Metal Korea agreed to pay QT $3 million plus 3 ½% interest. The payments were to be in annual installments of $105,000 in interest only, and were to commence on February 28, 2004. The final payment of principal and all accrued interest was due on February 28, 2008.

10/ The portions of this August 21, 2003, letter that are relevant to this Report are attached hereto as Exhibit F. In order to preserve confidentiality, account numbers have been redacted from this exhibit and the other exhibits attached to this report.

The promissory note contains no discussion or limitations regarding the purposes for which Bio-Metal Korea could use the funds.

Bio-Metal Korea made to two payments to QT regarding this promissory note, and both were made when Park needed the funds to pay his personal tax liabilities. Specifically, on March 16, 2004 and March 14, 2005, Bio-Metal Korea wired $1,500,000 and $1,499,975, respectively, to QT's bank accounts. QT then immediately used those funds to pay Park's personal tax liabilities, and recorded those payments as distributions to Park. In essence, these funds were "parked" in Korea as of February 28, 2003, and were returned to QT without any apparent difficulty only when they were needed to pay Park's personal tax liabilities.

There are serious questions regarding the legitimacy of the $3 million transfer to Bio-Metal Korea and the promissory note purporting to document it. As a threshold matter, Park contends that neither he nor his family have ever had any ownership interest in Bio-Metal Korea. This is questionable given that he acknowledges forming and being the sole owner of two companies with the same or virtually the same name, specifically Bio-Metal, Inc., which is an Illinois corporation that he formed in 1994 and Bio-Metal, Ltd. (England) which he formed in England in the spring of 2003. Bio-Metal, Inc. was established by Park for research and development, but it never did business. Bio-Metal, Ltd. (England) was formed to market and sell Q-Ray bracelets in England, but it never conducted any business because the FTC Action was filed just after it was formed.[11/] I find it incredibly coincidental that Park owns these two Bio-

11/ In approximately February 2003, Park formed Bio-Metal, Ltd. (England), and in April and May 2003 he and QT transferred $900,000 to two Barclays Bank accounts which Park maintained in his own name, purportedly for the benefit of Bio-Metal, Ltd. (England). Pursuant to the Preliminary Injunction, Park was required to and did repatriate these funds in the summer of 2003 to domestic accounts which were among the Restricted Assets. During our examination, Park produced relatively recent correspondence with English counsel regarding the continuing need to file various reports

Metal companies in the United States and England, but has no interest in Bio-Metal Korea to which QT loaned $3 million.

Park's explanation regarding his relationship with Bio-Metal Korea raises more questions than it answers. Park claims that, in the fall of 2000, a friend introduced him to the principals of Bio-Metal Korea, Drs. Kang and Pyun, who with one other employee were developing a "top secret" technology to enhance the conductivity of metal in Q-Ray bracelets. Because of the secret nature of the technology, however, Park says he is prohibited from disclosing it. Furthermore, he could not tell us anything about the educational or employment backgrounds of Drs. Kang and Pyun. Nor could he identify any technology or products that they or their company have ever produced, let alone any marketing materials, publications or any other documents relating to Drs. Kang and Pyun, their company or any product.

Although Park knew Drs. Kang and Pyun since the fall of 2000, he waited until February 28, 2003 for QT to provide Bio-Metal Korea with $3 million. Park explains that QT's revenues were insufficient to make this loan before early 2003, but I find the timing and circumstances of this loan suspicious because of the storm clouds that were gathering over the Debtors at the time and because this was one of several significant international transfers which occurred at exactly the same time.

There are also serious questions regarding whether the transfer had legitimate business purposes, as Park contends, or was simply intended to "park" the $3 million in Korea to put it beyond the reach of potential creditors as storm clouds gathered over the Debtors in early 2003. Initially, Park told us that the purpose of the $3 million loan was to enable Bio-Metal Korea to

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for this "dormant company," as well as bank statements reflecting the transfers of $900,000 between the United States and England and back to the United States.

expand its "research facility" and to hire more people. According to Park, this was never done and Bio-Metal Korea never delivered any technology to QT as a result of the $3 million loan.

We then showed Park a Declaration ("the Park Declaration") that he had signed under penalties of perjury on June 4, 2003, and filed in the FTC Action, in part, to explain the context for the flurry of asset transfers which occurred during the first few months of 2003 including the $3 million transfer to Bio-Metal Korea. In addressing that $3 million transfer in the Park Declaration, he stated that QT "was also contemplating the purchase of a Korean television shopping channel and, in furtherance of this foreign investment, deposited approximately $3 million in Korea for asset acquisition purposes." The Park Declaration said absolutely nothing about the purpose of the $3 million transfer to Bio-Metal Korea being made to support research and development.

After being confronted with the Park Declaration, Park's explanation for the $3 million loan to Bio-Metal Korea changed. He now contends that the "loan" had two purposes—to support research and development regarding a top-secret technology and to be held for the benefit of QT if it decided to purchase a Korean shopping channel. As to the latter purpose, Park explained that it was necessary for Bio-Metal Korea to hold the money to invest in a Korean shopping channel because only a Korean company would be permitted to make such an investment. No such investment was ever made, however, because the FTC Action was commenced shortly after the funds were transferred to Bio-Metal Korea. As a result, Park claims, he instructed Bio-Metal Korea not to invest the funds in any Korean shopping channel.

Park's explanation regarding the need to place funds with Bio-Metal Korea to possibly purchase a Korean shopping channel defies logic. If Bio-Metal Korea were going to hold the funds for QT to invest in a Korean television shopping channel, it makes no sense why Bio-

Metal Korea would agree to repay QT the full amount of those funds plus interest over five years. If QT decided in the future that it wanted to buy a Korean shopping channel and needed Bio-Metal Korea to act as its agent in doing so, it could have easily transferred any necessary funds to Bio-Metal Korea at such time. In that event, QT would have had access to and the benefit of such funds until they were needed, if ever at all, to purchase a Korean shopping channel. Moreover, the $3 million promissory note imposed no limitation on Bio-Metal Korea's use of the funds, and there is no other documentation which mentions, let alone would have required, Bio-Metal Korea to set aside any portion of the funds to be used to buy a Korean shopping channel. By providing Bio-Metal Korea with $3 million and expecting some portion of it to be set aside for that purpose, without having any documentation in place to ensure that this would be done, the Debtors at best engaged in gross mismanagement.

Given Park's shifting explanations regarding the transfer to Bio-Metal Korea, we asked Park for corroboration of the latter's existence, its independence from the Debtors, and/or that QT transferred the $3 million for either of the above-described purposes. Park has not provided any of the requested corroboration. He claims that he is the only person from QT who dealt with Bio-Metal Korea or its principals. Therefore, no other person can provide corroboration. Beyond that, Park has not produced or identified any documents to corroborate anything he has said about Bio-Metal Korea other than the promissory note and the bank receipts regarding the two repayments of that note.

Furthermore, on July 31, 2004, QT wrote-off all accumulated and future interest owed by Bio-Metal Korea. At the time, $60,000 in accrued interest was reflected on QT's ledgers and Bio-Metal Korea would have paid more than $250,000 in interest over the next three-and-one-

half years pursuant to the terms of the promissory note.[12/] Park explains that QT did so in consideration of Bio-Metal Korea's pre-payment in March 2004. In essence, QT agreed to forego a benefit of its bargain with Bio-Metal Korea by writing off at least $310,000 in interest to which it otherwise would have been entitled, to benefit Park personally by obtaining pre-payments from Bio-Metal Korea solely to enable Park to pay his personal tax liabilities. This decision is representative of the potential conflicts of interest that have existed between Park and his related companies, where actions were taken to benefit Park personally at the expense of QT.

Finally, Park contends that in about March 2003 he gave Bio-Metal Korea another $545,000 to research and develop a different technology involving metal foil and metal coil products. This purported investment is largely unsubstantiated and also questionable. It is discussed in the next section of this Report which addresses a $2.1 million asset which Park has claimed to have had in the past and which he described as "R & D Project."

C. $3 Million Transfer To Spain On 3/3/03

On March 3, 2003, QT transferred $3 million to an account maintained by Park and his wife at Banco Bilboa Vizcaya Argentaria ("BBVA") in Mallorca, Spain. This transfer was disclosed in an August 21, 2003 letter from the Debtors' former counsel to the FTC (Exhibit F).

Park contends that within a few weeks of the initial transfer all these funds were disbursed as follows: (1) approximately $1.1 million was provided to Ignacio Alvarez, the principal of Bio-Ray who allegedly gave the money to two individuals who performed secret research for Park in a secured underground structure in Mallorca, Spain, (2) approximately $545,000 was provided to Bio-Metal Korea for secret research regarding metal foil and metal coil, (3) approximately $430,000 was provided to Keukdong Corporation ("Keukdong"),

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12/ The additional interest could have been up to $465,000 if no pre-payments had been made under the note.

allegedly a Korean import/export company, which supposedly acted as an intermediary in negotiating a 13-year-old-debt that QRC owed to a Korean vendor, and (4) the remaining funds were purportedly paid to Alvarez to reimburse him for his earlier purchase of a condominium in Mallorca, Spain for the Parks.

