

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

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In re:

Bky. Case No. 00-33612  
Chapter 7

International Beauty Network, Inc.,  
  
Debtor.

-----  
John A. Hedback, Trustee for the  
Bankruptcy Estate of International Beauty  
Network, Inc.,

Plaintiff,

v.

Adv. Pro. No. 02-3204

Daloris Lowenthal, The Richard and Daloris  
Lowenthal Family Trust, Garry N. Lowenthal,  
Equilink LLC, Old Oak Fund, Inc.,  
Harbor View Fund, Inc., and HSBC Bank USA,  
f/k/a Republic National Bank of New York,

Defendants.  
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**APPLICATION FOR DEFAULT JUDGMENT**

To: The above-named Defendants and to their attorneys of record on the attached service list:

1. Plaintiff John A. Hedback, Trustee, by his counsel, respectfully applies for entry of default judgment against defendants Daloris Lowenthal, The Richard and Deloris Lowenthal Family Trust, and Garry Lowenthal in the above adversary proceeding.

2. Plaintiff applies for entry of default judgment in favor of Plaintiff for avoidance of those certain transfers described in Count I and III of Plaintiff's Complaint herein, for an order preserving these transfers for the benefit of the estate, and for any further relief as the Court

deems just. Said application is based upon the accompanying Affidavit of Trustee on the Merits Supporting the Application for Default, the Affidavit of Default, the Affidavit of Identification, and Proposed Findings of Fact, Conclusions of Law, and Order for Default Judgment, and upon applicable Bankruptcy Rules and the files, records, and proceedings herein.

Dated: August 23, 2004

KALINA, WILLS, GISVOLD & CLARK, P.L.L.P.

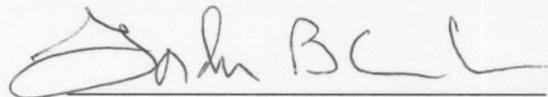
By:     /e/ Gordon B. Conn, Jr.  
Gordon B. Conn, Jr. (#18375)  
6160 Summit Drive, Suite 560  
Minneapolis, MN 55430  
Tel. (612) 789-9000  
Fax (763) 503-7070  
Attorneys for Plaintiff  
John A. Hedback, Trustee



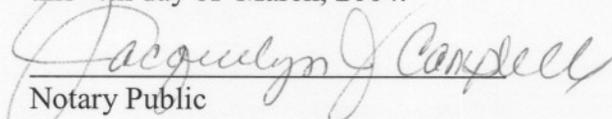
Lowenthal Family Trust, and Garry N. Lowenthal.

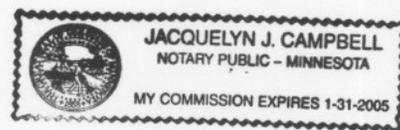
1. I filed the Complaint in the above-caption adversary proceeding on September 20, 2003.
2. The Clerk issued a Summons on September 20, 2003, and the Summons and Complaint were served by regular and certified mail on Defendants by mailing on September 25, 2002. True and correct copies of the certified mail return receipts showing receipt by each of said Defendants are attached hereto as Exhibit A.
3. More than 30 days have now passed since the date the Summons was issued and served, and Defendants Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry N. Lowenthal have neither served an Answer nor otherwise defended in this adversary proceeding, and are, therefore, in default.

Further Affiant Sayeth Not.

  
Gordon B. Conn, Jr.

Subscribed and sworn to before me  
this 4th day of March, 2004.

  
Notary Public



**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Daloris Lowenthal  
2717 S. Gregory Drive  
Billings, MT 59102

2. Article Number (Co) 7000 1670 0007 1575 2897

PS Form 3811, July 1999

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X

Agent

Addressee

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C.O.D.

4. Restricted Delivery? (Extra Fee)

Yes

GBC-IBN

Domestic Return Receipt

102595-00-M-0952

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

The Richard and Daloris Lowenthal Family Trust  
 Attn: Trustee, Officer, or Managing Agent  
 2717 S. Gregory Drive  
 Billings, MT 59102

2. Article Number (7000 1670 0007 1575 2903)

PS Form 3811, July 1999

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly)

B. Date of Delivery

9/28/05

C. Signature

X

*[Handwritten Signature]* Agent Addressee

D. Is delivery address different from item 1?

 Yes

If YES, enter delivery address below:

 No

3. Service Type

 Certified Mail  Express Mail Registered Return Receipt for Merchandise Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee)

 Yes

6BC-IBN

Domestic Return Receipt

102595-00-M-0952

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Garry N. Lowenthal  
1836 N. Prior Avenue  
St. Paul, MN 55113

2. Article Number (Cop): 7000 1670 0007 1575 2910

PS Form 3811, July 1999

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

Garry Lowenthal 7-27-02

C. Signature

X *Garry Lowenthal*  Agent  Addressee

D. Is delivery address different from item 1?  Yes

If YES, enter delivery address below:  No

3. Service Type

- Certified Mail  Express Mail
- Registered  Return Receipt for Merchandise
- Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

GBC-IBN

Domestic Return Receipt

102595-00-M-0952

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

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In re:

Bky. Case No. 00-33612  
Chapter 7

International Beauty Network, Inc.,  
  
Debtor.

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John A. Hedback, Trustee for the  
Bankruptcy Estate of International Beauty  
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v.

Adv. Pro. No. 02-3204

Daloris Lowenthal, The Richard and Daloris  
Lowenthal Family Trust, Garry N. Lowenthal,  
Equilink LLC, Old Oak Fund, Inc.,  
Harbor View Fund, Inc., and HSBC Bank USA,  
f/k/a Republic National Bank of New York,

Defendants.  
-----

**AFFIDAVIT OF IDENTIFICATION**

STATE OF MINNESOTA    )  
                                  ) ss.  
COUNTY OF HENNEPIN    )

I, John A. Hedback, being first duly sworn, deposes and says as follows:

1. I am the Chapter 7 trustee in Case No. Bky. 00-33612, and Plaintiff in the above-captioned adversary proceeding. I make this affidavit in support of Plaintiff's application for default judgment against Defendants Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry N. Lowenthal.

2. To the best of Affiant's knowledge and belief, the addresses and full names of said Defendants are as follows:

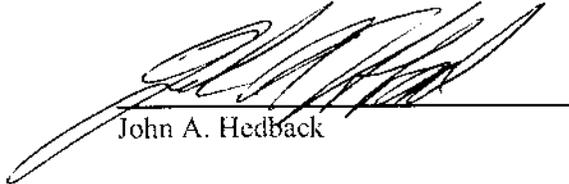
Daloris Lowenthal  
2717 S. Gregory Drive  
Billings, Montana 59102

The Richard and Daloris Lowenthal Family Trust  
2717 S. Gregory Drive  
Billings, Montana 59102

Garry N. Lowenthal  
1836 N. Prior Avenue  
St. Paul, MN 55113

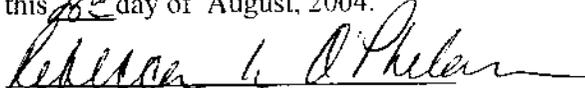
3. To the best of Affiant's knowledge and belief, Defendants Daloris Lowenthal and Garry N. Lowenthal are neither now in the military service nor of incompetent status.

Further Affiant Sayeth Not.

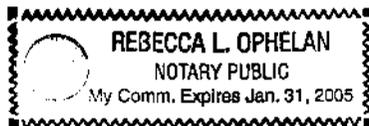


John A. Hedback

Subscribed and sworn to before me  
this 28<sup>th</sup> day of August, 2004.



Notary Public



UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

-----  
In re:

Bky. Case No. 00-33612  
Chapter 7

International Beauty Network, Inc.,

Debtor.  
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John A. Hedback, Trustee for the  
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Daloris Lowenthal, The Richard and Daloris  
Lowenthal Family Trust, Garry N. Lowenthal,  
Equilink LLC, Old Oak Fund, Inc.,  
Harbor View Fund, Inc., and HSBC Bank USA,  
f/k/a Republic National Bank of New York,

Defendants.  
-----

**AFFIDAVIT OF TRUSTEE ON THE MERITS SUPPORTING**  
**THE APPLICATION FOR DEFAULT JUDGMENT**

STATE OF MINNESOTA    )  
  ) ss.  
COUNTY OF HENNEPIN    )

I, John A. Hedback, being first duly sworn, depose and say as follows:

1. I am the Trustee for the Bankruptcy Estate of International Beauty Network, Inc., and the Plaintiff in the above-captioned adversary proceeding.

2. I make this affidavit in support of Plaintiff's application for default judgment against defendants Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry Lowenthal (collectively the "Lowenthal Defendants").

3. In my capacity as Trustee, I have come into possession of various business

records of the Debtor, and based upon my review thereof and my knowledge of the case, I believe the documentary materials referred to herein are true and correct and are admissible into evidence as business records and otherwise.

4. The involuntary petition commencing this bankruptcy case was filed August 31, 2000, and the Order for Relief was entered September 21, 2000. This case is now pending before this Court.

5. This adversary proceeding was commenced September 20, 2002. With respect to the Lowenthal Defendants, the Complaint (Counts One and Three) seeks to avoid as avoidable transfers the granting of security interests to the Lowenthal Defendants and the perfection thereof.

6. At all times material hereto, Defendant Garry N. Lowenthal was President and Chief Executive Officer of the Debtor, International Beauty Network, Inc. ("IBN"), and was its largest shareholder.

7. Garry Lowenthal is related to Daloris Lowenthal as he is her son.

8. The Debtor's business records indicate that from time to time between August 1993 and August 1999, IBN received loans from Defendant Daloris Lowenthal in the aggregate principal amount of \$155,234.25. Attached hereto as Exhibit A is a true and correct copy of the Debtor's 1998 audited financial statement, reflecting \$122,000 in debt to "related parties," \$65,000 in short-term notes and \$67,000 in long-term debt. It appears that the short-term debt was owed to Daloris Lowenthal and that \$57,000 of the long-term debt was owed to Daloris Lowenthal. See recapitulation from Debtor's business records, Exhibit B hereto. In addition to the \$120,000 in debt reflected in the audited financial statements, it appears that the Debtor incurred an additional \$33,234.25 indebtedness to Daloris Lowenthal in August 1999; a true and correct copy of the August 12, 1999, promissory note to Daloris Lowenthal is attached hereto as Exhibit C. The aggregate principal amount owing by the Debtor to Daloris Lowenthal as of August 12, 1999, accordingly was \$155, 234.25.

9. The Debtor's business records also indicate that from time to time between 1993 and December 31, 1998, the Debtor had received loans from and issued promissory notes to Defendant Garry Lowenthal having a balance as of December 31, 1998, in the aggregate principal amount of \$502,832; these obligations are reflected in Note 5 to the 1998 audited financial statements, Exhibit A hereto. These obligations accrued interest at 14% per annum. In addition, in 1999, Mr. Lowenthal made additional loans to the Debtor in the amount of \$13,075.00. A true and correct copies of the August 2, 1999, promissory note is attached hereto as Exhibit D. As of August 12, 1999, the aggregate amount owing to Mr. Lowenthal on the pre-1999 loans was approximately \$545,490.57; see recapitulation, Exhibit E hereto. Together with the 1999 indebtedness, as of August 12, 1999, the Debtor owed Mr. Lowenthal approximately \$558,565. In addition to the promissory notes, Mr. Lowenthal claims additional IBN indebtedness to him, as reflected in Exhibit F hereto.

10. At times material hereto, Garry Lowenthal was president and controlling shareholder of IBN, and was thereby an "insider" for purposes of 11 U.S.C. § 101 (31) (B), and Minn. Stat. §513.(7) (ii). Mr. Lowenthal's mother, Daloris Lowenthal, and the Richard and Daloris Lowenthal Family Trust are likewise "insiders" by reason of 11 U.S.C. § 101 (31) (B) (vi) and Minn. Stat. §513.(7) (i).

11. On or about August 12, 1999, to secure the antecedent debt, IBN entered into a security agreement with The Richard and Daloris Lowenthal Family Trust and Daloris Lowenthal whereby IBN granted to them as secured parties a security interest in substantially all of IBN's assets. A true and correct copy of said security agreement is attached hereto as Exhibit G.

12. The security interest reflected in Exhibit G was perfected by filing a financing statement on October 26, 1999; a true and correct copy of said financing statement is attached hereto as Exhibit H.

13. On or about August 12, 1999, IBN entered into a security agreement with

Garry Lowenthal, whereby IBN granted him as secured party a security interest in substantially all of IBN's assets. A true and correct copy of said security agreement is attached hereto as Exhibit I.

14. The security interest granted to Garry Lowenthal was perfected by filing a financing statement on October 26, 1999. A true and correct copy of said financing statement is attached hereto as Exhibit J.

15. The perfection of the security interests took place within one year prior to the bankruptcy filing, was made to or for the benefit of a creditor, on account of antecedent indebtedness, while the Debtor was insolvent.

16. At the time of the above transfers, IBN was insolvent within the meaning of 11 U.S.C. § 101(32) and Minn. Stat. § 513.42, such that the grant and perfection of security interests to secure hitherto unsecured indebtedness would have the effect to enable Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry Lowenthal to obtain more than they would receive under Chapter 7, Title 11, United States Code, if the transfers had not been made and the defendants received payment of such debt to the extent provided by the Bankruptcy Code.

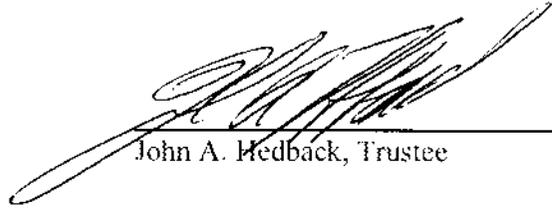
17. The granting of the security interests in August 1999 were transfers to insider creditors on account of antecedent debt without providing reasonably equivalent value to the Debtor, such that the transfers are subject to avoidance by a bankruptcy trustee pursuant to 11 U.S.C. § 544 and Minn. Stat. §§ 513.44 and 513.45.

18. At all times material hereto, and at the times of the transfers to the Lowenthal Defendants, there existed one or more unsecured creditors of IBN who could have avoided the transfer under state law; see, e.g., Claim No. 34 of Eide Bailly LLP, Exhibit K hereto.

19. IBN was insolvent at the time of the transfers; as reflected in the 1998 audited financial statements, IBN had a negative net worth, as was the case at the time of the involuntary bankruptcy—see summary of schedules, Exhibit L hereto. In excess of \$3 million in general

unsecured claims have been filed against the bankruptcy estate—see copy of claims register,  
Exhibit M hereto.

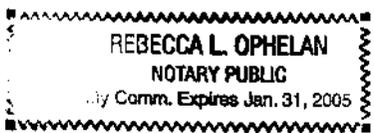
Further Affiant Sayeth Not.

  
\_\_\_\_\_  
John A. Hedback, Trustee

Subscribed and sworn to before me  
this 24<sup>th</sup> day of August, 2004

  
\_\_\_\_\_  
Notary Public

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# **EXHIBIT A**

INTERNATIONAL BEAUTY NETWORK, INC.

