

**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
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In re:)	Chapter 11
)	
Q-RAY COMPANY,)	Case No. 07 B 03228
)	
Debtor.)	Honorable Eugene R. Wedoff
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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. The FTC Files Suit In May 2003 And The Parties Agree to An Asset Injunction

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

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

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

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. THE DEBTORS’ CONDUCT IN THE MANAGEMENT OF THEIR AFFAIRS

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 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

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 Bilbao 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"),

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

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

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. The \$865,000 Transfer To A Korean Account Held In Park's Name

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

^{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,