As discussed below, according to Park, the $2.1 million involved in the first three disbursements has been spent and the condominium is pledged to Bio-Ray as collateral for a line of credit that it has extended to QT. Therefore, none of the $3 million that was sent to Spain in March 2003 is available to the Debtors' creditors, and there is very little documentation regarding any of the purported transactions involving any of these funds. For example, Park contends that he cannot obtain or produce bank statements or records from the BBVA account which would reflect any of these disbursements. This lack of basic documentation, along with the timing of and unusual circumstances surrounding each purported transaction, raises serious issues regarding the Debtors' management of their affairs and their credibility. Park's descriptions of the $3 million in disbursements from the BBVA account are discussed next.

1. The $1.1. Million Purportedly Provided By Park to Ignacio Alvarez

Park states that, in March 2003, he transferred $1.1 million by check or wire transfer to an account in the name of an unidentified company owned by Ignacio Alvarez. He claims that he cannot obtain bank records from BBVA or Alvarez that would document that this transaction ever actually occurred, and if so, when and in what amount. Nor can he produce any other document or person who could corroborate any aspect of this alleged event. As explained next, one thing Park is sure of is that the money has been spent and is no longer part of his estate.

According to Park, the background for this scenario is that, in the summer of 2002, Alvarez had introduced him to two individuals ("the Spanish Researchers") who were performing secret research in a secured underground vault-like structure in Mallorca, Spain.

Park knows only the first names of the Spanish Researchers and would not disclose those names to us, allegedly because their work is so highly confidential. Park does not know anything about the educational or employment backgrounds of the Spanish Researchers, but does know that they are "highly skilled in high voltage."

In the summer of 2002, Park agreed to fund secret research by the Spanish Researchers. From the summer of 2002 until March 2003, at Park's request, Ignacio Alvarez allegedly gave the Spanish Researchers approximately €30,000 a month to fund the research. In March 2003, Park then transferred about $1.1 million from his BBVA account in Spain to Alvarez either by issuing a check in that amount or by making a wire transfer to a company owned by Alvarez. Alvarez then used that money to reimburse himself for the monthly advances that he had been making to the Spanish Researchers since the summer of 2002, and gave the remainder to the Spanish Researchers to continue with their research. The research continued until 2004 or 2005 when no further funds were available.

Park could not identify the Alvarez company to which he transferred the $1.1 million, except that he knows it was not Bio-Ray, and he could not produce any documentation regarding any such transfer. He also could not produce any documentation of any fund transfers from Alvarez to the Spanish Researchers. In fact, he never has had any evidence of any transfers from Alvarez to the Spanish Researchers other than that Alvarez told him that he had done so. Although Park visited the secured underground vault-like structure where the Spanish Researchers worked, he says that confidentiality concerns preclude him from disclosing their location in Mallorca, or from providing any description of their equipment or research. Ultimately, Park has no document or other evidence of any research that the Spanish Researchers performed and he cannot identify any technology or product that they have ever created for

anyone. Furthermore, at his § 341 meeting, he testified that the $1.1 million was spent by Bio-Ray and made no reference to the Spanish Researchers or the unusual arrangements between himself, Alvarez and the Spanish Researchers through which the research was funded.

As discussed below, Park treated this purported investment of $1.1 million as part of a $2.1 million "R & D Project" asset which he identified: (1) in a personal financial statement that he signed under penalties of perjury on February 23, 2005 and submitted to MB Financial, (2) in monthly Income Statements that he submitted to the FTC during the FTC Action through August 2006, and (3) in an Asset Listing that he provided to the FTC in January 2007, which reflected the $2.1 million R & D Project asset as belonging to Park as of August 31, 2006. There are serious questions regarding whether this investment in research performed by the Spanish Researchers ever actually occurred. Even if it did occur, however, it never should have been reported as an asset, and that is particularly so once the money was exhausted and the research stopped in 2004 and 2005.

2. $545,000 To Bio-Metal Korea

At the § 341 meeting, Park testified that he disbursed approximately $480,000 from the BBVA account to Bio-Metal Korea for research and development. Park now explains to us that, in March or April 2003, he transferred from the BBVA account in Spain approximately $545,000 to Bio-Metal Korea for research and development regarding metal foil and metal coil products. If this transfer actually occurred, it happened shortly after the $3 million loan that QT allegedly made to Bio-Metal Korea which is described earlier in this Report.

The FTC on multiple occasions asked Park to produce documents relating to this purported investment, and Park responded that he could not locate any such documents. During my examination, however, Park produced a one-page document on the stationary of Bio-Metal Korea. (Exhibit G.) This one-page document is in Korean, is dated April 16, 2003 and is

addressed to Park. It purports to confirm that Bio-Metal Korea has received $545,000 "for the research and development of Bio Metal Foil" and "[i]ts performance test and related expenses." The letter states that it is from Bio-Metal Korea's president Kang Jung Boo, but is unsigned. That is the only document which purportedly relates to this $545,000 transaction. There is no additional evidence that any such transfer occurred, or if it did, when it occurred, the amounts which were involved or the purpose of the transfer. The only other corroboration that Park could produce was an alleged "sample" of a metal foil product which Park claims was developed through this project, along with three short reports from Dr. Oh who purportedly tested the metal foil product at a Korean university.[13/]

As discussed below, Park also treated this purported investment of $545,000 as part of a $2.1 million "R & D Project" asset. There are serious questions regarding whether this investment in research ever actually occurred. Even if it did occur, however, it should have been expensed as incurred and never should have been reported as an asset.

3. $430,000 To Keukdong To Settle A 13-Year-Old QRC Debt And A Related Transfer of $865,000 To A Korean Account Held In Park's Name[14/]

This section describes two related transactions that occurred in March and possibly April 2003. These transactions involved transfers by Park and QRC of approximately $1.3 million to Korea. Debtors contend that these funds have been spent and are not available to their estates. As with every other international transfer described in this Report, these funds appear to have been "parked" beyond the reach of potential creditors and returned to the United States on an "as

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13/ In Park's amended bankruptcy schedules, he identified $32,000 that he transferred to Bio-Metal Korea between November 26, 2006 and February 23, 2007 to finance the testing which was performed by Dr. Oh.

14/ The actual amounts involved in the transactions surrounding the Korean Account that is described in this section of the Report are slightly more than $865,000. For ease of reading, I have consistently rounded all such amounts to $865,000.

needed" basis or allegedly spent, and there are no witnesses and virtually no documents to corroborate any of the related events.

a. The $430,000 Transfer To Keukdong

Park states that, in March or April 2003, he transferred from the BBVA account in Spain approximately $430,000 to Keukdong which he claims is a Korean import/export company.[15/] According to Park, he gave these funds to Keukdong which had agreed to act as an intermediary in attempting to negotiate the settlement of a 13-year-old-debt that QRC owed to a Korean vendor. The background for this debt dates back to 1990 and is described next.

In 1990, a predecessor of QRC incurred approximately $1.1 million in debt ("the Korean Debt") to a Korean company called Hyundai.[16/] The Korean Debt was based upon QRC's purchases of camera equipment from Hyundai, which QRC then attempted to sell. Hyundai assigned its claim against QRC to Hyundai's insurer, the Korean Export Insurance Company.

Debtors have produced documents indicating that, between 1993 and 1996, QRC paid $295,000 to the Korean Export Insurance Company's New York Representative Office at 460 Park Avenue, 8th floor, New York, New York. This reduced the Korean Debt to approximately $865,000.

In 2000, Park asked a representative from Keukdong, Mr. Hyun One, to attempt to negotiate a settlement of the Korean Debt. According to Park, Keukdong's primary business is import and export, but it also acts as an intermediary for parties attempting to settle business

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15/ We searched "Keukdong" through MSN Live Search and obtained more than 1,200 results, indicating many companies with the "Keukdong" name in a wide variety of industries. We reviewed the addresses and phone numbers for the first 500 or so results, and none were the same as those reflected on a purported Keukdong "receipt" which was produced by the Debtors during my examination.

16/ The name of the predecessor company which actually incurred the debt was SY Optical, Inc. To minimize confusion, I have treated the debt as one of QRC.

debts in Korea. By early 2003, Keukdong had not been able to settle the Korean Debt. Nevertheless, in March or April 2003, as storm clouds gathered over the Debtors, Park decided to give Keukdong $430,000 which they could use to settle the Korean Debt.