*Financial Statements*  
*December 31, 1998 and 1997*

HideBailly

## CONTENTS

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	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Shareholders' Deficit	4
Statements of Cash Flows	5
Notes to Financial Statements	6
INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION	13
Schedules of Selling and Marketing and General and Administrative Expenses	14



Consultants • Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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Board of Directors and Shareholders  
International Beauty Network, Inc.  
Minneapolis, Minnesota

We have audited the accompanying balance sheet of **International Beauty Network, Inc.** as of December 31, 1998 and 1997, and the related statements of operations, changes in shareholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **International Beauty Network, Inc.** as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*Eide Bailly LLP*

April 7, 1999  
Eden Prairie, Minnesota

# INTERNATIONAL BEAUTY NETWORK, INC.

## BALANCE SHEETS

DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 0	\$ 9,211
Trade Accounts Receivable (Net of Allowance for Discounts and Returns of \$15,353 and \$34,293 and Bad Debts of \$12,786 and \$31,343 for 1998 and 1997, respectively)	734,277	490,833
Inventories	1,324,147	1,002,720
Prepaid Expenses	77,800	47,220
Total Current Assets	<u>2,136,224</u>	<u>1,549,984</u>
<b>FURNITURE AND EQUIPMENT</b>	<b>239,507</b>	<b>152,878</b>
Less Accumulated Depreciation	<u>(63,362)</u>	<u>(39,904)</u>
Net Furniture and Equipment	<u>176,145</u>	<u>112,974</u>
<b>OTHER ASSETS</b>		
Intangible Assets	58,617	53,832
Less Accumulated Amortization	<u>(26,072)</u>	<u>(13,335)</u>
Total Other Assets	<u>32,545</u>	<u>40,497</u>
	<u>\$ 2,344,914</u>	<u>\$ 1,703,455</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Excess of outstanding checks over cash on deposit	\$ 39,447	\$ 0
Accounts Payable	376,914	172,438
Accrued Expenses	298,708	120,070
Short-Term Notes Payable	1,399,824	1,692,193
Current Maturities of Obligation Under Capital Lease	2,803	3,212
Total Current Liabilities	<u>2,117,696</u>	<u>1,987,913</u>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, Net of Current Maturities	552,000	427,000
Obligation Under Capital Lease, Net of Current Maturities	2,070	4,875
Total Long-Term Liabilities	<u>554,070</u>	<u>431,875</u>
<b>SHAREHOLDERS' DEFICIT</b>		
Common Stock, \$.01 Par Value; 10,000,000 Shares Authorized;	52,106	32,731
Additional Paid-In Capital	1,046,829	525,106
Retained Earnings (Accumulated Deficit)	<u>(1,425,787)</u>	<u>(1,274,170)</u>
Total Shareholders' Deficit	<u>(326,852)</u>	<u>(716,333)</u>
	<u>\$ 2,344,914</u>	<u>\$ 1,703,455</u>

See Notes to Financial Statements.

# INTERNATIONAL BEAUTY NETWORK, INC.

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
NET SALES	\$ 2,208,834	\$ 1,895,652
COST OF SALES	<u>1,197,254</u>	<u>1,120,249</u>
GROSS PROFIT	<u>1,011,580</u>	<u>775,403</u>
OPERATING EXPENSES		
Selling and Marketing Expenses	399,416	291,315
General and Administrative Expenses	<u>728,197</u>	<u>675,547</u>
	<u>1,127,613</u>	<u>966,862</u>
LOSS FROM OPERATIONS	(116,033)	(191,459)
OTHER INCOME (EXPENSE):		
Settlement Income	74,980	0
Interest Expense	<u>(245,226)</u>	<u>(211,515)</u>
NET LOSS BEFORE EXTRAORDINARY ITEM	(286,279)	(402,974)
Extraordinary Item - gain on extinguishment of debt (Note 14)	<u>134,662</u>	<u>0</u>
NET LOSS	<u>\$ (151,617)</u>	<u>\$ (402,974)</u>

# INTERNATIONAL BEAUTY NETWORK, INC.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Deficit
	Shares	Amount			
BALANCE, DECEMBER 31, 1996	3,331,756	\$ 33,318	\$ 384,589	\$ (871,196)	\$ (453,289)
Shares Repurchased and Cancelled	(1,030,040)	(10,300)	(145,700)	0	(156,000)
Shares Issued for Cash	708,364	7,083	232,917	0	240,000
Shares Issued in Exchange for Services and as compensation	263,049	2,630	77,083	0	79,713
Less Stock Issuance Costs	0	0	(23,783)	0	(23,783)
Net Loss	0	0	0	(402,974)	(402,974)
BALANCE, DECEMBER 31, 1997	3,273,129	32,731	525,106	(1,274,170)	(716,333)
Shares Repurchased	(70,000)	(700)	(2,800)	0	(3,500)
Shares Issued for Cash and payment of Note Payable	1,856,914	18,570	548,803	0	567,373
Shares issued in Exchange for Services and as compensation	150,541	1,505	58,140	0	59,645
Less Stock Issuance Costs	0	0	(82,420)	0	(82,420)
Net Loss	0	0	0	(151,617)	(151,617)
BALANCE, DECEMBER 31, 1998	5,210,584	\$ 52,106	\$ 1,046,829	\$ (1,425,787)	\$ (326,852)

See Notes to Financial Statements.

# INTERNATIONAL BEAUTY NETWORK, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (151,617)	\$ (402,974)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	23,458	18,343
Amortization	12,737	12,907
Non-Cash Compensation	4,725	20,255
Non-Cash Forgiveness of Debt	(134,662)	
(Increase) Decrease in:		
Trade Accounts Receivable	(243,444)	(232,083)
Inventories	(321,427)	(489,198)
Prepaid Expenses	(45,580)	(36,120)
Increase (Decrease) in:		
Accounts Payable	200,976	30,396
Accrued Expenses	228,117	107,467
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(426,717)</u>	<u>(971,007)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of Intangible Assets	(4,785)	(6,474)
Purchase of Equipment	(86,629)	(7,414)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(91,414)</u>	<u>(13,888)</u>
<b>FINANCING ACTIVITIES</b>		
Net Proceeds from Short-Term Notes Payable	231,687	520,009
Excess of outstanding checks over cash on deposit	39,447	0
Proceeds from Issuance of Long-Term Debt	0	360,000
Payments on Capital Lease Obligation	(3,214)	(1,733)
Issuance of Common Stock	253,500	240,000
Stock issuance costs paid	(12,500)	
Purchase and Cancellation of Common Stock	0	(156,000)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>508,920</u>	<u>962,276</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(9,211)	(22,619)
<b>CASH, BEGINNING OF YEAR</b>	<u>9,211</u>	<u>31,830</u>
<b>CASH, END OF YEAR</b>	<u>\$ 0</u>	<u>\$ 9,211</u>

# INTERNATIONAL BEAUTY NETWORK, INC.

## STATEMENTS OF CASH FLOWS - continued FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest Paid	\$ 170,501	\$ 110,612
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital Lease Incurred for Equipment Purchase	\$ 0	\$ 4,934
Common Stock Issued in Exchange For Services	54,920	59,458
Common Stock Issued as Compensation	4,725	20,255
Accrued Expense Converted to Short Term Note Payable	17,246	180,666
Common stock repurchased and unpaid	3,500	0
Short-term Note payable to stockholder converted to long-term debt	125,000	0
Interest and principal of note payable forgiven	134,662	0
Note and interest payable to officer converted to common stock	62,825	0
Note payable converted to common stock	250,000	0
Common stock issued in payment for interest	1,048	0

# INTERNATIONAL BEAUTY NETWORK, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

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### NOTE 1 - BUSINESS ACTIVITY

International Beauty Network, Inc. is a privately held corporation that was incorporated under the laws of the State of Minnesota in 1991. The Company is a distributor of licensed beauty and health care products for children which are sold across the United States and throughout the world to retail stores including discount chains, drug stores and food stores.

The Company's financial statements have been prepared in conformity with principles of accounting applicable to a going concern. These principles contemplate the realization of assets and liquidation of liabilities in the normal course of business. During 1998, the Company sustained a net loss. Management has instituted measures to mitigate future losses and is in the process of obtaining additional sources of financing, as more fully described in Note 11.

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Inventories - Inventories are priced at the lower of cost or market using a standard cost method which approximates first-in-first-out (FIFO).

Furniture and Equipment - Furniture and equipment is recorded at cost and depreciated using accelerated methods as follows:

- Soap Machines - 15-20 year life
- Tooling - 3-7 year life
- Trade Show Booth - 10 year life
- Furniture - 3-7

Significant additions and betterments are capitalized, while expenditures for maintenance, repairs and minor renewals are charged to operations when incurred.

Depreciation expenses includes amortization of assets held under capital lease obligations.

Intangible Assets - Intangible assets include costs associated with copyrights, trademarks, debt issuance costs and patent applications. Copyrights, trademarks, debt issuance costs and patents are amortized straight-line over their estimated useful lives. Patent application costs are accumulated until a patent is awarded.

Supplier Concentration - The Company contracts with two companies to manufacture substantially all of its products. The loss of these suppliers could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results.

Advertising - Advertising costs are expensed as incurred. Advertising expense from continuing operations was \$97,745 and \$60,600 for the years ended December 31, 1998 and 1997, respectively.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts in the 1997 financial statements have been reclassified to conform to the current year classification. Such reclassifications had no effect on net loss.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - INCOME TAXES

The Company's shareholders have elected to have the corporation taxed under Subchapter "S" of the Internal Revenue Code. Therefore, no provision for income taxes is included in these financial statements. The taxes, if any, are the liability of the Company's shareholders.

NOTE 4 - INVENTORIES

The major classes of inventories consist of the following:

	December 31,	
	1998	1997
Raw Materials	\$ 759,388	\$ 622,366
Finished Product	564,759	380,354
	<u>\$ 1,324,147</u>	<u>\$ 1,002,720</u>

An inventory reserve of \$0 and \$25,000 at December 31, 1998 and 1997, respectively, was established to reduce the carrying value of certain inventory items on hand to estimated market value.

NOTE 5 - SHORT-TERM NOTES PAYABLE

	December 31,	
	1998	1997
Asset-based revolving line of credit of \$1,000,000 payable on demand and bears interest at 11% above the prime rate, which was 18.75% at December 31, 1998. This line of credit is secured by certain receivables and inventory, guaranteed by the majority shareholder. The line expires on April 12, 1999.	\$ 655,209	\$ 406,942
Note payable to Bank, due March 1, 1999, with interest at 2.25% over prime (10% at December 31, 1998). This note is secured by export receivables and export inventory, guaranteed by the Minnesota Export Finance Authority. This note was extended to mature on November 1, 1999, with a principal reduction to \$71,400.	79,443	175,000
Note payable to Bank, checking credit line, interest at 17.5%, unsecured.	2,953	3,363
Notes payable to Officer, due on demand with interest at 14%. These notes are subordinated to the line of credit.	377,832	451,888
Note payable to related parties due on demand with interest at 12%. These notes are subordinate to the line of credit and are unsecured.	65,000	65,000

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - SHORT-TERM NOTES PAYABLE (continued)

	December 31,	
	1998	1997
Note payable convertible to approximately 255,000 shares of common stock, due on demand; secured by accounts receivable, with interest at 12%. This note was converted to Common Stock during 1998.	0	250,000
Notes payable due on demand with interest at 10%.	104,387	125,000
Note payable due December 31, 1998 with interest at 15%. During 1998, \$125,000 of this note was forgiven, as well as unpaid interest (See Note 14). The remaining balance was paid in full on January 31, 1999.	15,000	215,000
Note payable due on demand with interest at 4.5% through December 31, 1998, and no stated interest rate beyond December 31, 1998.	100,000	0
	<u>\$ 1,399,824</u>	<u>\$ 1,692,193</u>

NOTE 6 - LONG-TERM DEBT

	December 31,	
	1998	1997
Note payable to related party consists of unsecured borrowings with interest at 12%, subordinated to the line of credit, no due date specified.	\$ 67,000	\$ 67,000
Note payable to shareholder, due June 30, 2000, with interest at 14%, subordinated to the line of credit.	125,000	0
Note payable convertible to 1,062,546 shares of common stock for all unpaid principal and accrued interest at 4.5%. The note is due December 31, 2000, unless converted to stock at an earlier date through the Option Agreement issued by the Company.	360,000	360,000
Total Long-Term Debt	<u>\$ 552,000</u>	<u>\$ 427,000</u>

Minimum annual principal payments are as follows:

Year Ended  
December 31,

1999	\$	0
2000		552,000

**NOTE 7 - LEASE AGREEMENTS**

The Company leases computers under capital leases which expire through 2000, and are included in the balance sheet as follows:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Equipment	\$ 10,561	\$ 5,627
Less Accumulated Depreciation	<u>1,594</u>	<u>469</u>
Net Leased Equipment	<u>\$ 8,967</u>	<u>\$ 5,158</u>

Future minimum lease payments for capital leases are as follows:

<u>Year Ended</u> <u>December 31,</u>			
1999		\$	3,691
2000			<u>2,401</u>
			6,091
Less Amount Representing Interest			<u>(1,218)</u>
Present Value on Minimum Lease Payments			4,873
Less Current Portion			<u>(2,803)</u>
Long-Term Capital Lease Obligation		\$	<u>2,070</u>

The company leases an office on a month-to-month basis. Total rent expense was \$4,596 and \$4,423 for the years ended December 31, 1998 and 1997, respectively.

**NOTE 8 - MAJOR CUSTOMERS**

The Company has major customers (three in 1998, three in 1997) that accounted for approximately 64% and 19% of accounts receivable at December 31, 1998 and 1997, respectively. Sales to these customers represented approximately 48% and 36% of total sales for the years ended December 31, 1998 and 1997, respectively. The Company generally does not require collateral from its customers.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

Accrued interest payable to an officer of \$17,246 and \$95,858 was capitalized and added to the officer's note payable for the years ended December 31, 1998 and 1997, respectively. Accrued compensation to the officer for 1996 of \$84,808 was added to the officer's note payable during 1997. In addition, the officer advanced cash to the Company of \$75,000 and \$7,500 during the years ended December 31, 1998 and 1997, respectively. Notes and interest payable to an officer of \$62,825 were converted to 1,256,500 shares of common stock during 1998.

Interest expense to all related parties (see Notes 5 and 6) was \$82,109 and \$71,017 for the years ended December 31, 1998 and 1997, respectively.

**NOTE 10 - SHAREHOLDER AGREEMENT**

The Company, as part of an agreement to sell shares of common stock, entered into a put agreement to repurchase shares of common stock. The agreement allows the shareholder, at the shareholder's option, to sell the shares back to the Company at prices and on dates as provided in the following schedule:

<u>Time Period</u>	<u>Number of Shares</u>	<u>Price per share</u>
From February 12, 1998 to February 11, 1999	169,818	\$1.10
From February 12, 1999 to February 11, 2000	169,818	1.23
From February 12, 2000 to February 11, 2001	169,819	1.38

In the event the shareholder does not exercise the put option by the close of the above dates, the number of shares available for exercise accumulates. The put option expires on February 11, 2001.

In addition, the agreement provides for dividends to be paid from net profits of the company commencing with the year ending December 31, 2001. Such dividends are subject to certain restrictions, but accumulate in the event of non-payment.

**NOTE 11 - SUBSEQUENT EVENTS**

The following events have occurred during 1999:

The Company is negotiating with several parties for the sale of additional shares of the Company's common stock.

The Company is restructuring its distribution system in an effort to reduce distribution and inventory carrying costs.

The Company is negotiating with several parties to refinance or extinguish certain debt instruments.

The Company, as assignee, received a patent related to its manufacturing process for bar soaps.

**NOTE 12 - COMMITMENTS**

The Company is a party to various license agreements for toys sold as parts of its products. Certain of these licenses require the greater of the minimum payments or the payment of from 7% to 11% of sales to the licensor for use of the licensed product. License expense for the years ended December 31, 1998 and 1997 was \$67,934 and \$50,819, respectively.

Minimum payments required on the license agreements for future years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
1999	\$ 140,000
2000	171,100
2001	213,400
	<u>\$ 524,500</u>

**NOTE 13 - SETTLEMENT INCOME**

During 1998, the Company commenced an action against a licensor related to the Company's exclusive rights to sell one of its licensed products. The action was settled during 1998 with a payment received by the Company of \$74,980.

**NOTE 14 - EXTRAORDINARY ITEM**

During 1998, the Company reached an agreement with one of its creditors whereby a portion of the company's debt and unpaid interest was forgiven. Under the agreement, no further interest accrued, and remaining payments of principal were reduced. The transaction resulted in an extraordinary gain of \$134,662.

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Consultants • Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION**

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Board of Directors and Shareholders  
International Beauty Network, Inc.  
Minneapolis, Minnesota

Our report on our audits of the basic financial statements of **International Beauty Network, Inc.** for 1998 and 1997 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of selling and marketing and general and administrative expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

April 7, 1999  
Eden Prairie, Minnesota

# INTERNATIONAL BEAUTY NETWORK, INC.

## SCHEDULES OF SELLING AND MARKETING AND GENERAL AND ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>SELLING AND MARKETING EXPENSES</b>		
Advertising	\$ 50,679	\$ 28,078
Commissions	94,239	95,530
License Fees	67,934	50,819
Samples and Displays	66,960	32,522
Trade Shows	41,732	35,310
Other	77,872	49,056
Total Selling and Marketing Expenses	<u>\$ 399,416</u>	<u>\$ 291,315</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries and Contractors	\$ 407,548	\$ 315,334
Payroll Taxes	40,801	25,242
Amortization	12,737	12,907
Automobile	14,823	10,926
Bad Debts	12,786	31,343
Computer	12,759	12,729
Depreciation	23,458	18,343
Dues and Subscriptions	5,745	6,834
Insurance	7,928	8,812
License Agent Fees	30,000	18,000
Miscellaneous	4,114	0
Office Supplies and Expenses	40,660	55,413
Postage and Shipping	12,770	17,891
Professional Fees	14,242	28,954
Rent	4,596	4,423
Telephone	24,781	24,807
Travel, Meals and Entertainment	58,449	83,589
Total General and Administrative Expenses	<u>\$ 728,197</u>	<u>\$ 675,547</u>

# **EXHIBIT B**

**INTERNATIONAL BEAUTY NETWORK, INC.**  
**Related Party Loans and Interest Calculation @ 12%**  
**As of: November 30, 1999**

Daloris Lowenthal Loan Balance:	
Short-Term (due on demand), per 12/31/98 audit	\$65,000.00
Long-Term (due June 30, 2000), per 12/31/98 audit	\$57,000.00
Short-Term (due November 30, 1999)	\$33,234.25
Eleanor Pieser Loan Balance (Principal):	<u>\$10,000.00</u>
Total Loans Due (Principal Portion) To Related Parties	<b>\$165,234.25</b>

**Interest Calculation:**

**Daloris Lowenthal:**

Accumulated Interest, as of:	
December 31, 1996 (\$122,000):	\$29,116.00
Plus Interest from January 1, 1997 to November 30, 1999 (based on 360 day year)	\$42,659.33
New Note, on August 12, 1999 for \$33,234.25 (paid Diversified Mfg. directly on behalf of IBN)	\$1,196.43

<b>Total Interest Due to Daloris Lowenthal</b>	<u><u>\$72,971.77</u></u>
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**Eleanor Pieser:** (based on 360 day year)

Accumulated Interest from Sept. 27, 93 to November 30, 1999 on \$10,000.00 principal (9/27/93 to 12/31/96=\$3,910.00) (1/1/97 to 11/30/99=\$3,500.00)	<u>\$7,410.00</u>
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<b>Total Interest Due to Eleanor Pieser</b>	<u><u>\$7,410.00</u></u>
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<b>TOTAL INTEREST DUE TO RELATED PARTIES</b>	<b>\$80,381.77</b>
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**Loans & Interest Due SUMMARY, by Individual**

**DALORIS LOWENTHAL:**

Principal Portion Due	\$155,234.25	
Accrued Interest, till November 30, 1999	<u>\$72,971.77</u>	
		<u><u>\$228,206.02</u></u>

**ELEANOR PIESER:**

Principal Portion Due	\$10,000.00	
Accrued Interest, till November 30, 1999	<u>\$7,410.00</u>	
		<u><u>\$17,410.00</u></u>

## **EXHIBIT C**

## PROMISSORY NOTE

\$33,234.25

August 12, 1999  
Bloomington, Minnesota

**FOR VALUE RECEIVED**, the undersigned, **INTERNATIONAL BEAUTY NETWORK, INC.** ("Borrower") promises to pay to the order of **DALORIS LOWENTHAL** (the "Lender") the principal sum of Thirty Three Thousand Two Hundred Thirty Four and 25/100 Dollars (\$33,234.25) plus interest thereon from the date of each advance in whole or in part included in such amount until this Note is fully paid. Interest shall be computed on the basis of the actual number of days elapsed and a 360-day year, at an annual rate equal to Twelve percent (12%) per annum. Interest is due and payable at maturity. Notwithstanding the foregoing, after an Event of Default, this Note shall bear interest until fully paid at five percent (5%) per annum in excess of the rate otherwise then in effect. The undersigned also shall pay the holder of this Note a late fee equal to 10% of any payment under this Note that is more than 10 calendar days past due.

All interest, principal, and any other amounts owing hereunder are due on November 30, 1999 or earlier UPON DEMAND by Lender or any holder hereof, and Lender specifically reserves the absolute right to demand payment of all such amounts at any time, with or without advance notice, for any reason or no reason whatsoever. Lender's right to make such demand is not exclusive and Lender may coincidentally or separately from such demand make further demand for payment pursuant to the terms hereof (including but not limited to upon the occurrence of an Event of Default), and further, amounts may become due hereunder without a demand by Lender.

All or any part of the unpaid balance of this Note may be prepaid at any time. At the option of the then holder of this Note, any payment under this Note may be applied first to the payment of other charges, fees and expenses under this Note and any other agreement or writing in connection with this Note, second to the payment of interest accrued through the date of payment, and third to the payment of principal. Neither the Lender nor any other person has any obligation to make any advance or readvance under this Note.

The occurrence of any of the following events shall constitute an Event of Default under this Note: (i) any default in the payment of this Note; or (ii) any other default under the terms of any now existing or hereafter arising debt, obligation or liability of any maker, endorser, guarantor or surety of this Note or any other person providing security for this Note or for any guaranty of this Note; or (iii) the insolvency (other than the insolvency of the undersigned), death dissolution, liquidation, merger or consolidation of any such maker, endorser, guarantor, surety or other person; or (iv) any appointment of a receiver, trustee or similar officer of any property of any such maker, endorser, guarantor, surety or other person; or (v) any assignment for the benefit of creditors of any such maker, endorser, guarantor, surety or other person; or (vi) any commencement of any proceeding under any bankruptcy, insolvency, dissolution, liquidation or similar law by or against any such maker, endorser, guarantor, surety or other person, provided however, that if such a proceeding is commenced against the maker hereof or any Guarantor on an involuntary basis, then only if such action is not dismissed within 60 days of first being filed; or (vii) the sale, lease or other disposition (whether in one transaction or in a series of transactions) to one or more persons of all or a substantial part of the assets of any such maker, endorser, guarantor, surety or other person; or (viii) any such maker, endorser, guarantor, surety or other person dies or takes any action to revoke or terminate any agreement, liability or security in favor of the Lender; or (ix) the entry of any judgment or other order for the payment of money in the amount of \$10,000.00 or more against any such maker, endorser, guarantor, surety or other person which judgment or order is not discharged or stayed in a manner acceptable to the then holder of this Note within 10 days after such entry; or (x) the issuance or levy of any writ, warrant, attachment,

garnishment, execution or other process against any property of any such maker, endorser, guarantor, surety or other person; or (xi) the issuance or attachment of any tax lien or tax levy against any property of any such maker, endorser, guarantor, surety or other person which is other than for taxes or assessments not yet due and payable; or (xii) any statement, representation or warranty made by any such maker, endorser, guarantor, surety or other person (or any representative of any such maker, endorser, guarantor, surety or other person) to any present or future holder of this Note at any time shall be false, incorrect or misleading in any material respect when made or effective; or (xiii) there is a material adverse change in the condition (financial or otherwise), business or property of any such maker, endorser, guarantor, surety or other person. Upon the occurrence of any Event of Default described in subparagraphs (iii), (iv), (v) or (vi) above (or earlier upon demand), all amounts outstanding under this Note (including unpaid principal, interest and other charges due or accruing hereunder) shall be and become immediately due and payable without any declaration, notice, presentment, protest, demand or dishonor of any kind (all of which are hereby waived by Borrower) and Borrower's ability to obtain any additional credit extensions or advances under this Note shall be immediately and automatically terminated. Upon demand or upon the occurrence of an Event of Default and at any time thereafter while an Event of Default is continuing, the then holder of this Note may, at its option, declare this Note to be immediately due and payable and thereupon this Note shall become due and payable for the entire unpaid principal balance of this Note plus accrued interest and other charges on this Note without any presentment, demand, protest or other notice of any kind.

The undersigned: (i) waives demand, presentment, protest, notice of protest, notice of dishonor and notice of nonpayment of this Note; (ii) agrees to promptly provide all present and future holders of this Note from time to time with financial statements of the undersigned and such other information respecting the financial condition, business and property of the undersigned as any such holder of this Note may reasonably request, in form and substance acceptable to such holder of this Note; (iii) agrees that when or at any time after this Note becomes due the then holder of this note may offset or charge the full amount owing on this note against any account then maintained by the undersigned with such holder of this Note without notice; (iv) agrees to pay on demand all fees, costs and expenses of all present and future holders of this Note in connection with this Note and any security and guaranties for this Note, including but not limited to audit fees and expenses and reasonable attorneys' fees and legal expenses, plus interest on such amounts at the rate set forth in this Note; and (v) consents to the personal jurisdiction of the state and federal courts located in the State of Minnesota in connection with any controversy related in any way to this Note or any security of guaranty for this Note, waives any argument that venue in such forums is not convenient, and agrees that any litigation initiated by the undersigned against the Lender or any other present or future holder of this Note relating in any way to this Note or any security or guaranty for this Note shall be venued (at the sole option of Lender or the holder hereof) in either the District Court of Dakota or Hennepin County, Minnesota, or the United States District Court, District of Minnesota. Interest on any amount under this Note shall continue to accrue, at the option of any present or future holder of this Note, until such holder receives final payment of such amount in collected funds in form and substance acceptable to such holder. The maker agrees that, if it brings any action or proceeding arising out of or relating to this Agreement, it shall bring such action or proceeding in the District Court of Hennepin County, Minnesota.

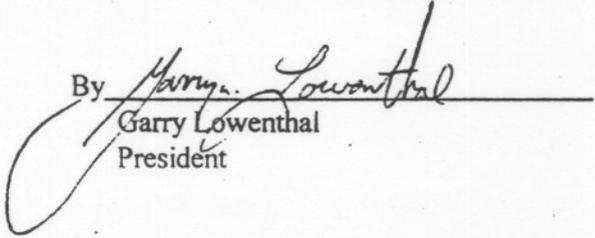
In the event a court of competent jurisdiction determines that the rate of interest violates any usury laws or any other law, then, such rate of interest or other provision shall be accordingly and retroactively adjusted or modified to comply with the highest rate allowed under applicable law. Further, if any provision or application of any provision of this Note other than the Rate of Interest (including but not limited to any provision relating to the calculation of interest) is held unlawful or unenforceable in any respect (including but not limited to any usury or similar law), such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Note shall be construed as

if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. The undersigned waives notice of acceptance hereof.

No waiver of any right or remedy under this Note shall be valid unless in writing executed by the holder of this Note, and any such waiver shall be effective only in the specific instance and for the specific purpose given. All rights and remedies of all present and future holders of this Note shall be cumulative and may be exercised singly, concurrently or successively. The undersigned, if more than one, shall be jointly and severally liable under this Note, and the term "undersigned," wherever used in this Note, shall mean the undersigned or any one or more of them. This Note shall bind the undersigned and the successors and assigns of the undersigned. This Note shall be governed by and construed in accordance with the laws of the State of Minnesota.

THE UNDERSIGNED REPRESENTS, CERTIFIES, WARRANTS AND AGREES THAT THE UNDERSIGNED HAS READ ALL OF THIS NOTE AND UNDERSTANDS ALL OF THE PROVISIONS OF THIS NOTE. THE UNDERSIGNED ALSO AGREES THAT COMPLIANCE BY ANY PRESENT OR FUTURE HOLDER OF THIS NOTE WITH THE EXPRESS PROVISIONS OF THIS NOTE SHALL CONSTITUTE GOOD FAITH AND SHALL BE CONSIDERED REASONABLE FOR ALL PURPOSES. THE UNDERSIGNED WAIVES ITS RIGHT TO TRIAL BY JURY.

INTERNATIONAL BEAUTY NETWORK, INC.

By   
Garry Lowenthal  
President

## **EXHIBIT D**

PROMISSORY NOTE

\$13,075.00

August 2, 1999

**FOR VALUE RECEIVED**, the undersigned, **INTERNATIONAL BEAUTY NETWORK, INC.** ("Borrower") promises to pay to the order of **GARRY LOWENTHAL** (the "Lender") the principal sum of Thirteen Thousand Seventy Five and 00/100 Dollars (\$13,075.00) plus interest thereon from the date of each advance in whole or in part included in such amount until this Note is fully paid. Interest shall be computed on the basis of the actual number of days elapsed and a 360-day year, at an annual rate equal to Fourteen percent (14%) per annum. Interest is due and payable at maturity. Notwithstanding the foregoing, after an Event of Default, this Note shall bear interest until fully paid at five percent (5%) per annum in excess of the rate otherwise then in effect. The undersigned also shall pay the holder of this Note a late fee equal to 10% of any payment under this Note that is more than 10 calendar days past due.

All interest, principal, and any other amounts owing hereunder are due **UPON DEMAND** by Lender or any holder hereof, and Lender specifically reserves the absolute right to demand payment of all such amounts at any time, with or without advance notice, for any reason or no reason whatsoever. Lender's right to make such demand is not exclusive and Lender may coincidentally or separately from such demand make further demand for payment pursuant to the terms hereof (including but not limited to upon the occurrence of an Event of Default), and further, amounts may become due hereunder without a demand by Lender.

All or any part of the unpaid balance of this Note may be prepaid at any time. At the option of the then holder of this Note, any payment under this Note may be applied first to the payment of other charges, fees and expenses under this Note and any other agreement or writing in connection with this Note, second to the payment of interest accrued through the date of payment, and third to the payment of principal. Neither the Lender nor any other person has any obligation to make any advance or readvance under this Note.