Last week, the Debtors produced a one-page "receipt" dated April 18, 2003 from Hyun One at Keukdong to Park. (Exhibit H.) The receipt purports to confirm that Keukdong received $430,000 to settle the Korean Debt. Park has not produced any other documents such as bank statements, checks, wire transfer records, or other correspondence, to corroborate this purported transfer of $430,000 to the Keukdong.

Park says he heard nothing more from Keukdong regarding the Korean Debt until July or August 2005. At that time, Park was in Korea and a representative from Keukdong informed him that the Korean Debt had been settled for $430,000. Park believes that the Korean Debt was likely settled during 2005, but he does not know when because he never asked, was never told, and does not have any documentation relating to any of the negotiations or the settlement.

Park did not tell Tim Brzeczek that the Korean Debt had been settled until November 1, 2006, which is the date that Brzeczek made a series of journal entries in the general ledgers of QT and QRC. As discussed next, Brzeczek's journal entries were done solely to evade a tax liability of approximately $125,000 that QRC should have reported and paid.

If the Korean Debt was settled in 2005, QRC should have reported $435,000 in income based upon the forgiveness of that portion of the debt. Because QRC did not have sufficient losses in 2005 to offset that income, it would have owed and should have paid approximately $125,000 in taxes. That did not happen. In fact, no taxes have been paid on any of this income as a result of journal entries made by Brzeczek in the general ledgers of QT and QRC on November 1, 2006.

Specifically, on November 1, 2006, Brzeczek, transferred QRC's $865,000 liability to QT.[17/] There was no valid basis for doing so, because the liability had been settled no later than July or August 2005 and therefore did not exist as of November 1, 2006. Nevertheless, by doing so, QT was credited in 2006 with $435,000 of income based upon the forgiveness of that portion of the debt. None of this income passed through to Park, however, because it was completely offset by QT's losses for 2006. Therefore, Park will not pay taxes on any portion of that $435,000. In sum, no one will pay any taxes on the $435,000 of income arising from the forgiveness of the Korean Debt.

b. <u>The $865,000 Transfer To A Korean Account Held In Park's Name</u>

The circumstances surrounding the Korean Debt are also relevant to another fund transfer that occurred on March 3, 2003. Specifically, on March 3, 2003, QRC transferred $865,000, which was virtually all of its available cash, to an account at the Cho Hung Bank in Seoul, South Korea ("the Korean Account"). The Korean Account was maintained in Park's name. Park claims that he opened the account at about the time of this transfer, but he has not produced any records from the Korean Account to substantiate any representations that he has made regarding the account. The funds sat in the Korean Account until March 14, 2005, when they were transferred back to one of QT's domestic bank accounts and were then immediately disbursed to pay Park's personal tax liabilities.

An August 21, 2003 letter from the Debtors' former counsel to the FTC purported to disclose all transfers of the Debtors from January 1, 2002 through June 11, 2003 (the date of the Preliminary Injunction) which were greater than $1,000. (Exhibit F.) The Debtors were required

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17/ QT allegedly owed QRC approximately $946,000 as of November 1, 2006. When QT assumed QRC's $865,000 liability, QRC's receivable from QT was reduced to approximately $87,000.

to identify each such transfer, pursuant to the Preliminary Injunction. Nevertheless, the August 21, 2003 letter did not disclose QRC's $865,000 transfer to the Korean Account. In fact, the letter expressly stated that QRC "had no known transfers of over $1,000 from the period of January 1, 2002 until the entry date of the Preliminary Injunction."

The Preliminary Injunction also required the Debtors to file financial disclosure forms under penalties of perjury, describing "the nature and value of" their assets. The Debtors did so in June 2003, and neither QRC nor Park disclosed the Korean Account or the $865,000 in cash that was in that account. The funds in the Korean Account did not appear in any disclosures to the FTC until approximately December 2003, the circumstances of which are discussed next.

Initially, in March 2003, when QRC transferred $865,000 to the Korean Account, QRC's internal bookkeeper recorded entries in QRC's general ledger eliminating QRC's liability of $865,000 for the Korean Debt and reducing QRC's cash by the same amount. In other words, it was as if the $865,000 had been paid to the Korean Export Insurance Company and QRC's debt was extinguished.

After the FTC Action was commenced, in June 2003 the Debtors' accounting firm Nykiel Carlin ("Nykiel") saw that $865,000 was wired to the Korean Account in Park's name. Nykiel was not provided with any evidence that the Korean Debt had been satisfied. Therefore, Nykiel made adjustments in QRC's general ledgers to reinstate the $865,000 liability for the Korean Debt and to reflect that the $865,000 transfer to the Korean Account represented a "loan to shareholder" from QRC to Park.

In approximately October 2003, the Debtors hired Brzeczek. At about that time, he learned that the $865,000 was still intended to satisfy the Korean Debt and that the funds still belonged to QRC even though they were in the Korean Account which was in Park's name. Park

has explained that it was much easier for him, as an individual, to establish the Korean Account than it would have been for QRC, as a foreign company. Therefore, Park was simply holding the funds in the Korean Account for the benefit of QRC.

Based upon what Brzeczek learned, in December 2003, he caused a complex series of transactions to occur simultaneously. As a result, Park paid $865,000 to QRC in exchange for which Park assumed actual ownership of the same amount of funds in the Korean Account. Specifically, QT issued a $865,000 dividend check to Park. Park endorsed the check payable to QRC to effectively purchase from QRC the funds in the Korean Account. QRC then transferred $865,000 to QT which more than extinguished a $755,000 debt that QRC owed to QT at the time. Based upon the overpayment from QRC, QT now had a liability to QRC for approximately $110,000. Because Park now owned the funds in the Korean Account and continued to do so until March 2005 when the funds were returned to the United States to pay Park's personal tax liabilities, the monthly financial statements from December 2003 through March 2005 which were provided to the FTC reflected the balance of $865,000 which was in the Korean Account in the Parks' "checking and savings" assets.

On March 14, 2005, the $865,000 in the Korean Account was transferred to QT, which used the funds to pay Park's personal tax liabilities and recorded this transaction as a disbursement to Park. At that point, the Debtors claim that there were no funds left in the Korean Account. Therefore, the balance from that account was deducted from the "checking/savings" line of the Park's monthly Income Statements which were submitted to the FTC from April 2005 forward.

On March 29, 2007, at the § 341 meeting, Park testified that he never owned a Korean bank account. This testimony was not true, as the Korean Account was always in Park's name,

the funds in that account belonged to Park at least as early as December 2003, and he ultimately used those funds to pay his personal tax liabilities. On April 3, 2007, Park's counsel sent a letter to the United States Trustee's Office stating that at the § 341 meeting Park "misspoke regarding the existence of the Korean bank account." According to the April 3 letter, Park did not "misspeak" about the existence of the Korean Account intentionally "but was merely confused."

4. $900,000 To Ignacio Alvarez

Park states that in March 2003 he transferred from the BBVA account in Spain approximately $900,000 to Ignacio Alvarez, the owner of Bio-Ray. According to Park, Alvarez had paid approximately this amount on September 27, 2002 to purchase a condominium ("the Spanish Condo") in Mallorca, Spain for Park and his wife along with some related expenses. Park then allegedly reimbursed Alvarez by issuing a check or wire to him from the BBVA account for approximately $900,000.

Park has produced documents reflecting that the Spanish Condo was purchased on September 27, 2002 and the deed was recorded in the names of Park and his wife. Park has not produced any documentation which would corroborate that Alvarez paid for the property. To the contrary, bank records suggest that the Debtors may have been the source of the original funds used to buy the Spanish Condo. Specifically, bank records reflect that on September 12, 2002 QT transferred $220,000 from a domestic account to the BBVA account.[18/] This was 15 days before the Spanish Condo was purchased and the timing raises questions as to whether the purpose of this transfer was to pay for the property.

18/ An August 21, 2003 letter from Debtors' former counsel to the FTC was supposed to identify all transfers from the Debtors over $1,000 from January 1, 2003 through June 11, 2003, but failed to identify this $220,000 transfer from QT to the BBVA account. (Exhibit F.)

Park contends that the $220,000 transfer on September 12, 2002 was made to his and his wife's BBVA account so that the money could be used to pay Bio-Ray for some disputed invoices. Park's explanation is extremely dubious, however, because QT had a history of transferring funds from their domestic accounts directly to Bio-Ray accounts. In fact, QT made three such direct transfers to Bio-Ray between September 10, 2002 and September 13, 2002. Therefore, it makes little sense that QT's September 12, 2002 transfer of $220,000 to the BBVA account belonging to Park and his wife was to pay Bio-Ray. Unfortunately, Park has produced no documentation relating to his and his wife's BBVA account. Therefore, there is no way to identify to whom or when the $220,000 and other funds from this account were disbursed.

Furthermore, Park has not produced any documentation regarding the $900,000 which was allegedly disbursed from his and his wife's BBVA account to Alvarez. Therefore, there is no way to identify to whom or when the $900,000 was disbursed and, according to Park, this money is no longer available.

The Spanish Condo is an asset that Park and his wife jointly own. The Parks currently value the property at approximately $825,000. Park contends, however, that he pledged the property to Bio-Ray as collateral for a line of credit that the latter has extended to QT. Therefore, according to Park, the property is not available to satisfy the FTC's judgment. To support his position, during my examination Park produced a document dated April 13, 2003, which purports to reflect this pledge. (Exhibit I.) For the reasons discussed next, however, I question the validity of this document.

On February 23, 2005, Park signed a personal financial statement which he submitted to MB Financial in connection with an application for a letter of credit. The personal financial statement was signed under penalties of perjury, and in it Park identified the Spanish Condo as

an asset with a value of $850,000. The statement asked for the amount of mortgages or liens against the property, and Park wrote "0." Later, after the Final Judgment was issued, the FTC served document requests upon the Debtors. Those requests included one for all documents relating to any pledge of the Spanish Condo as collateral for a line of credit. On January 16, 2007, the Debtors responded that they had no such documents.

Despite the above-described representations, approximately two weeks ago, the Debtors produced to me the April 13, 2003 document which purportedly pledges the Spanish Condo to secure a line of credit from Bio-Ray. (Exhibit I.) We asked Park why he had not produced the pledge document before now, and he indicated that he had lost his copy and had to ask Alvarez for another copy in response to our demands. We question why this document was not produced earlier, and why Park was able to get this document from Alvarez, but could not get any documents from Alvarez to corroborate: (1) Alvarez's purchase of the Spanish Condo in September 2002, (2) Park's repayment to Alvarez for the Spanish Condo purchase in March 2003, (3) Alvarez's advances to the Spanish Researchers between the summer of 2002 and March 2003, (4) Park's payment of $1.1 million to a company owned by Alvarez in March 2003 for the "top secret" research being performed by the Spanish Researchers, or (5) Alvarez's payments of $1.1 million to the Spanish Researchers between March 2003 and some time in 2004.

Park could not explain why Alvarez could send him the pledge document, but none of the others. Nor could he explain why he did not provide the pledge document to the FTC when he responded to the agency's above-described document request. Based upon these circumstances, I question the validity of the pledge document.

D. The $2.1 Million R & D Project Asset

An August 21, 2003 letter to the FTC from the Debtors' former counsel identified a $2.1 million transfer by Park to "R & D Project Initiation" on March 2, 2003. (Exhibit F.) This was the first mention of a "R & D Project."[19/] Park explains that this transfer was identified as such because he originally intended $2.1 of the $3 million that he transferred to the BBVA account in Spain on March 3, 2003 to be invested in the above-described research which was to be performed by the Spanish Researchers. Park acknowledges that within a few weeks of transferring the $3 million to Spain he decided not to invest $2.1 million with the Spanish Researchers. Instead, as described above, his "R & D" investments were limited to $1.1 million with the Spanish Researchers and approximately $545,000 with Bio-Metal Korea. This means that, at best, he invested a total of $1.65 million in R & D.

Nevertheless, Park's monthly Income Statements which were submitted to the FTC for the months of August 2003 through August 2006 included $2.1 million among the Park's "other assets" for his supposed R & D investment. In addition, on or about February 23, 2005, Park signed under penalties of perjury and submitted a personal financial statement to MB Financial in connection with an application to secure a letter of credit and again identified a $2.1 million asset which he described as "R & D Project Investment." Furthermore, on or about January 29, 2007, Park provided the FTC with an "Asset Listing" in which he claimed that the value of his "R & D Project" asset had been reduced from $2.1 million as of August 31, 2006 to $0 as of October 31, 2006. (Exhibit D.) At about the same time, Park produced to the FTC a monthly

19/ Park did not disclose the $2.1 million "R & D Project" among his assets in the June 4, 2003 Park Declaration which he filed in the FTC Action, or on the financial disclosure forms that he signed under penalty of perjury on the same date and provided to the FTC pursuant to the Preliminary Injunction.

Income Statement for September 2006 which explained that the value of his R & D Project asset had been completely eliminated "due to Final Judgment Ruling."

Park's representations regarding the $2.1 million "R & D" investments are very dubious for several reasons, even beyond those described above in the sections relating to each component of the investments. First, even by his own admission, his R & D investment was only $1.65 million and there was no reason to value the investment at $2.1 million. Second, under generally accepted accounting principles, his investment should have been expensed as incurred and not reported as an asset. Therefore, none of these amounts should not have been included in the "other assets." Accordingly, the "other assets" reported to the FTC on the monthly Income Statements for the Parks from August 2003 through August 2006 were overstated by at least $2.1 million. Furthermore, there was no valid basis for representing to MB Financial on his February 23, 2005 personal financial statement that he had any such asset.

We asked Brzeczek why he continued to include the $2.1 million R & D investment in the "other assets" reported on the Park's monthly Income Statements which were submitted to the FTC from August 2003 through August 2006. He explained that he did so simply because the August 21, 2003 letter from the Debtors' former counsel to the FTC had identified the $2.1 million transfer from Park for "R & D Project Initiation." If Brzeczek had investigated the circumstances of this investment, he would have understood: (1) that the investment was only $1.65 million, (2) approximately $1.1 million of that investment had been lost in 2004 or 2005 when the Spanish Researchers allegedly quit their research based upon a lack of funding, and (3) there was no valid basis to include any portion of the investment as an "other asset" on the Park's monthly Income Statements or on the Asset Listing as of August 31, 2006 because this purported investment should have been expensed as incurred and not reported as an asset.

We also asked Brzeczek why he reported on the Park's September 2006 monthly Income Statement that the value of the $2.1 million R & D investment had been reduced to $0 in that month "due to Final Judgment Ruling." (Exhibit E.) He explained that he just assumed that, as a result of the Denlow Order which was issued on September 8, 2006, any investment that Park had made for R & D relating to the Q-Ray bracelets was worthless. Even at that point in time, he failed to inquire about what the circumstances of the investment.

A final issue relating to the $2.1 million R & D "asset" relates to the lack of any documentation providing any of the Debtors with any right, title or interest in the technology or other intellectual property which might have resulted from the research. The Debtors' failure to secure any such documentation reflects gross mismanagement and incompetence in the management of the Debtors' affairs.

E. $4,035,000 to Related Company Ion Ray Co. Ltd. (Canada)

On or about March 6, 2003, Park's three children, Charles, James and Nina, formed Ion Ray Co., Ltd in Ontario, Canada (Ion Ray Canada) to be the exclusive distributor of Q-Ray bracelets in Canada. Although QT had been marketing and selling Q-Ray bracelets in Canada prior to this time, Park and Charles Park claim that it was easier and cheaper to form a Canadian company to assume that function. Park claims that he wanted his children to have a more active role in the industry, and therefore decided to let them form and operate the business. Of course, by doing so, the revenues that QT would have received from retail sales in Canada were now diverted to Ion Ray Canada and beyond the reach of creditors such as the class action plaintiffs or the FTC.

Charles Park appears to run Ion Ray Canada from QT's headquarters in Illinois, but Ion Ray Canada has its own office, warehouse facility, and employees in Canada. We have reviewed

Canadian tax returns for Ion Ray Canada, and it appears to buy Q-Ray bracelets from QT and then sells them in Canada. [20/]

From March 3, 2003, which is about when Ion Ray Canada was formed, through May 14, 2003, it received from QT $4,035,000 through several loans. Charles Park produced documents reflecting that on May 16, 2003 Ion Ray Canada paid approximately $975,000 Canadian for a warehouse and office facility in Ontario, Canada, and states that the remainder of the borrowed funds were used to pay for infomercials, television ads, and other basic start-up costs.

An August 21, 2003 letter from the Debtors' former counsel disclosed QT's transfers of $4,035,000 to Ion Ray Canada. (Exhibit F.) Furthermore, the Debtors have produced the promissory notes underlying these transfers. These notes call for annual payments of interest only for five years when all principal and accrued interest becomes due. Therefore, the principal and any accrued interest on the notes was not due to QT under any of the notes until at least March 3, 2008. QT received no security for the loans.

On September 16, 2006 (8 days after the Denlow Order), Brzeczek prepared a memorandum to file to document a "mid-2004 verbal agreement" between Park, as President of QT, and Charles Park, as President of Ion Ray Canada. (Exhibit J.) According to the memorandum, in mid-2004, the interest rate on the above described promissory notes was adjusted to 1% in exchange for Ion Ray's early repayment of a portion of the principal balance. The memorandum noted that a journal entry reflecting the reduction in the interest rate was made in QT's ledgers in July 2004. The memorandum also recognized that "[n]o set repayment schedule was established and Ion Ray continues to make payments at their sole discretion."