The occurrence of any of the following events shall constitute an Event of Default under this Note: (i) any default in the payment of this Note; or (ii) any other default under the terms of any now existing or hereafter arising debt, obligation or liability of any maker, endorser, guarantor or surety of this Note or any other person providing security for this Note or for any guaranty of this Note; or (iii) the insolvency (other than the insolvency of the undersigned), death dissolution, liquidation, merger or consolidation of any such maker, endorser, guarantor, surety or other person; or (iv) any appointment of a receiver, trustee or similar officer of any property of any such maker, endorser, guarantor, surety or other person; or (v) any assignment for the benefit of creditors of any such maker, endorser, guarantor, surety or other person; or (vi) any commencement of any proceeding under any bankruptcy, insolvency, dissolution, liquidation or similar law by or against any such maker, endorser, guarantor, surety or other person, provided however, that if such a proceeding is commenced against the maker hereof or any Guarantor on an involuntary basis, then only if such action is not dismissed within 60 days of first being filed; or (vii) the sale, lease or other disposition (whether in one transaction or in a series of transactions) to one or more persons of all or a substantial part of the assets of any such maker, endorser, guarantor, surety or other person; or (viii) any such maker, endorser, guarantor, surety or other person dies or takes any action to revoke or terminate any agreement, liability or security in favor of the Lender; or (ix) the entry of any judgment or other order for the payment of money in the amount of \$10,000.00 or more against any such maker, endorser, guarantor, surety or other person which judgment or order is not discharged or stayed in a manner acceptable to the then holder of this Note within 10 days after such entry; or (x)

200391

the issuance or levy of any writ, warrant, attachment, garnishment, execution or other process against any property of any such maker, endorser, guarantor, surety or other person; or (xi) the issuance or attachment of any tax lien or tax levy against any property of any such maker, endorser, guarantor, surety or other person which is other than for taxes or assessments not yet due and payable; or (xii) any statement, representation or warranty made by any such maker, endorser, guarantor, surety or other person (or any representative of any such maker, endorser, guarantor, surety or other person) to any present or future holder of this Note at any time shall be false, incorrect or misleading in any material respect when made or effective; or (xiii) there is a material adverse change in the condition (financial or otherwise), business or property of any such maker, endorser, guarantor, surety or other person. Upon the occurrence of any Event of Default described in subparagraphs (iii), (iv), (v) or (vi) above (or earlier upon demand), all amounts outstanding under this Note (including unpaid principal, interest and other charges due or accruing hereunder) shall be and become immediately due and payable without any declaration, notice, presentment, protest, demand or dishonor of any kind (all of which are hereby waived by Borrower) and Borrower's ability to obtain any additional credit extensions or advances under this Note shall be immediately and automatically terminated. Upon demand or upon the occurrence of an Event of Default and at any time thereafter while an Event of Default is continuing, the then holder of this Note may, at its option, declare this Note to be immediately due and payable and thereupon this Note shall become due and payable for the entire unpaid principal balance of this Note plus accrued interest and other charges on this Note without any presentment, demand, protest or other notice of any kind.

The undersigned: (i) waives demand, presentment, protest, notice of protest, notice of dishonor and notice of nonpayment of this Note; (ii) agrees to promptly provide all present and future holders of this Note from time to time with financial statements of the undersigned and such other information respecting the financial condition, business and property of the undersigned as any such holder of this Note may reasonably request, in form and substance acceptable to such holder of this Note; (iii) agrees that when or at any time after this Note becomes due the then holder of this note may offset or charge the full amount owing on this note against any account then maintained by the undersigned with such holder of this Note without notice; (iv) agrees to pay on demand all fees, costs and expenses of all present and future holders of this Note in connection with this Note and any security and guaranties for this Note, including but not limited to audit fees and expenses and reasonable attorneys' fees and legal expenses, plus interest on such amounts at the rate set forth in this Note; and (v) consents to the personal jurisdiction of the state and federal courts located in the State of Minnesota in connection with any controversy related in any way to this Note or any security of guaranty for this Note, waives any argument that venue in such forums is not convenient, and agrees that any litigation initiated by the undersigned against the Lender or any other present or future holder of this Note relating in any way to this Note or any security or guaranty for this Note shall be venued (at the sole option of Lender or the holder hereof) in either the District Court of Dakota or Hennepin County, Minnesota, or the United States District Court, District of Minnesota. Interest on any amount under this Note shall continue to accrue, at the option of any present or future holder of this Note, until such holder receives final payment of such amount in collected funds in form and substance acceptable to such holder. The maker agrees that, if it brings any action or proceeding arising out of or relating to this Agreement, it shall bring such action or proceeding in the District Court of Hennepin County, Minnesota.

In the event a court of competent jurisdiction determines that the rate of interest violates any usury laws or any other law, then, such rate of interest or other provision shall be accordingly and retroactively adjusted or modified to comply with the highest rate allowed under applicable law. Further, if any provision or application of any provision of this Note other than the Rate of Interest (including but not limited to any provision relating to the calculation of interest) is held unlawful or unenforceable in any respect (including but not limited to any usury or similar law), such illegality or unenforceability shall

not affect other provisions or applications which can be given effect, and this Note shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. The undersigned waives notice of acceptance hereof.

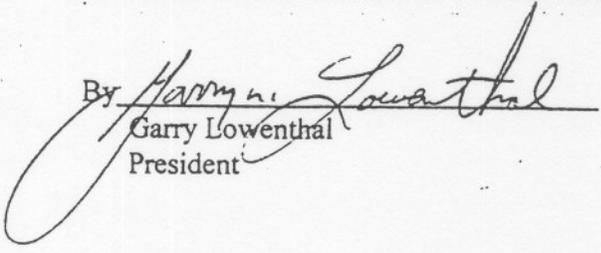
No waiver of any right or remedy under this Note shall be valid unless in writing executed by the holder of this Note, and any such waiver shall be effective only in the specific instance and for the specific purpose given. All rights and remedies of all present and future holders of this Note shall be cumulative and may be exercised singly, concurrently or successively. The undersigned, if more than one, shall be jointly and severally liable under this Note, and the term "undersigned," wherever used in this Note, shall mean the undersigned or any one or more of them. This Note shall bind the undersigned and the successors and assigns of the undersigned. This Note shall be governed by and construed in accordance with the laws of the State of Minnesota.

THE UNDERSIGNED REPRESENTS, CERTIFIES, WARRANTS AND AGREES THAT THE UNDERSIGNED HAS READ ALL OF THIS NOTE AND UNDERSTANDS ALL OF THE PROVISIONS OF THIS NOTE. THE UNDERSIGNED ALSO AGREES THAT COMPLIANCE BY ANY PRESENT OR FUTURE HOLDER OF THIS NOTE WITH THE EXPRESS PROVISIONS OF THIS NOTE SHALL CONSTITUTE GOOD FAITH AND SHALL BE CONSIDERED REASONABLE FOR ALL PURPOSES. THE UNDERSIGNED WAIVES ITS RIGHT TO TRIAL BY JURY.

This Promissory Note for \$13,075.00 is summarized below, showing the dates and amount of each loan made to the Borrower from Lender, as follows:

<u>Date</u>	<u>Face Amount</u>
February 6, 1999	\$5,000.00
May 1, 1999	\$3,000.00
May 3, 1999	\$2,325.00
August 2, 1999	\$2,750.00

INTERNATIONAL BEAUTY NETWORK, INC.

By   
Garry Lowenthal  
President

200393

# **EXHIBIT E**

**INTERNATIONAL BEAUTY NETWORK, INC.**  
**Garry Lowenthal Loans and Interest Calculation @ 14%**  
**As of: December 31, 1999**

Garry Lowenthal Loan Balance:		
Short-Term (due on demand): (per 12/31/98 audit)	\$377,832.00	
Long-Term (due June 30, 2000): (per 12/31/98 audit)	\$125,000.00	
<b>Total Pre-1999 Loans Due</b>	<u>                    </u>	<b>\$502,832.00</b>
 <b>Plus: New Loans Made to IBN in 1999:</b>		 <b>\$13,075.00</b>
	<u>                    </u>	<u>                    </u>
<b>Total Loans Due To Garry Lowenthal</b>		<b>\$515,907.00</b>
 <b>Plus Accrued Interest (calculation below):</b>		
<b>Pre-1999 Loans:</b>		
Accumulated Interest, from January 1, 1999 to December 31, 1999 (based on a 360 day year)	\$70,200.93	
 <b>New Loans Made in 1999:</b>		
Plus Interest on new 1999 loans to December 31, 1999 (based on 360 day year)	\$1,281.40	
	<u>                    </u>	
<b>Total 1999 Interest Due to Garry Lowenthal, as of 12/31/99</b>		<b>\$71,482.33</b>

<b>1999 New Loans Interest Re-cap:</b>		
<i>Actual Interest @ 14%, as of December 31, 1999</i>		
02/06/1999	\$5,000.00	\$630.00
05/01/1999	\$3,000.00	\$278.83
05/03/1999	\$2,325.00	\$214.29
08/02/1999	\$2,750.00	\$158.28
		<u>\$1,281.40</u>

# **EXHIBIT F**

**International Beauty Network, Inc.**  
**Total Funds DUE To**  
**Garry N. Lowenthal**  
**As of: December 31, 1999**

Loans, as of December 31, 1998 audit report DUE:	\$502,832.00
Plus: New Loans made to IBN in 1999	13,075.00
Plus Accrued Interest:	
Pre-1999 Loans Accrued Interest	70,200.93
New 1999 Loans Accrued Interest	1,281.40
Plus: Accrued Salaries (January 1, 1999 to December 31, 1999)	128,700.00
Plus: Accrued Interest on Unpaid Salaries in 1999	8,633.63
Plus: October 1999 and November 1999 Out-of-Pocket Expenses	8,327.56
Plus: <u>Checks previously issued and Stop-Pay by IBN on 10/27/99</u>	<u>54,958.86</u>
<b>TOTAL FUNDS DUE to GARRY N. LOWENTHAL</b> (As of: December 31, 1999)	<b><u>\$788,009.38</u></b>

*Note: Employment Contract still in effect, until December 31, 2001, including all salaries, benefits, out-of-pocket expenses, and bonus program.*

200387

# **EXHIBIT G**

## SECURITY AGREEMENT

Date: August 12, 1999

<b>Debtor:</b> International Beauty Network, Inc.	<b>Secured Party:</b> Richard and Daloris Lowenthal Family Trust and Daloris Lowenthal
<b>Address:</b> 2179 West Highway 36 Roseville, Minnesota 55113	<b>Address:</b> 2717 South Gregory Drive Billings, Montana 59102

1. **SECURITY INTEREST.** To secure the payment and performance of each and every debt, liability and obligation of every type and description which the Debtor may now or at any time owe to the Secured Party, whether now existing or hereafter arising, direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, independent, joint, several or joint and several (all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"), the Debtor grants to each of the Secured Parties a security interest (the "Security Interest") in the following property (the "Collateral"):

All inventory of the Debtor, and all returns of such inventory and all warehouse receipts, bills of lading and other documents of title covering such inventory, whether now existing or hereafter arising, whether now owned or hereafter acquired;

All Receivables of Debtor now owned or hereafter acquired or arising, together with all customer lists, original books and records, ledger and account cards, computer tapes, discs, printouts and records, whether now in existence or hereafter created. "Receivables" means all rights of Debtor to the payment of money, whether or not earned and howsoever evidenced or arising, including (without limitation) all present and future "Accounts", accounts receivable, "Chattel Paper", "Instruments", and rights to payment which are "General Intangibles" (as those terms are used in the Uniform Commercial Code), all security therefor and all of Debtor's rights as an unpaid seller of goods (including rescission, replevin, reclamation and stopping in transit) and all of Debtor's rights to any goods represented by any of the foregoing including returned or repossessed goods;

All Inventory of Debtor, whether now owned or hereafter acquired and wherever located. "Inventory" includes all Goods (as defined in Article 9 of the Uniform Commercial Code) intended for sale or lease or to be furnished under contracts of service, all raw materials and work in process therefor, all finished goods thereof, all materials and supplies of every nature used or usable or consumed or consumable in connection with the manufacture, packing, shipping, advertising, selling, leasing or furnishing of such Goods, and all accessories thereto and all documents of title therefor evidencing the same;

All Equipment of Debtor, whether now owned or hereafter acquired and wherever located. "Equipment" includes all of Debtor's Goods other than Inventory, all replacements and substitutions therefor and all accessions thereto, and specifically includes, without limitation, all present and future machinery, equipment, vehicles, manufacturing equipment, shop equipment, office and record keeping equipment, furniture, fixtures, parts, tools and all other Goods (except Inventory) used or acquired for use by Debtor for any business or enterprise;

All General Intangibles and Deposit Accounts (as defined in Article 9 of the Uniform Commercial Code) of Debtor, whether now owned or hereafter acquired, including (without limitation) all present and future domestic and foreign patents, patent applications, trademarks, trademark

applications, copyrights, trade names, trade secrets, patent and trademark licenses (whether Debtor is licensor or licensee), shop drawings, engineering drawings, blueprints, specifications, parts lists, manuals, operating instructions, customer and supplier lists, licenses, permits, franchises, the right to use Debtor's corporate name and the goodwill of Debtor's business; and

All Investment Property of Debtor (as defined in Article 9 of the Commercial Code) of Debtor including but not limited to stock and other securities evidencing ownership of any other organization, company or entity as well as all amendments, extensions, renewals and replacements of the above, together with all certificates, other instruments, options, rights, interest, and other distributions issued as an addition to, in substitution or in exchange for, or on account of, the same, all whether now existing or hereafter arising and whether now owned or hereafter acquired; and

All products and proceeds of any and all of the foregoing including the proceeds of any insurance covering any of the Collateral.

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS. The Debtor represents, warrants and agrees as follows:

a. The Debtor is a Minnesota corporation, and the address of the Debtor's chief executive office is shown at the beginning of this Agreement. The Debtor shall give the Secured Party prior written notice of any change in such address or the Debtor's name. The Debtor has authority to execute and perform this Agreement. The Debtor's Internal Revenue Service taxpayer identification number is 41-1703056.

b. Except for the security interest of Spectrum Commercial Services in the Collateral (which other security interest is fully subordinated to the Security Interest for all purposes): the Debtor is the owner of the Collateral, or will be the owner of the Collateral hereafter acquired, free of all security interest, liens and encumbrances other than the Security Interest and any other security interest of the Secured Party; the Debtor shall not permit any security interest, lien or encumbrance, other than the Security Interest and any other security interest of the Secured Party, to attach to any Collateral without the prior written consent of the Secured Party; the Debtor shall defend the Collateral against the claims and demands of all persons other than the Secured Party, and shall promptly pay all taxes, assessments and other government charges upon or against the Debtor, any Collateral and the Security Interest; and no financing statement covering any Collateral is on file in any public office. If any Collateral is or will become a fixture, the Debtor, at the request of the Secured Party, shall furnish the Secured Party with a statement or statements executed by all persons who have or claim an interest in the real estate, in form acceptable to the Secured Party, which statement or statements shall provide that such persons consent to the Security Interest.

c. The Debtor shall not sell or otherwise dispose of any Collateral or any interest therein without the prior written consent of the Secured Party, except that, until the occurrence of an Event of Default or the revocation by the Secured Party of the Debtor's right to do so, the Debtor may sell or lease any Collateral constituting inventory in the ordinary course of business at prices constituting the fair market value thereof. For purposes of this Agreement, a transfer in partial or total satisfaction of a debt, obligation or liability shall not constitute a sale or lease in the ordinary course of business.

d. Each account, instrument, chattel paper, other right to payment and general intangible constituting Collateral is, or will be when acquired, the valid, genuine and legally enforceable obligation of the account debtor or other obligor named therein or in the Debtor's records pertaining thereto as being obligated to pay such obligation, subject to no defense, setoff or counterclaim. The Debtor shall not, without the prior written consent of the Secured Party, agree to any material modification or amendment of any such obligation or agree to any subordination or cancellation of any such obligation.

e. Other than inventory in transit and motor vehicles in use, all tangible Collateral shall be located at the Debtor's address first above stated, and no such Collateral shall be located at any other address without the prior written consent of the Secured Party.

f. The Debtor shall (i) keep all tangible Collateral in good condition and repaired, normal depreciation excepted; (ii) from time to time replace any worn, broken or defective parts thereof; (iii) promptly notify the Secured Party of any loss of or material damage to any Collateral or of any adverse change in the prospect of payment of any account, instrument, chattel paper, other right to payment or general intangible constituting Collateral; (iv) not permit any Collateral to be used or kept for any unlawful purpose or in violation of any federal, state or local law; (v) keep all tangible Collateral insured in such amounts, against such risks and in such companies as shall be acceptable to the Secured Party, with loss payable clauses in favor of the Secured Party to the extent of its interest in form acceptable to the Secured Party (including without limitation a provision for at least 30 days' prior written notice to the Secured Party of any cancellation or modification of such insurance), and deliver policies or certificates of such insurance to the Secured Party (vi) at the Debtor's chief executive office, keep accurate and complete records pertaining to the Collateral and the Debtor's financial condition, business and property, and submit to the Secured Party such periodic reports concerning the Collateral and the Debtor's financial condition, business and property as the Secured Party may from time to time request; (vii) at all reasonable times permit the Secured Party and its representatives to examine and inspect any Collateral, and to examine, inspect and copy the Debtor's records pertaining to the Collateral and the Debtor's financial condition, business and property (viii) at the Secured Party's request, promptly execute, endorse and deliver such financing statements and other instruments, documents, chattel paper and writings and take such other actions deemed by the Secured Party to be necessary or desirable to establish, protect, perfect or enforce the Security Interest and the rights of the Secured Party under this Agreement and applicable law, and pay all costs of filing financing statements and other writings in all public offices where filing is deemed by the Secured Party to be necessary or desirable.

3. **COLLECTION RIGHTS.** At any time before or after an Event of Default, the Secured Party may, and at the request of the Secured Party the Debtor shall, promptly notify any account debtor or obligor of any account, instrument, chattel paper, other right to payment or general intangible constituting Collateral that the same has been assigned to the Secured Party and direct such account debtor or obligor to make all future payments to the Secured Party. In addition, at the request of the Secured Party, the Debtor shall deposit in a collateral account designated by the Secured Party all proceeds constituting Collateral, in their original form received (with any necessary endorsement), within one business day after receipt of such proceeds by the Debtor. Until the Debtor makes each such deposit, the Debtor will hold all such proceeds separately in trust for the Secured Party for deposit in such collateral account, and will not commingle any such proceeds with any other property. The Debtor shall have no right to withdraw any funds from such collateral account, and the Debtor shall have no control over such collateral account. Such collateral account and all funds at any time therein shall constitute Collateral under this Agreement. Before or upon final collection of any funds in such collateral account, the Secured Party, at its discretion, may release any such funds to the Debtor or any account of the Debtor or apply any such funds to the Obligations whether or not then due. Any release of funds to the Debtor or any account of the Debtor shall not prevent the Secured Party from subsequently applying any funds to the Obligations. All items credited to such collateral account and subsequently returned and all other costs, fees and charges of the Secured Party in connection with such collateral account may be charged by the Secured Party to any account of the Debtor, and the Debtor shall pay the Secured Party all such amounts on demand.

4. **LIMITED POWER OF ATTORNEY.** If the Debtor at any time fails to perform or observe any agreement herein, the Secured Party, in the name and on behalf of the Debtor or, at its option, in its own name, may perform or observe such agreement and take any action which the Secured Party may deem necessary or desirable to cure or correct such failure. The Debtor irrevocably authorizes Secured Party and grants the Secured Party a limited power of attorney in the name and on behalf of the Debtor or, at its option, in its own name, to collect, receive, receipt for, create, prepare, complete, execute, endorse, deliver and file any and all financing statements, insurance applications, remittances, instruments, documents, chattel paper and other writings, to grant any extension to, compromise, settle, waive, notify, amend, adjust, change and release any obligation of any account debtor, obligor, insurer or other person pertaining to any Collateral, and to take any other action deemed by the Secured Party to be necessary or desirable to establish, perfect, protect or enforce the Security Interest. All of the Secured Party's advances, fees, charges, costs and expenses, including but not limited to audit fees and expenses and reasonable attorneys' fees and legal expenses, in connection with the obligations and in the protection and exercise of any rights or remedies hereunder, together with interest thereon at the highest rate then applicable to any of the Obligations, shall be secured hereunder and shall be paid by the Debtor to the Secured Party on demand.

5. EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "Event of Default": (a) any default in the payment or performance of any of the Obligations; or (b) any other default under the terms of any now existing or hereafter arising debt, obligation or liability of the Debtor or any maker, endorser, guarantor or surety of any of the Obligations or persons providing security for any of the Obligations or for any guaranty of any of the Obligations; or (c) the insolvency (except the insolvency of General Parts of Illinois, Inc.), death, dissolution, liquidation, merger or consolidation of the Debtor or any such maker, endorser, guarantor, surety or other person; or (d) any appointment of a receiver, trustee or similar officer of any property of the Debtor or any such maker, endorser, guarantor, surety or other person; or (e) any assignment for the benefit of creditors of the Debtor or any such maker, endorser, guarantor, surety or other person; or (f) any commencement of any proceeding under any bankruptcy, insolvency, dissolution, liquidation or similar law by or against the Debtor or any such maker, endorser, guarantor, surety or other person; or (g) the sale, lease or other disposition (whether in one transaction or in a series of transactions) to one or more persons of all or a substantial part of the assets of the Debtor or any such maker, endorser, guarantor, surety or other person; or (h) the Debtor or any such maker, endorser, guarantor, surety or other person takes any action to revoke or terminate any agreement, liability or security in favor of the Secured Party; or (i) the entry of any judgment or other order for the payment of money in the amount of \$10,000.00 or more against the Debtor or any such maker, endorser, guarantor, surety or any other person which judgment or order is not discharged or stayed in a manner acceptable to the Secured Party within 30 days after such entry; or (j) the issuance or levy of any writ, warrant, attachment, garnishment, execution or other process against any property of the Debtor or any such maker, endorser, guarantor, surety or any other person; or (k) the attachment of any tax lien to any property of the Debtor or any such maker, endorser, guarantor, surety or other person which is other than for taxes or assessments not yet due and payable; or (l) any statement, representation or warranty made by the Debtor or any such maker, endorser, guarantor, surety or other person (or any representative of the Debtor or any such maker, endorser, guarantor, surety or other person) to the Secured Party at any time shall be incorrect or misleading in any material respect when made, or (m) there is a material adverse change in the condition (financial or otherwise) business or property of the Debtor or any such maker, endorser, guarantor, surety or other person.

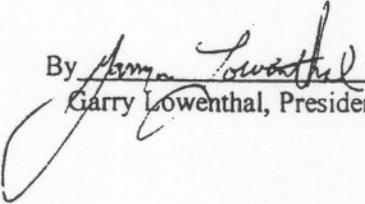
6. REMEDIES. Upon the occurrence of any Event of Default and at any time thereafter, the Secured Party may exercise any one or more of the following rights and remedies: (a) declare all Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand, all of which are hereby waived by the Debtor; (b) require the Debtor to assemble all or any part of the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient to both parties; (c) exercise and enforce any and all rights and remedies available upon default under this Agreement, the Uniform Commercial Code, and any other applicable agreements and laws. If notice to the Debtor of any intended disposition of Collateral or other action is required, such notice shall be deemed reasonably and properly given if mailed by regular or certified mail, postage prepaid, to the Debtor at the address stated at the beginning of this Agreement, or at the most recent address shown in the Secured Party's records, at least 10 days prior to the action described in such notice. The Debtor consents to the personal jurisdiction of the state and federal courts located in the State of Minnesota in connection with any controversy related to this Agreement, the Collateral, the Security Interest or any of the Obligations, waives any argument that venue in such forums is not convenient, and agrees that any litigation initiated by the Debtor against the Secured Party in connection with this Agreement, the Collateral, the Security Interest or any of the Obligations shall be venued in either the District Court of Dakota or Hennepin County, Minnesota, or the United States District Court, District of Minnesota.

7. MISCELLANEOUS. A carbon, photographic or other reproduction of this Agreement is sufficient as a financial statement. No provision of this Agreement can be waived, modified, amended, abridged, supplemented, terminated or discharged and the Security Interest cannot be released or terminated except by a writing duly executed by the Secured Party. A waiver shall be effective only in the specific instance and for the specific purpose given. No delay or failure to act shall preclude the exercise or enforcement of any of the Secured Party's rights or remedies. All rights and remedies of the Secured Party shall be cumulative and may be exercised singularly, concurrently or successively at the Secured Party's option, and the exercise or enforcement of any one such right or remedy shall not be a condition to or bar the exercise or enforcement of any other. This Agreement shall bind and benefit the Debtor and the Secured Party and their respective successors and assigns and shall take effect when executed by the Debtor and delivered to the Secured Party, and the Debtor waives notice of the Secured Party's acceptance hereof. If any provision or application of

this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of the Obligations. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

THE DEBTOR REPRESENTS, CERTIFIES, WARRANTS AND AGREES THAT THE DEBTOR HAS READ ALL OF THIS AGREEMENT AND UNDERSTANDS ALL OF THE PROVISIONS OF THIS AGREEMENT. THE DEBTOR ALSO AGREES THAT COMPLIANCE BY THE SECURED PARTY WITH THE EXPRESS PROVISIONS OF THIS AGREEMENT SHALL CONSTITUTE GOOD FAITH AND SHALL BE CONSIDERED REASONABLE FOR ALL PURPOSES.

INTERNATIONAL BEAUTY NETWORK, INC.

By  \_\_\_\_\_  
Garry Lowenthal, President

# **EXHIBIT H**

**UNIFORM COMMERCIAL CODE FORM UCC-1  
FINANCING STATEMENT**

This STATEMENT is presented for filing pursuant to the Uniform Commercial Code

Debtor(s) Name (Last Name First) & Address (Please TYPE) International Beauty Network, Inc. 2179 West Highway 36 Roseville, MN 55113 Fed. Tax ID#: 41-1703056 <small>(if there is more than one Debtor name listed, use the Fed. Tax ID# for all listed names)</small>	Secured Party(ies) Name & Address  Richard and Daloris Lowenthal Family Trust and Daloris Lowenthal 2717 South Gregory Drive Billings MT 59102	For Filing Office <div style="text-align: right; font-size: 24pt; font-weight: bold;">211729821</div> <div style="text-align: right; font-size: 18pt; font-weight: bold;">99 OCT 26 PM 12:41</div> <div style="text-align: right; font-weight: bold;">SEC. OF STATE MINNESOTA</div>
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1. This financing statement covers the following types (or items) of property (and Debtor hereby grants to Secured Party a security interest in the following):

All Receivables of Debtor now owned or hereafter acquired or arising, together with all customer lists, original books and records, ledger and account cards, computer tapes, discs, printouts and records, whether now in existence or hereafter created. "Receivables" means all rights of Debtor to the payment of money, whether or not earned and howsoever evidenced or arising, including (without limitation) all present and future "Accounts", accounts receivable, "Chattel Paper", "Instruments", and rights to payment which are "General Intangibles" (as those terms are used in the Uniform Commercial Code), all security therefor and all of Debtor's rights as an unpaid seller of goods (including rescission, replevin, reclamation and stopping in transit) and all of Debtor's rights to any goods represented by any of the foregoing including returned or repossessed goods;

All Inventory of Debtor, whether now owned or hereafter acquired and wherever located. "Inventory" includes all Goods (as defined in Article 9 of the Uniform Commercial Code) intended for sale or lease or to be furnished under contracts of service, all raw materials and work in process therefor, all finished goods thereof, all materials and supplies of every nature used or usable or consumed or consumable in connection with the manufacture, packing, shipping, advertising, selling, leasing or furnishing of such Goods, and all accessories thereto and all documents of title therefor evidencing the same;

All Equipment of Debtor, whether now owned or hereafter acquired and wherever located. "Equipment" includes all of Debtor's Goods other than Inventory, all replacements and substitutions therefor and all accessions thereto, and specifically includes, without limitation, all present and future machinery, equipment, vehicles, manufacturing equipment, shop equipment, office and record keeping equipment, furniture, fixtures, parts, tools and all other Goods (except Inventory) used or acquired for use by Debtor for any business or enterprise;

All General Intangibles and Deposit Accounts (as defined in Article 9 of the Uniform Commercial Code) of Debtor, whether now owned or hereafter acquired, including (without limitation) all present and future domestic and foreign patents, patent applications, trademarks, trademark applications, copyrights, trade names, trade secrets, patent and trademark licenses (whether Debtor is licensor or licensee), shop drawings, engineering drawings, blueprints, specifications, parts lists, manuals, operating instructions, customer and supplier lists, licenses, permits, franchises, the right to use Debtor's corporate name and the goodwill of Debtor's business; and

All Investment Property of Debtor (as defined in Article 9 of the Commercial Code) of Debtor including but not limited to stock and other securities evidencing ownership of any other organization, company or entity as well as all amendments, extensions, renewals and replacements of the above, together with all certificates, other instruments, options, rights, interest, and other distributions issued as an addition to, in substitution or in exchange for, or on account of, the same, all whether now existing or hereafter arising and whether now owned or hereafter acquired; and

All products and proceeds of any and all of the foregoing including the proceeds of any insurance covering any of the Collateral.

Signature(s) of Debtor(s):  
INTERNATIONAL BEAUTY NETWORK, INC.

By Jerry Lowenthal Title President

\_\_\_\_\_  
Debtor is a transmitting utility as defined in M.S. 336-9.105.  
 For Filing with the Secretary of State.  
 For Filing with the County Recorder \_\_\_\_\_ County.  
 For Filing in Uniform Commercial Code Records.

If the Debtor's signature is not present indicate the reason for its absence in the property description block and sign here.

Signature of Secured Party  
BY: \_\_\_\_\_

(Form 604 012291)

**031378**

**246-1445**

# **EXHIBIT I**

## SECURITY AGREEMENT

Date: August 2, 1999

Debtor: International Beauty Network, Inc.	Secured Party: Garry N. Lowenthal
Address: 2179 West Highway 36 Roseville, Minnesota 55113	Address: 1836 North Prior Avenue Falcon Heights, MN 55113

1. SECURITY INTEREST. To secure the payment and performance of each and every debt, liability and obligation of every type and description which the Debtor may now or at any time owe to the Secured Party, whether now existing or hereafter arising, direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, independent, joint, several or joint and several (all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"), the Debtor grants to each of the Secured Parties a security interest (the "Security Interest") in the following property (the "Collateral"):

All inventory of the Debtor, and all returns of such inventory and all warehouse receipts, bills of lading and other documents of title covering such inventory, whether now existing or hereafter arising, whether now owned or hereafter acquired:

All Receivables of Debtor now owned or hereafter acquired or arising, together with all customer lists, original books and records, ledger and account cards, computer tapes, discs, printouts and records, whether now in existence or hereafter created. "Receivables" means all rights of Debtor to the payment of money, whether or not earned and howsoever evidenced or arising, including (without limitation) all present and future "Accounts", accounts receivable, "Chattel Paper", "Instruments", and rights to payment which are "General Intangibles" (as those terms are used in the Uniform Commercial Code), all security therefor and all of Debtor's rights as an unpaid seller of goods (including rescission, replevin, reclamation and stopping in transit) and all of Debtor's rights to any goods represented by any of the foregoing including returned or repossessed goods;

All Inventory of Debtor, whether now owned or hereafter acquired and wherever located. "Inventory" includes all Goods (as defined in Article 9 of the Uniform Commercial Code) intended for sale or lease or to be furnished under contracts of service, all raw materials and work in process therefor, all finished goods thereof, all materials and supplies of every nature used or usable or consumed or consumable in connection with the manufacture, packing, shipping, advertising, selling, leasing or furnishing of such Goods, and all accessories thereto and all documents of title therefor evidencing the same:

All Equipment of Debtor, whether now owned or hereafter acquired and wherever located. "Equipment" includes all of Debtor's Goods other than Inventory, all replacements and substitutions therefor and all accessions thereto, and specifically includes, without limitation, all present and future machinery, equipment, vehicles, manufacturing equipment, shop equipment, office and record keeping equipment, furniture, fixtures, parts, tools and all other Goods (except Inventory) used or acquired for use by Debtor for any business or enterprise:

200401

All General Intangibles and Deposit Accounts (as defined in Article 9 of the Uniform Commercial Code) of Debtor, whether now owned or hereafter acquired, including (without limitation) all present and future domestic and foreign patents, patent applications, trademarks, trademark applications, copyrights, trade names, trade secrets, patent and trademark licenses (whether Debtor is licensor or licensee), shop drawings, engineering drawings, blueprints,



specifications, parts lists, manuals, operating instructions, customer and supplier lists, licenses, permits, franchises, the right to use Debtor's corporate name and the goodwill of Debtor's business; and

All Investment Property of Debtor (as defined in Article 9 of the Commercial Code) of Debtor including but not limited to stock and other securities evidencing ownership of any other organization, company or entity as well as all amendments, extensions, renewals and replacements of the above, together with all certificates, other instruments, options, rights, interest, and other distributions issued as an addition to, in substitution or in exchange for, or on account of, the same, all whether now existing or hereafter arising and whether now owned or hereafter acquired; and

All products and proceeds of any and all of the foregoing including the proceeds of any insurance covering any of the Collateral.