20/ Charles Park represents that Ion Ray Canada also purchases Q-Ray bracelets from Bio-Ray when larger quantities are needed quickly.

In fact, on July 31, 2004, a journal entry in QT's ledgers reduced the interest on the loans to Ion Ray Canada to 1%, and made that rate effective retroactive to the inception of the loans. This effectively eliminated approximately $41,000 in accrued interest owed to QT on those loans and reduced the amount of future interest due on the loans by approximately $460,000 if payments were made in accordance with the terms of the loans. There should have been some contemporaneous documentation for QT's decision to take this action, but there was not. The only documentation which purports to explain it is Brzeczek's memorandum to file of September 14, 2006 (more than 2 years after the fact). Even accepting for a moment the truthfulness of the explanation offered in Brzeczek's memorandum, the only consideration that QT received for reducing the interest from 3 ½ % to 1% was an illusory promise by Ion Ray Canada to make pre-payments of a portion of the principal. That promise was illusory because no schedule was set for pre-payments and Ion Ray Canada could choose if and when to make such pre-payments at its "sole discretion."

The terms and treatment of the Ion Ray Canada loans by the Debtors raise questions regarding the manner in which they have managed and can be expected to manage their affairs. Specifically, Ion Ray Canada had no assets and no track record when it received more than $4 million of completely unsecured loans from QT. The amount and terms of these loans, with a modest interest rate of 3½ % and annual payment of interest only for a period of 5 years, had to be far more favorable than Ion Ray Canada could have obtained from any unrelated source. Furthermore, QT received no real consideration in exchange for its agreement to reduce the interest rate on the loans which effectively reduced the value of the loans by approximately $500,000.

Although Ion Ray Canada was not required to make any pre-payments to QT, it did make several pre-payments to QT on the loans. Specifically, Ion Ray Canada paid QT approximately $2.2 million from August 2003 through August 2006. As with several of the other international transfers that occurred in early 2003, the pre-payments to QT from Ion Ray Canada appear to have been on an "as needed" basis and were immediately spent by QT.

Furthermore, the pre-payments increased substantially at about the time that the Denlow Order was issued and judgments were entered against the Debtors for up to approximately $87 million. Specifically, between September 8, 2006 (the date of the Denlow Order) and February 5, 2007 (when the loans were turned over to the FTC), Ion Ray Canada prepaid approximately $1 million to QT. This money was spent by QT and is not available to satisfy the Final Judgment. The timing of about half these pre-payments is particularly troubling based upon representations that Brzeczek made in an affidavit filed in the FTC Action on or about December 12, 2006 ("the Brzeczek Affidavit"). The Brzeczek Affidavit was filed in support of the Debtors' motion for permission to use more than $500,000 in interest earned on bank accounts which were among the Restricted Assets to pay their attorney fees. To convince the court that the Debtors had few, if any, alternative sources of funds to pay their attorneys, Brzeczek stated that Ion Ray Canada had represented to him that it was "unable and unwilling to make any further pre-payments" to QT.

On December 22, 2006, Judge Denlow granted the Debtors' motion and permitted them to use more than $500,000 from accounts which were among the Restricted Assets to pay their attorney's fees. Despite the representations in the Brzeczek Affidavit, Ion Ray Canada prepaid QT $600,000 between December 23, 2000, and February 1, 2007. We asked Park, Brzeczek and Charles Park what happened between December 12, 2006 (when the Brzeczek Affidavit stated that Ion Ray Canada was unwilling and unable to make any further pre-payments) and February

5, 2007 (by which time Ion Ray Canada had made an additional $600,000 in pre-payments). Charles Park explained that sales increased in December 2006 which enabled Ion Ray Canada to make the payments. This explanation is thoroughly unconvincing, as there is no evidence that sales suddenly and unexpectedly increased or that Ion Ray Canada did not always know full well that it would be able to make the pre-payments that it did. The timing of these pre-payments and the lack of any credible explanation cast serious doubts about the honesty of and motives for the representations in the Brzeczek Affidavit.

In addition to reducing the value of the loans receivable from Ion Ray Canada through pre-payments, the Debtors also took other actions that were entirely baseless and reduced the value of the Ion Ray Canada loans receivable by an additional $368,000 shortly before they were turned over to the FTC. Specifically, on October 16, 2006 Jean Shin from Ion Ray Canada sent Brzeczek an e-mail saying all payments to QT in 2006 should have been credited to the loans receivable from Ion Ray Canada, rather than the accounts receivable for products purchased by Ion Ray Canada. She asked Brzeczek for a recalculation of both accounts. (Exhibit K.)

On October 17, 2006, Brzeczek sent an e-mail to Julie Noh, a bookkeeper at QT, instructing her to adjust QT's ledgers to reflect that all payments from Ion Ray Canada in 2006 were pre-payments on loans, rather than payments for products. (Exhibit L.) Brzeczek gratuitously added in the e-mail that he had admitted to Charles Park and Park that he had mistakenly assumed the payments were first to be applied to reduce the accounts receivable due from Ion Ray Canada for products. As a result of the adjustments that were made in connection with these e-mails, the accounts receivable due from Ion Ray Canada increased by about $368,0000 and the notes receivable due from Ion Ray Canada were decreased by $368,000. The net effect of this adjustment was to decrease the value of an asset being turned over to the FTC

(the loans receivable due from Ion Ray Canada) by about $368,000, and to increase the value of an asset which was not being turned over to the FTC (the account receivables from Ion Ray Canada) by the same amount.

Charles Park explained to us that Ion Ray Canada decided in October 2006 that it would be beneficial to treat all of the payments that it had made to QT in 2006 as pre-payments on the notes to eliminate the interest that was accruing on the notes. He explained that Ion Ray Canada gained no such advantage by treating the payments that it had made to QT in 2006 as payments of the accounts receivable because QT did not charge interest to Ion Ray Canada on the accounts receivable.

Charles Park's explanation is extremely dubious. The decision to treat all payments from Ion Ray Canada to QT in 2006 as loan repayments was not made until October 2006. This just happened to be after the Final Judgment and while the Debtors were offering to turn over to the FTC the Ion Ray Canada notes. Given the timing, it seems obvious that they took this action solely to frustrate the FTC's ability to satisfy its judgment. If Ion Ray Canada had wanted to save the interest-expense by treating all of its payments as pre-payments on the loans, it could have approached QT about doing so anytime between August 2003 and September 2006 while it was making payments to QT for both accounts receivable and the loans. Ion Ray Canada did not do so because it was not truly interested in saving the 1% interest-expense, at least until the Final Judgment had been entered against the Debtors and everyone realized that the FTC was about to become the holder of the Ion Ray Canada notes.

F. The Creation of Ion Ray, Inc.

On July 28, 2003, Park's children, James, Charles and Nina, formed Ion Ray, Inc., an Illinois corporation ("Ion Ray Illinois"). Ion Ray Illinois markets and sells Q-Ray bracelets, sunglasses and other products in the United States, primarily over the internet. By doing so,

retail sales revenues that QT would have received from sales in the United States were now diverted to Ion Ray Illinois and beyond the reach of creditors such as the FTC.

James Park and two employees appear to operate Ion Ray Illinois from QT's headquarters in Illinois. All of their compensation and benefits are paid through QT's payroll. QT then charges back to Ion Ray Illinois all compensation and benefits that it pays to James Park and the two other Ion Ray Illinois employees. We have reviewed federal income tax returns for Ion Ray Illinois, and it appears to be an actual business with modest revenues.

We focused primarily on two issues relating to Ion Ray Illinois. One issue relates to "manufacturing services" that Ion Ray Illinois purports to provide and charge to QT. According to Park, James Park applies a secret process to Q-Ray bracelets which QT purchases from suppliers other than Bio-Ray. QT then pays Ion Ray Illinois for applying this process to the Q-Ray bracelets. Park refuses to describe the process or even the location where it is performed. He says, however, that it is so secret that James has had to move the site where he performs the process at least three times. We asked Park whether James uses equipment to apply the secret process, and Park answered "yes and no." He eventually explained that component parts of some sort are assembled in some mysterious fashion to form the equipment used to apply the process, but he would not tell us what those component parts are, who assembles them, or who pays for them. We asked Brzeczek, as the accountant for Ion Ray Illinois, to identify where the expenses were recorded for the purchase of the relevant component parts, and he acknowledged that no such expenses are recorded in the ledgers of Ion Ray Illinois or anywhere else of which he is aware. In addition, Ion Ray Illinois carries no asset on its books for any such parts or equipment.