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS. The Debtor represents, warrants and agrees as follows:

a. The Debtor is a Minnesota corporation, and the address of the Debtor's chief executive office is shown at the beginning of this Agreement. The Debtor shall give the Secured Party prior written notice of any change in such address or the Debtor's name. The Debtor has authority to execute and perform this Agreement. The Debtor's Internal Revenue Service taxpayer identification number is 41-1703056.

b. Except for the security interest of Spectrum Commercial Services in the Collateral (which other security interest is fully subordinated to the Security Interest for all purposes): the Debtor is the owner of the Collateral, or will be the owner of the Collateral hereafter acquired, free of all security interest, liens and encumbrances other than the Security Interest and any other security interest of the Secured Party; the Debtor shall not permit any security interest, lien or encumbrance, other than the Security Interest and any other security interest of the Secured Party, to attach to any Collateral without the prior written consent of the Secured Party; the Debtor shall defend the Collateral against the claims and demands of all persons other than the Secured Party, and shall promptly pay all taxes, assessments and other government charges upon or against the Debtor, any Collateral and the Security Interest; and no financing statement covering any Collateral is on file in any public office. If any Collateral is or will become a fixture, the Debtor, at the request of the Secured Party, shall furnish the Secured Party with a statement or statements executed by all persons who have or claim an interest in the real estate, in form acceptable to the Secured Party, which statement or statements shall provide that such persons consent to the Security Interest.

c. The Debtor shall not sell or otherwise dispose of any Collateral or any interest therein without the prior written consent of the Secured Party, except that, until the occurrence of an Event of Default or the revocation by the Secured Party of the Debtor's right to do so, the Debtor may sell or lease any Collateral constituting inventory in the ordinary course of business at prices constituting the fair market value thereof. For purposes of this Agreement, a transfer in partial or total satisfaction of a debt, obligation or liability shall not constitute a sale or lease in the ordinary course of business.

d. Each account, instrument, chattel paper, other right to payment and general intangible constituting Collateral is, or will be when acquired, the valid, genuine and legally enforceable obligation of the account debtor or other obligor named therein or in the Debtor's records pertaining thereto as being obligated to pay such obligation, subject to no defense, setoff or counterclaim. The Debtor shall not, without the prior written consent of the Secured Party, agree to any material modification or amendment of any such obligation or agree to any subordination or cancellation of any such obligation.

e. Other than inventory in transit and motor vehicles in use, all tangible Collateral shall be located at the Debtor's address first above stated, and no such Collateral shall be located at any other address without the prior written consent of the Secured Party.

200402

f. The Debtor shall (i) keep all tangible Collateral in good condition and repaired, normal depreciation excepted; (ii) from time to time replace any worn, broken or defective parts thereof; (iii) promptly notify the Secured Party of any loss of or material damage to any Collateral or of any adverse change in the prospect of payment of any account, instrument, chattel paper, other right to payment or general intangible constituting Collateral; (iv) not permit any Collateral to be used or kept for any unlawful purpose or in violation of any federal, state or local law; (v) keep all tangible Collateral insured in such amounts, against such risks and in such companies as shall be acceptable to the Secured Party, with loss payable clauses in favor of the Secured Party to the extent of its interest in form acceptable to the Secured Party (including without limitation a provision for at least 30 days' prior written notice to the Secured Party of any cancellation or modification of such insurance), and deliver policies or certificates of such insurance to the Secured Party (vi) at the Debtor's chief executive office, keep accurate and complete records pertaining to the Collateral and the Debtor's financial condition, business and property, and submit to the Secured Party such periodic reports concerning the Collateral and the Debtor's financial condition, business and property as the Secured Party may from time to time request; (vii) at all reasonable times permit the Secured Party and its representatives to examine and inspect any Collateral, and to examine, inspect and copy the Debtor's records pertaining to the Collateral and the Debtor's financial condition, business and property (viii) at the Secured Party's request, promptly execute, endorse and deliver such financing statements and other instruments, documents, chattel paper and writings and take such other actions deemed by the Secured Party to be necessary or desirable to establish, protect, perfect or enforce the Security Interest and the rights of the Secured Party under this Agreement and applicable law, and pay all costs of filing financing statements and other writings in all public offices where filing is deemed by the Secured Party to be necessary or desirable.

3. COLLECTION RIGHTS. At any time before or after an Event of Default, the Secured Party may, and at the request of the Secured Party the Debtor shall, promptly notify any account debtor or obligor of any account, instrument, chattel paper, other right to payment or general intangible constituting Collateral that the same has been assigned to the Secured Party and direct such account debtor or obligor to make all future payments to the Secured Party. In addition, at the request of the Secured Party, the Debtor shall deposit in a collateral account designated by the Secured Party all proceeds constituting Collateral, in their original form received (with any necessary endorsement), within one business day after receipt of such proceeds by the Debtor. Until the Debtor makes each such deposit, the Debtor will hold all such proceeds separately in trust for the Secured Party for deposit in such collateral account, and will not commingle any such proceeds with any other property. The Debtor shall have no right to withdraw any funds from such collateral account, and the Debtor shall have no control over such collateral account. Such collateral account and all funds at any time therein shall constitute Collateral under this Agreement. Before or upon final collection of any funds in such collateral account, the Secured Party, at its discretion, may release any such funds to the Debtor or any account of the Debtor or apply any such funds to the Obligations whether or not then due. Any release of funds to the Debtor or any account of the Debtor shall not prevent the Secured Party from subsequently applying any funds to the Obligations. All items credited to such collateral account and subsequently returned and all other costs, fees and charges of the Secured Party in connection with such collateral account may be charged by the Secured Party to any account of the Debtor, and the Debtor shall pay the Secured Party all such amounts on demand.

4. LIMITED POWER OF ATTORNEY. If the Debtor at any time fails to perform or observe any agreement herein, the Secured Party, in the name and on behalf of the Debtor or, at its option, in its own name, may perform or observe such agreement and take any action which the Secured Party may deem necessary or desirable to cure or correct such failure. The Debtor irrevocably authorizes Secured Party and grants the Secured Party a limited power of attorney in the name and on behalf of the Debtor or, at its option, in its own name, to collect, receive, receipt for, create, prepare, complete, execute, endorse, deliver and file any and all financing statements, insurance applications, remittances, instruments, documents, chattel paper and other writings, to grant any extension to, compromise, settle, waive, notify, amend, adjust, change and release any obligation of any account debtor, obligor, insurer or other person pertaining to any Collateral, and to take any other action deemed by the Secured Party to be necessary or desirable to establish, perfect, protect or enforce the Security Interest. All of the Secured Party's advances, fees, charges, costs and expenses, including but not limited to audit fees and expenses and reasonable attorneys' fees and legal expenses, in connection with the obligations and in the protection and exercise of any rights or remedies hereunder, together with interest thereon at the highest rate then applicable to any of the Obligations, shall be secured hereunder and shall be paid by the Debtor to the Secured Party on demand.

200403

5. EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "Event of Default": (a) any default in the payment or performance of any of the Obligations; or (b) any other default under the terms of any now existing or hereafter arising debt, obligation or liability of the Debtor or any maker, endorser, guarantor or surety of any of the Obligations or persons providing security for any of the Obligations or for any guaranty of any of the Obligations; or (c) the insolvency (except the insolvency of General Parts of Illinois, Inc.), death, dissolution, liquidation, merger or consolidation of the Debtor or any such maker, endorser, guarantor, surety or other person; or (d) any appointment of a receiver, trustee or similar officer of any property of the Debtor or any such maker, endorser, guarantor, surety or other person; or (e) any assignment for the benefit of creditors of the Debtor or any such maker, endorser, guarantor, surety or other person; or (f) any commencement of any proceeding under any bankruptcy, insolvency, dissolution, liquidation or similar law by or against the Debtor or any such maker, endorser, guarantor, surety or other person; or (g) the sale, lease or other disposition (whether in one transaction or in a series of transactions) to one or more persons of all or a substantial part of the assets of the Debtor or any such maker, endorser, guarantor, surety or other person; or (h) the Debtor or any such maker, endorser, guarantor, surety or other person takes any action to revoke or terminate any agreement, liability or security in favor of the Secured Party; or (i) the entry of any judgment or other order for the payment of money in the amount of \$10,000.00 or more against the Debtor or any such maker, endorser, guarantor, surety or any other person which judgment or order is not discharged or stayed in a manner acceptable to the Secured Party within 30 days after such entry; or (j) the issuance or levy of any writ, warrant, attachment, garnishment, execution or other process against any property of the Debtor or any such maker, endorser, guarantor, surety or any other person; or (k) the attachment of any tax lien to any property of the Debtor or any such maker, endorser, guarantor, surety or other person which is other than for taxes or assessments not yet due and payable; or (l) any statement, representation or warranty made by the Debtor or any such maker, endorser, guarantor, surety or other person (or any representative of the Debtor or any such maker, endorser, guarantor, surety or other person) to the Secured Party at any time shall be incorrect or misleading in any material respect when made, or (m) there is a material adverse change in the condition (financial or otherwise) business or property of the Debtor or any such maker, endorser, guarantor, surety or other person.

6. REMEDIES. Upon the occurrence of any Event of Default and at any time thereafter, the Secured Party may exercise any one or more of the following rights and remedies: (a) declare all Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand, all of which are hereby waived by the Debtor; (b) require the Debtor to assemble all or any part of the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient to both parties; (c) exercise and enforce any and all rights and remedies available upon default under this Agreement, the Uniform Commercial Code, and any other applicable agreements and laws. If notice to the Debtor of any intended disposition of Collateral or other action is required, such notice shall be deemed reasonably and properly given if mailed by regular or certified mail, postage prepaid, to the Debtor at the address stated at the beginning of this Agreement, or at the most recent address shown in the Secured Party's records, at least 10 days prior to the action described in such notice. The Debtor consents to the personal jurisdiction of the state and federal courts located in the State of Minnesota in connection with any controversy related to this Agreement, the Collateral, the Security Interest or any of the Obligations, waives any argument that venue in such forums is not convenient, and agrees that any litigation initiated by the Debtor against the Secured Party in connection with this Agreement, the Collateral, the Security Interest or any of the Obligations shall be venued in either the District Court of Dakota or Hennepin County, Minnesota, or the United States District Court, District of Minnesota.

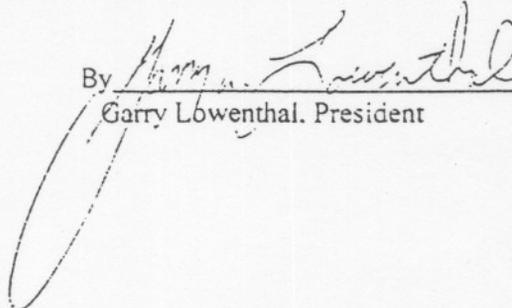
7. MISCELLANEOUS. A carbon, photographic or other reproduction of this Agreement is sufficient as a financial statement. No provision of this Agreement can be waived, modified, amended, abridged, supplemented, terminated or discharged and the Security Interest cannot be released or terminated except by a writing duly executed by the Secured Party. A waiver shall be effective only in the specific instance and for the specific purpose given. No delay or failure to act shall preclude the exercise or enforcement of any of the Secured Party's rights or remedies. All rights and remedies of the Secured Party shall be cumulative and may be exercised singularly, concurrently or successively at the Secured Party's option, and the exercise or enforcement of any one such right or remedy shall not be a condition to or bar the exercise or enforcement of any other. This Agreement shall bind and benefit the Debtor and the Secured Party and their respective successors and assigns and shall take effect when executed by the Debtor and delivered to the Secured Party, and the Debtor waives notice of the Secured Party's acceptance hereof. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall

be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of the Obligations. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

THE DEBTOR REPRESENTS, CERTIFIES, WARRANTS AND AGREES THAT THE DEBTOR HAS READ ALL OF THIS AGREEMENT AND UNDERSTANDS ALL OF THE PROVISIONS OF THIS AGREEMENT. THE DEBTOR ALSO AGREES THAT COMPLIANCE BY THE SECURED PARTY WITH THE EXPRESS PROVISIONS OF THIS AGREEMENT SHALL CONSTITUTE GOOD FAITH AND SHALL BE CONSIDERED REASONABLE FOR ALL PURPOSES.

INTERNATIONAL BEAUTY NETWORK, INC.

By



Garry Lowenthal, President

200405

## **EXHIBIT J**

UNIFORM COMMERCIAL CODE FORM UCC-1  
FINANCING STATEMENT

This STATEMENT is presented for filing pursuant to the Uniform Commercial Code

2072983

Debtor(s) Name (Last Name First) & Address (Please TYPE) <b>International Beauty Network, Inc.</b> <b>2179 West Highway 36</b> <b>Roseville, MN 55113</b> <b>Fed. Tax ID#: 41-1703056</b> <small>If there is more than one Debtor name listed, use the Fed. Tax ID# for all listed names)</small>	Secured Party(ies) Name & Address <b>Garry N. Lowenthal</b> <b>1836 North Prior Avenue</b> <b>Falcon Heights, MN 55113</b>	For Filing Off. <b>99 OCT 26 PM 12:41</b> <b>SECRET OF STATE</b> <b>MINNESOTA</b>
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I. This financing statement covers the following types (or items) of property (and Debtor hereby grants to Secured Party a security interest in the following):

All Receivables of Debtor now owned or hereafter acquired or arising, together with all customer lists, original books and records, ledger and account cards, computer tapes, discs, printouts and records, whether now in existence or hereafter created. "Receivables" means all rights of Debtor to the payment of money, whether or not earned and howsoever evidenced or arising, including (without limitation) all present and future "Accounts", accounts receivable, "Chattel Paper", "Instruments", and rights to payment which are "General Intangibles" (as those terms are used in the Uniform Commercial Code), all security therefor and all of Debtor's rights as an unpaid seller of goods (including rescission, replevin, reclamation and stopping in transit) and all of Debtor's rights to any goods represented by any of the foregoing including returned or repossessed goods;

All Inventory of Debtor, whether now owned or hereafter acquired and wherever located. "Inventory" includes all Goods (as defined in Article 9 of the Uniform Commercial Code) intended for sale or lease or to be furnished under contracts of service, all raw materials and work in process therefor, all finished goods thereof, all materials and supplies of every nature used or usable or consumed or consumable in connection with the manufacture, packing, shipping, advertising, selling, leasing or furnishing of such Goods, and all accessories thereto and all documents of title therefor evidencing the same;

All Equipment of Debtor, whether now owned or hereafter acquired and wherever located. "Equipment" includes all of Debtor's Goods other than inventory, all replacements and substitutions therefor and all accessions thereto, and specifically includes, without limitation, all present and future machinery, equipment, vehicles, manufacturing equipment, shop equipment, office and record keeping equipment, furniture, fixtures, parts, tools and all other Goods (except Inventory) used or acquired for use by Debtor for any business or enterprise;

All General Intangibles and Deposit Accounts (as defined in Article 9 of the Uniform Commercial Code) of Debtor, whether now owned or hereafter acquired, including (without limitation) all present and future domestic and foreign patents, patent applications, trademarks, trademark applications, copyrights, trade names, trade secrets, patent and trademark licenses (whether Debtor is licensor or licensee), shop drawings, engineering drawings, blueprints, specifications, parts lists, manuals, operating instructions, customer and supplier lists, licenses, permits, franchises, the right to use Debtor's corporate name and the goodwill of Debtor's business; and

All Investment Property of Debtor (as defined in Article 9 of the Commercial Code) of Debtor including but not limited to stock and other securities evidencing ownership of any other organization, company or entity as well as all amendments, extensions, renewals and replacements of the above, together with all certificates, other instruments, options, rights, interest, and other distributions issued as an addition to, in substitution or in exchange for, or on account of, the same, all whether now existing or hereafter arising and whether now owned or hereafter acquired; and

All products and proceeds of any and all of the foregoing including the proceeds of any insurance covering any of the Collateral.

- Additional sheets presented.
- Debtor is a transmitting utility as defined in M.S. 336-9.105.
- For Filing with the Secretary of State.
- For Filing with the County Recorder \_\_\_\_\_ County.
- For Filing in Uniform Commercial Code Records.

Signature(s) of Debtor(s):  
INTERNATIONAL BEAUTY NETWORK, INC.

By Garry N. Lowenthal Title President

If the Debtor's signature is not present indicate the reason for its absence in the property description BY: \_\_\_\_\_  
block and sign here.

031378

246 1446

# **EXHIBIT K**

UNITED STATES BANKRUPTCY COURT DISTRICT OF MINNESOTA (ST. PAUL)		PROOF OF CLAIM
Name of Debtor INTERNATIONAL BEAUTY NETWORK INC	Case Number 00-33612	
<p><b>NOTE:</b> This form should not be used to make a claim for an administrative expense arising after the commencement of the case. A "request" for payment of an administrative expense may be filed pursuant to 11 U.S.C. §503</p>		
Name of Creditor (The person or other entity to whom the debtor owes money or property): EIDEBAILLY LLP Name and Address where notices should be sent:  EIDEBAILLY LLP 11000 PRAIRIE LAKES DR SUITE 410 EDEN PRAIRIE MN 55344-3888  Telephone Number: <u>952-944-6166</u>	<input type="checkbox"/> Check box if you are aware that anyone else has filed a proof of claim relating to your claim. Attach copy of statement giving particulars. <input type="checkbox"/> Check box if you have never received any notices from the bankruptcy court in this case. <input type="checkbox"/> Check box if the address differs from the address on the envelope sent to you by the court.	
Account or other number by which creditor identifies debtor: <u>64051</u>	Check here if <input type="checkbox"/> replaces this claim <input type="checkbox"/> amends a previously filed claim, dated _____	
<b>1. Basis for Claim</b> <input type="checkbox"/> Goods sold <input checked="" type="checkbox"/> Services performed <input type="checkbox"/> Money loaned <input type="checkbox"/> Personal injury/wrongful death <input type="checkbox"/> Taxes <input type="checkbox"/> Other _____		<input type="checkbox"/> Retiree benefits as defined in 11 U.S.C. §1114(a) <input type="checkbox"/> Wages, salaries, and compensation (fill out below) Your SS #: _____ Unpaid compensation for services performed from _____ to _____ (date) (date)
<b>2. Date debt was incurred:</b> <u>March 1999 to Oct 2000</u>	<b>3. If court judgment, date obtained:</b>	
<b>4. Total Amount of Claim at Time Case Filed:</b> <u>\$ 16,766.06</u>		
If all or part of your claim is secured or entitled to priority, also complete Item 5 or 6 below. <input checked="" type="checkbox"/> Check this box if claim includes interest or other charges in addition to the principal amount of the claim. Attach itemized statement of all interest or additional charges.		
<b>5. Secured Claim.</b> <input type="checkbox"/> Check this box if your claim is secured by collateral (including a right of setoff). Brief Description of Collateral: <input type="checkbox"/> Real Estate <input type="checkbox"/> Motor Vehicle <input type="checkbox"/> Other _____  Value of Collateral: \$ _____  Amount of arrearage and other charges at time case filed included in secured claim, if any: \$ _____		<b>6. Unsecured Priority Claim.</b> <input type="checkbox"/> Check this box if you have an unsecured priority claim Amount entitled to priority \$ _____ Specify the priority of the claim: <input type="checkbox"/> Wages, salaries, or commissions (up to \$4,650)* earned within 90 days before filing of the bankruptcy petition or cessation of the debtor's business, whichever is earlier - 11 U.S.C. § 507(a)(3). <input type="checkbox"/> Contributions to an employee benefit plan - 11 U.S.C. §507(a)(4). <input type="checkbox"/> Up to \$ 2,100* of deposits toward purchase, lease, or rental of property or services for personal, family, or household use - 11 U.S.C. § 507(a)(6). <input type="checkbox"/> Alimony, maintenance, or support owed to a spouse, former spouse, or child - 11 U.S.C. § 507(a)(7). <input type="checkbox"/> Taxes or penalties owed to governmental units - 11 U.S.C. § 507(a)(8). <input type="checkbox"/> Other - Specify applicable paragraph of 11 U.S.C. § 507(a)(____).  *Amounts are subject to adjustment on 4/1/04 and every 3 years thereafter with respect to cases commenced on or after the date of adjustment.
<b>7. Credits:</b> The amount of all payments on this claim has been credited and deducted for the purpose of making this proof of claim. <b>8. Supporting Documents:</b> Attach copies of supporting documents, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, court judgments, mortgages, security agreements, and evidence of perfection of lien. DO NOT SEND ORIGINAL DOCUMENTS. If the documents are not available, explain. If the documents are voluminous, attach a summary. <b>9. Date-Stamped Copy:</b> To receive an acknowledgment of the filing of your claim, enclose a stamped, self-addressed envelope and copy of this proof of claim.		SEND CLAIM TO: U.S. BANKRUPTCY COURT 200 U.S. COURTHOUSE 316 NORTH ROBERT STREET ST. PAUL, MN 55101  
Date <u>11/9/01</u>	Sign and print the name and title, if any, of the creditor or other person authorized to file this claim (attach copy of power of attorney, if any): <u>Bryan J. Rose Partner</u>	
Penalty for presenting fraudulent claim: Fine of up to \$500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 and 3571.		

11000 Prairie Lakes Dr. Suite 410  
Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



Consultants • Certified Public Accountants

I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

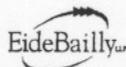
Date: 3/29/99  
Page: 1  
64051-355670

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Please return this portion with your payment.  
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BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice	11.50
	-----
CURRENT TOTAL	\$ 11.50
	=====

We appreciate the opportunity to serve you.  
Referrals are greatly appreciated.



11000 Prairie Lakes Drive • Suite 410  
Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

11000 Prairie Lakes Dr. Suite 410  
Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 4/23/99  
Page: 1  
64051-365245

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Please return this portion with your payment.  
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BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice

11.50

CURRENT TOTAL

-----  
\$ 11.50  
=====

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Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

11000 Prairie Lakes Dr. Suite 410  
Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



Consultants • Certified Public Accountants

I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 4/30/99  
Page: 1  
64051-368365

=====  
Please return this portion with your payment.  
=====

BILLINGS ARE DUE UPON RECEIPT

Progress bill for professional accounting services  
rendered in connection with audit of financial  
statements.-

6,600.00

CURRENT TOTAL

-----  
\$ 6,600.00  
=====

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Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

11000 Prairie Lakes Dr. Suite 410  
Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 5/21/99  
Page: 1  
64051-371322

=====  
Please return this portion with your payment.  
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BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice	111.50
	-----
CURRENT TOTAL	\$ 111.50
	=====

We appreciate the opportunity to serve you.  
Referrals are greatly appreciated.



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Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

11000 Prairie Lakes Dr. Suite 410  
Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 5/28/99  
Page: 1  
64051-371944

Please return this portion with your payment.

BILLINGS ARE DUE UPON RECEIPT

For professional accounting services rendered in connection with:

Final billing for completion of financial statement audit for the years ending December 31, 1999 and 1998.

3,400.00

Out-of-pocket expenses

240.00

CURRENT TOTAL

\$ 3,640.00

We appreciate the opportunity to serve you.  
Referrals are greatly appreciated.



11000 Prairie Lakes Drive • Suite 410  
Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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952.944.6166  
Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

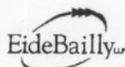
Date: 6/24/99  
Page: 1  
64051-374778

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BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice	63.23
	-----
CURRENT TOTAL	\$ 63.23
	=====

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Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

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PAYMENT IS DUE UPON RECEIPT.

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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 7/26/99  
Page: 1  
64051-378395

=====  
Please return this portion with your payment.  
=====

BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice

99.63

CURRENT TOTAL

-----  
\$ 99.63  
=====

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Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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Eden Prairie, MN 55344-3800

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Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

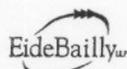
Date: 8/25/99  
Page: 1  
64051-382100

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Please return this portion with your payment.  
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BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice	99.63
	-----
CURRENT TOTAL	\$ 99.63
	=====

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Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 8/31/99  
Page: 1  
64051-382831

=====  
Please return this portion with your payment.  
=====

BILLINGS ARE DUE UPON RECEIPT

For professional accounting services rendered in  
connection with:

Preparation of federal and Minnesota S-Corporation  
return of income for the year ended December 31,  
1998.

2,775.00

Telephone conferences and consultations.

200.00

CURRENT TOTAL

-----  
\$ 2,975.00  
=====

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A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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Eden Prairie, MN 55344-3800

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Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 9/23/99  
Page: 1  
64051-385235

Please return this portion with your payment.

BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice

99.63

CURRENT TOTAL

-----  
\$ 99.63  
=====

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Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



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I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 10/22/99  
Page: 1  
64051-388836

=====  
Please return this portion with your payment.  
=====

BILLINGS ARE DUE UPON RECEIPT

Finance Charge Invoice

129.38

CURRENT TOTAL

-----  
\$ 129.38  
=====

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Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



Consultants • Certified Public Accountants  
I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 11/22/99  
Page: 1  
64051-392384

=====  
Please return this portion with your payment.  
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BILLINGS ARE DUE UPON RECEIPT

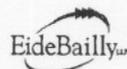
Finance Charge Invoice

129.38

CURRENT TOTAL

-----  
\$ 129.38  
=====

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Eden Prairie, Minnesota 55344-3800 • 952.944.6166 • Fax: 952.944.8496

Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

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Eden Prairie, MN 55344-3800

952.944.6166  
Fax: 952.944.8496



Consultants • Certified Public Accountants

I N V O I C E

International Beauty Network, Inc.  
2179 Highway 36 W  
Roseville MN 55113

Date: 11/22/99  
Page: 1  
64051-392591

=====  
Please return this portion with your payment.  
=====

BILLINGS ARE DUE UPON RECEIPT

For professional accounting services rendered in  
connection with:

Review and calculation of estimated basis in S-Corporation for each of the existing shareholders.	500.00
Analysis of amounts due to shareholders, applicable charges for rent and corporate tax and financial planning issues.	350.00
Consultations and discussions.	125.00
CURRENT TOTAL	----- \$ 975.00 =====

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Federal I.D. #45-0250958

A SERVICE CHARGE on past due accounts is computed by a PERIODIC RATE OF 1.5% per month, which is an ANNUAL PERCENTAGE RATE of 18% applied to the past due amount.  
PAYMENT IS DUE UPON RECEIPT.

# **EXHIBIT L**

# United States Bankruptcy Court

INTERNATIONAL BEAUTY NETWORK, INC.

In re \_\_\_\_\_  
Debtor

Case No. 00-33612  
(If known)

## SUMMARY OF SCHEDULES

Indicate as to each schedule whether that schedule is attached and state the number of pages in each. Report the totals from Schedules A, B, D, E, F, I, and J in the boxes provided. Add the amounts from Schedules A and B to determine the total amount of the debtor's assets. Add the amounts from Schedules D, E, and F to determine the total amount of the debtor's liabilities.

NAME OF SCHEDULE	ATTACHED (YES/NO)	NO. OF SHEETS	AMOUNTS SCHEDULED		
			ASSETS	LIABILITIES	OTHER
A - Real Property	YES	1	\$ 0.00		
B - Personal Property	YES	3	\$ 780,799.00		
C - Property Claimed As Exempt	YES	1			
D - Creditors Holding Secured Claims	YES	2		\$ 0.00	
E - Creditors Holding Unsecured Priority Claims	YES	1		\$ 0.00	
F - Creditors Holding Unsecured Nonpriority Claims	YES	48		\$ 2,860,959.97	
G - Executory Contracts and Unexpired Leases	YES	1			
H - Codebtors	YES	1			
I - Current Income of Individual Debtor(s)	NO	0			\$ 0.00
J - Current Expenditures of Individual Debtor(s)	NO	0			\$ 0.00
Total Number of Sheets in ALL Schedules ▶		58			
Total Assets ▶			780,799.00		
Total Liabilities ▶				2,860,959.97	

Bankruptcy 2000 © 1991-98, New Hope Software, Inc. - 30593

Filed on OCT 27 2000  
Patrick G. De Wane, Clerk  
By LMM Deputy Clerk

8

# **EXHIBIT M**

## Claims Data for Case 0-33612

An 'underlined blue or purple' entry in the 'Creditor' column indicates that there is an image for the entry. The image can be accessed using either the Paperport viewer for MAX documents or the Adobe Acrobat Reader for PDF documents. These viewers may be downloaded free of charge by clicking on the [Image Viewer Download](#) hyperlink. Install help is available by clicking on the [Viewer Install Help](#) hyperlink. The buttons in the 'Link' column display text associated with the entry.