In sum, Park has offered no credible evidence to support his claim that Ion Ray Illinois provides any actual "manufacturing services" to QT. It is quite possible that QT uses this as a pretext to offset receivables that Ion Ray Illinois might otherwise owe to QT for the Q-Ray bracelets that Ion Ray Illinois buys from QT to sell over the internet. For example, according to a ledger detail report filed with QT's amended Statement of Financial Affairs, for the one-year period ended February 23, 2007, Ion Ray Illinois still owed QT approximately $163,000 for Q-Ray bracelets. This receivable was offset, however, because QT supposedly owed Ion Ray Illinois $160,000 for manufacturing services. The net result is that QT was owed $3,000, rather than $163,000. Therefore, it has no substantial receivable due from Ion Ray Illinois and no such asset which might otherwise be part of QT's estate.

The second issue that we investigated relating to Ion Ray Illinois relates to a $95,000 no-interest loan from QT to Charles Park on May 23, 2003. The note called for $400 to be deducted from Charles Park's payroll checks until the loan was fully repaid. Yet, no deductions were ever taken from Charles Park's payroll checks and no re-payments were made on this loan as of June 1, 2006. On that date, Park sent a letter to Charles informing him that QT had assigned the note to Ion Ray Illinois, effective January 1, 2006, and that his obligations on the note were now due to Ion Ray Illinois. Ion Ray Illinois forgave the debt and treated the full $95,000 as a bonus to Charles Park for which he received a Form 1099.

The Debtors contend that, in consideration for the assignment of Charles Park's note, Ion Ray Illinois reduced the amount that QT owed it for "manufacturing services" by $95,000. Given a complete lack of credible evidence that any such "manufacturing services" were ever provided, I conclude that there was no real consideration provided for the assignment and that the purpose and effect was to eliminate yet another asset which should be part of QT's estate.

G. $1.1 Million To China

In late 2002 or early 2003, Park formed Q-Ray International in Shanghai, China to market and sell Q-Ray bracelets in China. Between July 2002 and April 2003, QT transferred $1,010,000 to two accounts at Citibank in Shanghai which Park had opened in his own name. The purpose of these transfers was supposedly to enable Park to fund Q-Ray International. These transfers were disclosed in an August 21, 2003 letter from the Debtors' former counsel to the FTC (Exhibit F), and the letter identified the two different accounts at Citibank in Shanghai into which these transfers were made. The August 21, 2003 letter to the FTC also identified these transfers from QT as distributions to Park which means that the transferred funds were Park's personal assets.

As discussed below, Park now contends that between 2003 and 2006 he spent approximately $400,000 of the funds that he transferred to China. After repeated requests from the FTC and me, last week he finally produced a one-page letter dated November 30, 2006, which purports to be from a Chinese consultant to support some of the expenses in China. (Exhibit M.) The letter is in Chinese, but describes various services which the Chinese consultant performed for Q-Ray International between 2002 and 2006 in return for $315,000. This is the only document that Park has produced to corroborate his expenses in China. He claims that he does not have any bank records or other documents to substantiate expenses that he incurred in China. The lack of bank records or other documentation for these expenses represents gross mismanagement, at best, and fraud, at worst.

At the outset of the FTC Action, Park disclosed his $1 million transfer to China. Specifically, in the Park Declaration of June 4, 2003 which was filed in the FTC Action, Park states that QT "intends to establish a manufacturing operation in China, so [QT] deposited approximately $1 million in a Shanghai bank for this purpose." Attached to the Park Declaration

is a list of "Principal Assets of Defendants" which identifies $1,010,000 belonging to Park in a Chinese bank account ("Account A"). Similarly, Fritz Lentz, the Vice President of Marketing for QT, also filed a Declaration in the FTC Action on or about June 4, 2003. In that Declaration, Lentz stated that QT planned to manufacture and import Q-Ray bracelets and related items from China and was investigating the purchase of a China-based manufacturing facility.

Park's monthly Income Statements which were submitted to the FTC for the months of August 2003 through August 2006 also include the $1,010,000 that Park had transferred to China among the Park's "other assets." Following the Denlow Order and Final Judgment, however, the Debtors informed the FTC that approximately $400,000 of those funds had been spent between 2003 and 2006, that Park had contributed another $300,000 into a Q-Ray International account at Citibank in China in exchange for common stock, and the remaining $300,000 is an account at HSBC in China.[21/] According to Park, neither the $300,000 which he contributed to Q-Ray International nor the funds in the HSBC account can be repatriated and therefore they are unavailable to satisfy the Final Judgment.

The FTC questions the Debtors' representations regarding the status of their funds in China and the timing as well as the manner in which the Debtors made relevant disclosures about the funds to the FTC. Specifically, on January 29, 2007, the Debtors provided the FTC with an Asset Listing which purported to identify and provide the value of Park's assets as of August 31, 2006 and as of October 31, 2006. (Exhibit D.) According to the Asset Listing, assets owned solely by Park decreased in value from $7,488,399 as of August 31, 2006 (8 days before the Denlow Order) to $771,746 as of October 31, 2006. The Asset Listing represented that between

21/ The HSBC account in China currently has a balance of approximately $320,000, and Park has produced bank statements for three Q-Ray International accounts at Citibank and the Gungshung bank in China which show an aggregate balance of approximately $180,000 as of November 30, 2006.

August 31, 2006 and October 31, 2006, the funds in Account A at Citibank in Shanghai decreased from $410,000 to $3,501.

The FTC sought explanations and documentation regarding the significant change in the balance of Account A at Citibank in Shanghai. Initially, the Debtors responded that they did not have any supporting documentation. Shortly thereafter, however, the Debtors produced to the FTC a September 2006 Income Statement for Park and his wife which reflects that the Parks had approximately $712,000 in expenses in that month. (Exhibit E.) A footnote to the Income Statement explains that these expenses include $400,000 for "3+ years of cumulative expenditures in China" and adds that "Chinese expenditures include marketing development costs, employees salaries and housing, sourcing costs, etc." In other words, Park claims that from 2003 through 2006, he spent approximately $400,000 of the funds that he had in China but neglected to so inform the FTC until he provided them with his September 2006 Income Statement. I find it incredible that Park cannot produce any bank statements, checks, invoices or documentation, other than the above-described one-page letter purporting to be from a Chinese consultant, to substantiate the timing and amount of his expenses in China between 2003 and 2006.

H. BMT International, LLC

On January 9, 2007, Park's children formed BMT International, LLC ("BMT"), a limited liability company in Illinois, to market and sell Q-Ray bracelets in the United States through infomercials. By doing so, retail sales revenues that QT would have received from sales in the United States would be diverted to BMT International and beyond the reach of creditors such as the FTC.

BMT operated from QT's headquarters in Illinois, and had no employees. QT allegedly financed infomercials for BMT. QT then collected all revenues from BMT sales, repaid itself for

the advances, and any remaining revenues were to be turned over to BMT. This arrangement, however, lasted only for the first few months of 2007 when BMT ceased to operate. As of April 30, 2007, BMT owed QT approximately $320.

I. Use Of Inter-Company Ledger Accounts To Avoid Or Evade Tax Liabilities

The following are representative examples of how the Debtors used inter-company accounts to avoid or evade tax liabilities.

First, I have described earlier in this Report how the Debtors improperly transferred the purported Korean Debt of $865,000 from QRC to QT to evade approximately $125,000 in taxes that QRC should have paid for the year 2005.

Second, the Korean Debt purportedly originated in 1990 when the predecessor of QRC purchased approximately $1.1 million of cameras from Hyundai. According to QRC's ledgers, QRC still had an inventory of these cameras which it valued at $408,000 as of August 30, 2001. On that date, the inventory was transferred to QT through an inter-company journal entry. According to QT's ledgers, QT then wrote off the inventory on the same day—August 30, 2001. The only apparent purpose for these transactions was to evade taxes. QRC could have written off the inventory of cameras without transferring the inventory to QT. QRC would not have gained any tax advantage by doing so, however, because it did not have sufficient taxable income in 2001 that it could offset with the write-off. QT, on the other hand, was able to use the write-off of the inventory to reduce its taxable income in 2001 which passed through to Park. Therefore, Park paid less in taxes than he would have paid if QT had not taken advantage of the inventory write-off.

J. Debtors' Disclosures

The FTC alleges that the Debtors have not complied with their disclosure obligations during the FTC Action and in these bankruptcy proceedings.