Return to Previous Page

Claim Date	Amount	Claim Number	Descriptive Text	Creditor	
11/17/00	3138.50	1		<a href="#">ASSOCIATES CAPITAL BANK</a> DBA OFFICE MAX CREDIT PLAN PO BOX 7004 DEPT 58-3401022818 SIOUX FALLS SD 57117	Claim image exists
12/08/00	918521.58	2	SEE CLAIM	<a href="#">MICHAEL FAGEL</a> 1102 ASTON PLACE BURNSVILLE MN 55337	Claim image exists
12/18/00	36840.69	3		<a href="#">ROBERT JOSEPH BURKLAND</a> C CRAIG GUNSTER YOAKLEY & STEWART 800 SE MONTEREY COMMONS BLVD STE 200 STUART FL 34996	Claim image exists
12/18/00	42955.47	4		<a href="#">ROBERT O LUNA JR</a> C/O C CRAIG ELLER 800 SE MONTEREY COMMONS BLVD STE 200 STUART FL 34996	Claim image exists
01/08/01	1125.06	5		<a href="#">NEXTEL COMMUNICATIONS</a> 10002 PARK MEADOWS DR LONE TREE CO 80124	Claim image exists
01/09/01	46256.99	6		<a href="#">INTERNATIONAL BEAUTY NETWORK</a> 1687 131ST LANE NW	Claim image exists

				COON RAPIDS MN 55448	
01/17/01	633000.00	7		<u>SAIMOL TRADING COMPANY</u> 13712 STONE RD MINNETONKA MN 55305	Claim image exists
01/26/01	650906.33	8		<u>CENTRE MTG</u> 5200 W 211TH ST STE B FARMINGTON MN 55024	Claim image exists
02/28/01	191682.75	9		<u>BRIGGS AND MORGAN</u> 2200 FIRST NATL BANK BLDG 332 MINNESOTA ST ST PAUL MN 55101	Claim image exists
06/08/01	166.44	10		<u>SUPERIOR MATERIAL HANDLING INC</u> 225 TH ST E LAKEVILLE MN 55044	Claim image exists
10/17/01	7801.21	11		<u>MARGARET MEYER</u> 6301 HILTON COURT NO PINE SPIRNGS MN 55115	Claim image exists
10/17/01	15853.53	12		<u>ABRAMS &amp; SMITH</u> 700 NORTHSTAR W 625 MARQUETTE AVE MPLS MN 55402	Claim image exists
10/19/01	166.44	13		<u>SUPERIOR MATERIAL HANDLING</u> 11075 225TH ST E LAKEVILLE MN 55044	Claim image exists
10/19/01	53568.01	14		<u>LOFTON LABEL INC</u> ATTN RICHARD GAJEWSKI 6290 CLAUDE WAY E INVER GROVE HEIGHTS MN 55076	Claim image exists
10/19/01	17207.25	15		<u>RACHER PRESS INC</u> ATTY AT LAW PO BOX 390113 MINNEAPOLIS MN 55439	Claim image exists
				<u>KELL CONTAINER CORP</u> C/O THURL QUIGLEY	Claim

10/19/01	79744.84	16		PO BOX 390113 MINNEAPOLIS MN 55439	image exists
10/19/01	16683.44	17		RACHER PRESS INC C/O ANTHONY S ASPNES 5200 WEST 73RD ST EDINA MN 55439	Claim image exists
10/19/01	54598.58	18		LOFTON LABELS INC C/O ANTHONY S ASPNES 5200 W 73RD ST EDINA MN 55439	Claim image exists
10/19/01	32732.13	19		APPLAUSE INC C/O ANTHONY S ASPEN 5200 W 73RD ST EDINA MN 55439	Claim image exists
10/22/01	3580.00	20		LATIMORE ENTERPRISES 98 SWIFT ST AUBURN NY 13021	Claim image exists
10/23/01	478.24	21		ASSOCIATES SALES & SERV P O BOX L 654 LANGHORNE PA 19047	Claim image exists
10/24/01	12000.00	22	WAGES? SEE CLAIM.	GLOBAL HOLDING LLC PO BOX 549 SPEONK NY 11972	Claim image exists
10/24/01	14985.73	23		STYLER TRANSPORTATION 8425 213TH STREET W SUITE 200 LAKEVILLE MN 55044	Claim image exists
10/24/01	26582.40	24	284604	VALASSIS COMMUNICATIONS INC 19975 VICTOR PKWY LIVONIA MI 48152	Claim image exists
10/25/01	948.10	25		MC CARTHY TETRAULT LE WINDSOR 1170 PEEL MONTREAL CANADA H3B 4S8	Claim image exists

10/29/01	4810.89	26		<u>CONTINENTAL GLASS &amp; PLASTIC</u> 841 WEST CERMAK ROAD CHICAGO IL 60608	Claim image exists
10/29/01	15321.77	27		<u>SCHENKER</u> 965 NORFOLK SQ NORFOLK VA 23502	Claim image exists
10/29/01	190.44	28		<u>ROBERT L KNUDSEN</u> 3712 WOODBURN ROAD ANNANDALE VA 22003	Claim image exists
10/31/01	504.00	29		<u>ABDO &amp; ABDO MPLS</u> 625 MARQUETTE AVE SUITE 710 MPLS MN 55402	Claim image exists
10/31/01	19875.00	30		<u>RACHER PRESS INC</u> 220 EAST AVE NEW YORK NY 10001	Claim image exists
11/01/01	1151.55	31		<u>TWIN CITIES EXECUTIVE SUITES</u> 701 FOURTH AVE NO SUITE 500 MPLS MN 55415	Claim image exists
11/05/01	890.00	32		<u>RALPH ZARZYCKI</u> 528 E 200TH EUCLID OH 44119	Claim image exists
11/13/01	46256.99	33		<u>TODD D JOHNOSN</u> 1687 - 131ST LANE NW COON RAPIDS MN 55448	Claim image exists
11/14/01	16166.06	34		<u>EIDEBAILLY LLP</u> 11000 PRAIRIE LAKES DR SUITE 410 EDEN PRAIRIE MN 55344-3888	Claim image exists

11/14/01	235955.34	35	SEE CLAIM AND ATTACHMENTS	<u>EQUILINK LLS</u> C/O EVAN BERGER 215 EAST 68TH ST STE 14-F NEW YORK NY 10021	Claim image exists
11/20/01	40627.22	36		<u>TRISTATE FAR EAST CORP</u> 16TH FLOOR TAL BLDG 49 AUSTIN RD KOWLOON HONG HONG	Claim image exists
11/26/01	2310.17	37		<u>LINDA COPPOLINO</u> 38 NO APPLETREE RD HOWELL NJ 07731-2220	Claim image exists
12/04/01	93177.74	38		<u>DIVERSIFIED MANUFACTURING CORP</u> ATTN RISHIKSEH MOTILALL 101 7TH AVE NEW PORT MN 55055	Claim image exists
12/06/01	200000.00	39		<u>INTERNAIONAL CAPITAL MGT</u> 39 STRAWBERRY PATCH LANE STAMFORD CT 06902	Claim image exists
12/21/01	3578.37	40		<u>UNITED PARCEL SERVICE</u> C/O D&B RMS BKY SERVICES PO BOX 5126 TIMONIUM MARYLAND 21094	Claim image exists
12/28/01	134719.39	41		<u>KOSMAKARE INTERNATIONAL</u> 243 VETERANS BLVD CARLSTADT NJ 07072	Claim image exists
12/28/01	74687.81	42	Please refer to Claim Number 45 572330	<u>ALBERTSON S</u> PO BOX 20 BOISE ID 83726	Claim image exists

01/02/02	8879.13	43		WARNER BROTHERS WAYNE A SMITH BLDG 156S RM 5158 4000 WARNER BLVD BURBANK CA 91522	Claim image exists
01/18/02	360000.00	44		TRIWELL ENTERPRISES ATTN PETER SCHNEIDER 415 OLD MILL LN WYCHOFF NJ 07481	Claim image exists
05/10/02	90025.13	45	Amendment of Claim Number 42 572330	ALBERTSON S PO BOX 20 BOISE ID 83726	Claim image exists

U S Bankruptcy Court - District of Minnesota  
Last revised: October 24, 2000



## SERVICE LIST

Matthew R. Burton  
Leonard, O'Brien, Wilford, Spencer & Gale  
100 South Fifth Street  
Suite 1200  
Minneapolis, MN 55402-1216

Todd C. Pearson  
Dorsey & Whitney LLP  
50 South Sixth Street, #1500  
Minneapolis, MN 55402-1498

Daloris Lowenthal  
2717 S. Gregory Drive  
Billings, MT 59102

The Richard and Daloris Lowenthal  
Family Trust  
2717 S. Gregory Drive  
Billings, MT 59102

Garry N. Lowenthal  
1836 N. Prior Avenue  
St. Paul, MN 55113

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

-----  
In re:

Bky. Case No. 00-33612  
Chapter 7

International Beauty Network, Inc.,  
  
Debtor.

-----  
John A. Hedback, Trustee for the  
Bankruptcy Estate of International Beauty  
Network, Inc.,

Plaintiff,

v.

Adv. Pro. No. 02-3204

Daloris Lowenthal, The Richard and Daloris  
Lowenthal Family Trust, Garry N. Lowenthal,  
Equilink LLC, Old Oak Fund, Inc.,  
Harbor View Fund, Inc., and HSBC Bank USA,  
f/k/a Republic National Bank of New York,

Defendants.  
-----

**FINDINGS OF FACT, CONCLUSIONS OF LAW,  
AND ORDER FOR DEFAULT JUDGMENT**

Based upon the records on file, application for default judgment and accompanying affidavits, the Court makes the following:

**FINDINGS OF FACT**

1. This adversary proceeding was commenced pursuant to Fed. R. Bankr. P. 7001 et seq. and 11 U.S.C. §§ 544, 547, and 548.
2. This Court has jurisdiction over this adversary proceeding pursuant to 28 U.S.C. §§ 157 and 1334, and Fed. R. Bankr. P. 7001(1). This adversary proceeding is a core proceeding

pursuant to 28 U.S.C. §157(b) (2). The involuntary petition commencing this case was filed August 31, 2000, and the Order for Relief was entered by the Bankruptcy Court September 21, 2000. This case is now pending before this Court.

3. Plaintiff John A. Hedback is the duly appointed Chapter 7 trustee for the Bankruptcy Estate of International Beauty Network, Inc. (“IBN” or “Debtor”).

4. This adversary proceeding was commenced September 20, 2002. With respect to Defendants Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry N. Lowenthal, the Complaint (Counts One and Three) seeks to avoid as preferential transfers the granting of security interests to the Lowenthal Defendants and the perfection thereof

5. At all times material hereto, Defendant Garry N. Lowenthal was President and Chief Executive Officer of the Debtor, and was its largest shareholder.

6. Garry Lowenthal is related to Daloris Lowenthal as he is her son.

7. From time to time between August 1993 and August 1999, IBN received loans from Defendant Daloris Lowenthal in the aggregate principal amount of \$155,234.25. The aggregate principal amount owing by the Debtor to Daloris Lowenthal as of August 12, 1999, was \$155, 234.25.

8. From time to time between 1993 and December 31, 1998, the Debtor had received loans from and issued promissory notes to Defendant Garry Lowenthal having a balance as of December 31, 1998, in the aggregate principal amount of \$502,832; these obligations accrued interest at 14% per annum. In addition, in 1999, Mr. Lowenthal made additional loans to the Debtor in the amount of \$13,075.00. As of August 12, 1999, the aggregate amount owing to Mr. Lowenthal on the pre-1999 loans was approximately \$545,490.57; together with the 1999 indebtedness, as of August 12, 1999, the Debtor owed Mr. Lowenthal approximately \$558,565.

9. At times material hereto, Garry Lowenthal was president and controlling shareholder of IBN, and was thereby an “insider” for purposes of 11 U.S.C. § 101 (31) (B), and Minn. Stat. §513.41 (7) (ii). Mr. Lowenthal’s mother, Daloris Lowenthal, and the Richard and Daloris Lowenthal Family Trust are likewise “insiders” by reason of 11 U.S.C. § 101 (31) (B) (vi) and Minn. Stat. §513.41 (7) (i).

10. On or about August 12, 1999, to secure the antecedent debt, IBN entered into a security agreement with Daloris Lowenthal and The Richard and Daloris Lowenthal Family Trust and Daloris Lowenthal whereby IBN granted to them as secured parties a security interest in substantially all of IBN's assets

11. The security interest was perfected by filing a financing statement on October 26, 1999.

12. Also on or about August 12, 1999, IBN entered into a security agreement with Garry Lowenthal, whereby IBN granted him as secured party a security interest in substantially all of IBN's assets.

13. The security interest granted to Garry Lowenthal was perfected by filing a financing statement on October 26, 1999

14. The perfection of the security interests took place within one year prior to the bankruptcy filing, was made to or for the benefit of a creditor, on account of antecedent indebtedness, while the Debtor was insolvent.

15. The granting of the security interests in August 1999 were transfers to insider creditors on account of antecedent debt without providing reasonably equivalent value to the Debtor.

16. At the time of the above transfers, IBN was insolvent within the meaning of 11 U.S.C. § 101(32) and Minn. Stat. § 513.42, such that the grant and perfection of security

interests to secure hitherto unsecured indebtedness would have the effect to enable Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry Lowenthal to obtain more than they would receive under Chapter 7, Title 11, United States Code, if the transfers had not been made and the defendants received payment of such debt to the extent provided by the Bankruptcy Code.

17. At the times of the transfers to the Lowenthal Defendants, there existed one or more unsecured creditors of IBN who could have avoided the transfers under state law.

18. Plaintiff filed his Complaint in the above-caption adversary proceeding on or about September 20, 2002.

19. The Clerk issued a Summons on September 20, 2002, and the Summons and Complaint were served by regular and certified mail on the Lowenthal Defendants on September 25, 2002.

20. More than 30 days have now passed since the date the Summons was issued served and the Lowenthal Defendants have not served an Answer nor any other response and are, therefore, in default.

### **CONCLUSIONS OF LAW**

Based upon the above Findings of Fact and the records on file, the Court makes the following Conclusions of Law:

1. Defendants Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry Lowenthal were insiders of IBN within the meaning of 11 U.S.C. § 101(31) and Minn. Stat. § 513.41(7) because Garry Lowenthal was a principal officer of IBN and related to Daloris Lowenthal as he is her son.

2. The grant of the August 12, 1999 Security Interest and October 26, 1999, financing statement for its perfection in favor of defendants Daloris Lowenthal and The Richard

and Daloris Lowenthal Family Trust constitute transfers avoidable pursuant to 11 U.S.C. §§ 547, 548(a)(1)(B), 544, and Minn. Stat. § 513.41, et seq.

3. The grant of the August 12, 1999, Security Interest and October 26, 1999, financing statement for its perfection in favor of defendant Garry Lowenthal constitute avoidable transfers pursuant to 11 U.S.C. §§ 547, 548(a)(1)(B), 544, and Minn. Stat. § 513.41, et seq.

4. Plaintiff Trustee is entitled to avoid the above listed transfers; pursuant to 11 USC. § 551, the avoided transfers are preserved for the benefit of the estate.

5. Plaintiff is entitled to entry of judgment by default as against defendants Daloris Lowenthal and The Richard and Daloris Lowenthal Family Trust and Garry Lowenthal and in favor of Plaintiff.

#### **ORDER FOR JUDGMENT**

Based upon the above Findings of Fact, Conclusions of Law and upon all the documents and records on file, and proceedings herein,

IT IS HEREBY ORDERED:

1. Plaintiff's Application for Default Judgment as to Defendants Daloris Lowenthal, The Richard and Daloris Lowenthal Family Trust, and Garry Lowenthal is granted.

2. The Court adopts the above Findings of Fact and Conclusions of Law and incorporates them herein.

3. The August 12, 1999, grant of security interest to Daloris Lowenthal and The Richard and Daloris Lowenthal Family Trust and the October 26, 1999, perfection thereof are void and preserved for the benefit of the bankruptcy estate.

4. The August 12, 1999, grant of security interest to Garry Lowenthal and the October 26, 1999, perfection thereof are void and preserved for the benefit of the bankruptcy estate.

FINDING THERE IS NO JUST REASON FOR DELAY IN ENTRY OF DEFAULT JUDGMENT, LET JUDGMENT BE ENTERED ACCORDINGLY.

Dated: \_\_\_\_\_, 2004

\_\_\_\_\_  
Gregory F. Kishel  
Chief United States Bankruptcy Judge