During the FTC Action, the Debtors were required to provide to the FTC statements identifying the nature and value of their assets and a statement verified under oath of all transfers and assignments of assets and property worth $1,000 or more since January 1, 2002. The Debtors failed to completely and accurately do either. Specifically, the monthly financial statements provided to the FTC overstated Park's assets at least to the extent that from August 2003 through August 2006 they included the $2.1 million R & D asset and at least $400,000 of money in a Chinese bank account which Park now claims has been spent. Furthermore, an August 21, 2003 letter from Debtors' former counsel purported to reflect all transfers and assignments by the Debtors of more than $1,000 between January 1, 2002, but we have identified in this report alone more than a million dollars of such transfers which were not disclosed—the $865,000 transferred by QRC to the Korean Account on March 3, 2003 and the $220,000 transferred from QT's account to the Parks' joint BBVA account in Spain on September 12, 2002.[22/]

During the bankruptcy proceedings, Park failed to accurately and completely disclose bank accounts in his original Statement of Financial Affairs and Schedules. As a result of those matters being raised by the FTC and the United States Trustee's Office through correspondence

22/ We have identified many more undisclosed transfers by the Debtors of more than $1,000 during the relevant time period. The Debtors acknowledge the non-disclosure of many such transactions, but explain that the omissions were due to confusion of their counsel and a misunderstanding in that they believed that they were not required to identify any such transfers if they were in the ordinary course of business (e.g. payments to suppliers). The nature and number of the undisclosed transfers and the failure to amend their disclosures of such transfers, however, seems to represent further incompetence and gross mismanagement.

and in the §341 meeting, Park filed an amended Statement of Financial Affairs and Schedules. The amendments primarily involved foreign bank accounts held by Park in Korea, England and China, which he did not disclose in his original filings, and those amendments are described next.

1. The Korean Account

Specifically, in response to Item No. 11 of Park's original Statement of Financial Affairs, Park represented that he did not own any accounts that had been closed, sold or transferred within one year. Park then testified at the § 341 meeting that he never had a Korean bank account. This, of course, was untrue. As discussed earlier in this Report, a few days after the § 341 meeting, Park's counsel sent a letter to the United States Trustee's Office stating that Park "misspoke regarding the existence of the Korean bank account" because he was "confused." Park then filed his amended Statement of Financial Affairs, identifying the Korean Account in response to Item No. 11 and explaining that he had not disclosed the Korean Account initially because the funds in the account were repatriated on March 14, 2005 to pay his taxes at which time the account was closed. If this representation is true, the Korean Account would have been closed more than 1 year before the commencement of Park's bankruptcy and Park would not have been obligated to disclose it in response to Item No. 11 of his original Statement of Financial Affairs. Unfortunately, I could not determine if Park's representations are true because Park claims that he cannot produce any bank records for this account. Therefore, there is no evidence that the account has ever been closed.

2. The Barclays Bank Accounts In England

In response to Item No. 14 of Park's original Statement of Financial Affairs, he represented that he held $5,000 in an account at Barclays Bank for the benefit of Ion Ray

Canada. This was the only Barclays Bank account identified by Park in his original Statement of Financial Affairs and original Schedules. In his amended Schedule B, however, he identified an additional checking account that he held at Barclays Bank with a balance of $0. It appears that Park has had at least three, and very possibly four, bank accounts at Barclays Bank during the past four years. Park transferred $300,000 of his funds into one Barclays Bank account on April 11, 2003, and has produced documentation that those funds were returned to the United States on June 16, 2003 pursuant to the Preliminary Injunction. QT transferred $600,000 of its funds into another Barclays Bank account on May 20, 2003, and has produced documentation that those funds were returned to the United States on June 23, 2003, pursuant to the Preliminary Injunction. The FTC produced a bank statement relating to a third Barclays Bank account covering the period from October 5, 2006 through January 4, 2007, with beginning and ending balances of $2.39 and ($11.51), respectively. Park informs us that he has no recollection of this account. Finally, the FTC has identified a fourth Barclays Bank account in Park's name which Park has informed us is the account in which he holds approximately $5,000 for Ion Ray Canada.

3. The Citibank Accounts In Shanghai, China

On Schedule B of his original Schedules, Park represented that he had one Citibank checking account in Shanghai, China with a balance of approximately $3,500. On amended Schedule B, Park disclosed three Citibank accounts in Shanghai, including the one that he disclosed on his original Schedule B and two others with balances of $0. The FTC has produced a Citibank China statement for the period October 30, 2006 through November 29, 2006 which shows three accounts in Park's name. The balances in the Citibank accounts were $3,414 in one and $0 in the other two.

4. The HSBC Accounts In China

On Schedule B of his original Schedules, Park represented that he had one HSBC checking account in Shanghai, China with a balance of approximately $320,000. On amended Schedule B, Park disclosed four HSBC accounts in Shanghai, including the one that he disclosed on his original Schedule B and three others with balances ranging from $41 to $5,305. The FTC has produced a HSBC China statement for the period ending December 25, 2006 which shows four accounts in Park's name. The balances appear to be about the same as those reported by Park on his amended Schedule B.

5. Conclusions Regarding Foreign Bank Accounts

Park has explained that he did not intentionally omit the foreign accounts at Citibank, HSBC and Barclays when he filed his original Statement of Financial Affairs and Schedules. According to Park, he established and considered himself as having only one account at each of these institutions but the banks created separate accounts for various reasons. For example, Park explained, Citibank in China may have created one account for US dollars and another account for Chinese currency. I find Park's claim dubious, particularly so because he insists that he cannot obtain or produce any records relating to these accounts beyond the few bank statements described above. Park's claim is incredible. It seems impossible that Park could not obtain bank statements for his own accounts from three global financial institutions such as Citibank, HSBC and Barclays. Without these statements, it is impossible to know the true facts and circumstances regarding any of these foreign accounts, and possibly any others that he might have. Based upon his failure to maintain or produce these documents, it is fair to infer that Park has engaged in gross mismanagement, incompetence and irregularities, at the very least, and

possibly fraud and dishonesty, with respect to the disclosures of and activities in the foreign accounts.

K. Credit Card Reserves

On July 10, 2003, the Debtors included among the Restricted Assets approximately $1.1 million held in credit card reserve accounts. The Preliminary Injunction, however, expressly stated that credit card reserve accounts were not subject to its restrictions. The FTC apparently recognized this, and on July 18, 2003 moved the court to require the Debtors to replace the funds in the credit card reserve accounts with $1.1 million of other assets to be included among the Restricted Assets. On August 21, 2003, the Debtors opposed the FTC's motion by arguing that the credit card reserve accounts are "truly restricted assets." In opposing the FTC's motion, the Debtors also assured the court that the Debtors "cannot dissipate these funds [in the credit card reserve accounts] for operating expenses, or for any other purpose." The Court denied the FTC's motion, which left the credit card reserve accounts among the Restricted Assets.

During the FTC Action, the funds in the credit card reserve accounts have decreased dramatically for four primary reasons. First, the Discover Card has been closed and approximately $260,000 from this reserve account was refunded to QT. Second, QT closed its account with Card Services which then refunded $75,000 from its reserve account to QT. Third, QT negotiated a lower reserve formula with a credit card processing company, Paymentech, which resulted in a refund of reserves amounting to more than $500,000 and a reduced reserve level going forward. Finally, QT's sales, including its credit card sales, have decreased substantially since 2003 which has led to lower reserve account balances because the reserves are a percentage of the credit card sales.

The FTC contends that the Debtors violated the Preliminary Injunction by depleting the credit reserves, using the funds, and not replacing them with some other form of Restricted Assets. The Debtors argue that their credit card reserve accounts were expressly exempted by the Preliminary Injunction. Ironically, in motion practice during the two months following the inclusion of the credit card reserve accounts among the Restricted Assets, the FTC acknowledged that the accounts were not subject to the terms of the Preliminary Injunction and the Debtors assured the court that these accounts were "truly restricted assets" which would not be dissipated or used for any purpose by the Debtors. Four years later, the arguments being made by the FTC and the Debtors have come full circle with the FTC arguing that the funds in the credit card reserve accounts were restricted assets and the Debtors arguing that they were not.

On July 10, 2003, Debtors obtained a benefit by including approximately $1.1 million in the credit card reserve accounts among the Restricted Assets. If the Debtors had not done so, they likely would have had to subject approximately $1.1 million of their other assets to the restrictions of the Preliminary Injunction. The credit card reserve accounts have been substantially depleted, and the funds from those accounts which have been returned to the Debtors have been spent. As a result, the funds available to the FTC for consumer redress are approximately $1.1 million less than the $17 million which the Debtors initially set aside at the beginning of the FTC litigation for that purpose. However, the language of the Preliminary Injunction and the representations made by the FTC and the Debtors in motion practice relating to the credit card reserve accounts create too much ambiguity for me to reach a definitive conclusion regarding whether the Debtors violated the Preliminary Injunction by depleting the credit card reserve accounts.

L. Preferences And Fraudulent Conveyances

The Orders required me to investigate "any possible preferences or fraudulent conveyances" by the Debtors. I have identified below several transfers and payments that might satisfy the elements of a preference pursuant to 11 U.S.C. § 547(b) or constitute fraudulent transfers under the Illinois Uniform Fraudulent Transfers Act, 740 ILCS 160/1, *et seq.* and avoidable pursuant to 11 U.S.C. § 544. Further analysis and research would be necessary, however, to render a definitive conclusion. These matters will likely need to be addressed by the parties in future proceedings.

1. Potential Preferences

All three Debtors reported at least one transaction that likely satisfies the elements of a preference as set forth in 11 U.S.C. § 547(b). Further research and analysis is required to determine whether there are any viable defenses to these transfers, but I have noted certain issues that were clear as I conducted my inquiry.

a. Payments to the FTC

All three Debtors made at least one payment to the FTC in February 2007 in partial satisfaction of the judgment entered against them. These payments are potential preferences, but the fact that QT established a "qualified settlement fund" ("the QSF") in 2003 complicates the analysis. The payments made to the FTC by the Debtors are as follows:

- QT made two transfers to the FTC in February 2007. The first was on February 5, 2007, in the amount of $865,729.60 (assignment of the Ion Ray Note). The second was on February 12, 2007, in the amount of $7,331,380.84 (cash).
- Q-Ray transferred $11,207.09 in cash to the FTC on February 20, 2007.

- Que T. Park transferred $21,854.10 in cash to the FTC on February 20, 2007.

Whether these payments to the FTC are preferences turns on when, as a technical matter, the Debtors "transferred" the funds. For tax purposes, all funds turned over to the FTC had been "transferred" or "segregated" by the Debtors into the QSF in 2003. Therefore, the FTC contends that the Debtors transferred the funds to the QSF in 2003 and the QSF transferred the funds to the FTC in February 2007. Under this theory, the Debtors did not make a preferential transfer to the FTC.

My limited research into this issue has not definitively answered this question, and the parties may have to address it in subsequent proceedings. However, my research did reveal an analogy that may be instructive. Funds held in escrow are, in general, not considered property of the estate. Once the conditions of an escrow account are satisfied, courts generally determine that the legal interest to the money is vested in the beneficiary of the account. Therefore, as long as the conditions of the escrow are triggered prior to the bankruptcy filing, the relevant preference transfer is the transfer of funds from the debtor to the escrow account, not from the escrow account to the creditor. See, e.g., *In re Jazzland, Inc.*, 322 B.R. 610, 616 (E.D. La. 2005); *Carlson v. Farmers Home Admin.*, 744 F.2d 621, 627 (8th Cir. 1984).

These cases may be instructive if the court finds the QSF analogous to an escrow account. If the payments to the FTC are preferences, however, further research would be required to determine whether they are defensible.

b. QT's Payments to Vendors, Service Providers, and Other Creditors

In response to Item 3(b) of its Statement of Financial Affairs filed on April 25, 2007, QT reported a number of payments to creditors with an aggregate value of greater than $5,000 within 90 days immediately preceding its filing for bankruptcy. A number of these transfers appear to

be payments to QT's vendors and other service providers, such as F.C.L. Graphics, Inc., CDW, Inc., Tanury Industries, STAIB Germany, U.S. Postal Service, and RSVP Direct. The account histories for a number of these accounts reflect a significant amount of activity for the months and years preceding the bankruptcy, suggesting long-standing, routine business activity. Therefore, valid defenses may exist to many of these preferences, but further analysis is required to render a definitive conclusion.

One of the more significant transfers by QT was made to the law firm of Ungaretti & Harris on February 9, 2007, in the amount of $552,100.40. This payment appears to have been substantially disproportionate to other payments to the Ungaretti firm. Further inquiry into the facts and circumstances surrounding this payment may be required to determine whether any defenses exist to this preference.

2. Potential Fraudulent Transfers

Several transfers that occurred in late 2002 and early 2003, which were discussed at length earlier in this Report, may constitute fraudulent transfers under the Illinois Uniform Fraudulent Transfers Act, 740 ILCS 160/1, *et seq.*, and avoidable pursuant to 11 U.S.C. § 544. These transfers include the following:

- The $3 million transfer to Bio-Metal Korea, purportedly for research and development;
- The $3 million transfer to Park's personal bank account in Spain, which was then purportedly disbursed to parties in Spain and Korea either for research and development or payment of a debt owed by Debtor Q-Ray Company;
- The $1 million dollar transfer to Park's personal bank account in China, purportedly for establishing a business presence in that country; and

- The $4 million loan to Ion Ray Co., Ltd., a company formed an operated by Park's children.

As discussed earlier in this Report, the Debtors' conduct with respect to these transfers suggests an attempt to place their assets beyond the reach of potential creditors. This is evidenced by the remarkable lack of corroboration for the purported transfers and lack of consideration received in return for the transfers. In many instances the funds were returned to Park on an as-needed basis and immediately used to pay his personal expenses. These facts are indicia of fraudulent transfers, but further discovery and analysis is required to make a conclusive determination.

Park and QT also made donations to related charitable organizations that should be further scrutinized as possible fraudulent transfers. In response to Item 7 of its Statement of Financial Affairs ("SOFA"), QT reported $15,445 in gifts made in the year prior to its filing for bankruptcy. The schedules attached to the SOFA indicate that these gifts were in the form of rent forgiveness to QT Foundation and World Healing Power Ministries, two charitable organizations which were formed and are run by Park and/or his immediate family members from QT's corporate offices.

Park also reported making charitable donations to various organizations in the one year prior to his filing for bankruptcy. These include the following:

- $15,000 in periodic church offerings to Full Gospel Church of Hope;
- $84,843.70 to World Healing Power Ministry; and
- $18,366.75 to QT Foundation.

Although defenses exist for donations made to charitable organizations, these transfers should be further analyzed to determine if they can be avoided. Given that World Healing Power

Ministry (a/k/a QT Ministries) and QT Foundation are organizations that operate out of QT's corporate offices, and were formed and/or are run by Park and his immediate family members, these transfers merit further scrutiny.

IV. CONCLUSION

Based upon the above facts, I conclude that the Debtors, at worst, have engaged in acts of fraud and dishonesty and, at best, have engaged in acts of incompetence, misconduct, mismanagement, or irregularity in the management of their affairs.

The evidence supporting these conclusions establishes that, between February 2003 and May 2003, the Debtors transferred more than $12 million to related-companies and others in Canada, England, China, Korea and Spain. They have produced virtually none of the basic documentation that one would expect to see if these were legitimate transactions for legitimate purposes. I would expect such documentation to include contemporaneous correspondence, agreements, invoices, bank statements and checks. To the extent that any of these funds were returned to the Debtors, it appears to have been done only on an "as needed" basis to pay Park's personal tax liabilities or for the Debtors' business. To the extent that the remaining funds were not returned to the Debtors, they were supposedly spent, but Park has failed to produce something as simple as bank statements from at least 10 foreign bank accounts which would either corroborate or undermine his explanations for the disposition of those funds.

In addition to a lack of basic documentation, Park has not identified any available witnesses who could corroborate his explanations for the purpose of the Debtors' transfers and the disposition of those funds. In fact, Park refuses to provide basic information about such witnesses like the Spanish Researchers, Alvarez, the principals of Bio-Metal Korea, the representative of Keukdong, and others who should be able to corroborate his explanations if

they were true. Furthermore, Park refuses to describe or point to any corroboration for any aspect of the purported research or investments for which much of the Debtors' funds were supposedly transferred or paid.

Beyond the lack of corroboration, the Debtors' explanations for most of the significant events are either baseless or defy common sense. In some scenarios, the explanations make no sense. For example, why did QRC wait until February 28, 2003, to send $430,000 to Keukdong to settle a debt that existed since 1990? Why did the Debtors send $430,000 to Keukdong on February 28, 2003, if those funds were not used to settle the Korean Debt until 2005? Why are there no documents regarding the negotiations, agreements or transfers between the Debtors and Keukdong or between Keukdong and the Korean Export Insurance Company which purportedly held the Korean Debt? Why did Park wait until November 1, 2006 to tell Brzeczek that the Korean Debt had been settled more than 1 year earlier? In other scenarios, the explanations are just baseless. For example, why did Brzeczek transfer the $865,000 Korean Debt from QRC to QT on November 1, 2006 if the Korean Debt had been extinguished by QRC more than one year earlier? Why did QT, in October of 2006, re-characterize all of Ion Ray Canada's 2006 payments as payments on the Ion Ray Note rather than as payments for products, if not to hinder the FTC's ability to satisfy the Final Judgment? These are merely illustrative, and not by any means exhaustive of the problems with the Debtors' explanations for their conduct in managing their affairs.

In sum, the Debtors' questionable explanations for the timing and circumstances of their actions combined with a lack of corroboration from documents or witnesses leads me to conclusion that, at worst, the Debtors have engaged in acts of fraud and dishonesty and, at best, have engaged in acts of incompetence, misconduct, mismanagement, or irregularity in the management of their affairs.

Dated: June 8, 2007

ROSS O. SILVERMAN, as Examiner

By: /s Ross O. Silverman

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