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7  
8 UNITED STATES BANKRUPTCY COURT  
9 EASTERN DISTRICT OF CALIFORNIA  
10 SACRAMENTO DIVISION

11 In re:  
12 INTERNATIONAL  
MANUFACTURING GROUP,  
13 INC.,

CASE NO.: 14-25820-D-11  
Chapter 11

DCN: FWP-16

Date: January 28, 2015  
Time: 10:00 a.m.  
Courtroom: 34  
501 I Street, 6<sup>th</sup> Floor  
Sacramento, CA

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17 **ORDER GRANTING CHAPTER 11 TRUSTEE’S MOTION**  
**(I) TO APPROVE SETTLEMENT WITH WANNAKUWATTE ESTATES**  
**AND (II) FOR SUBSTANTIVE CONSOLIDATION WITH CERTAIN**  
18 **NON-DEBTOR ENTITIES**

19  
20 The motion of BEVERLY N. McFARLAND (“IMG Trustee”) for an order approving an  
21 agreement with HANK M. SPACONE (“DW Trustee”), ALAN S. FUKUSHIMA, and  
22 DOUGLAS N. WHATLEY (“Inter-Estate Agreement”),<sup>1</sup> came on for continued hearing at the  
23 above-captioned date, time and place. Appearances were noted on the record. The findings of  
24 fact and conclusions of law were stated on the record and are incorporated into this order. Upon  
25 consideration of the evidence and authorities presented, and good cause appearing therefor,

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27 <sup>1</sup> Except as otherwise provided herein, capitalized terms shall have the meaning as defined in the  
28 Inter-Estate Agreement, a copy of which is attached hereto as Exhibit A and incorporated by this  
reference.

RECEIVED

February 05, 2015

CLERK, U. S. BANKRUPTCY COURT  
EASTERN DISTRICT OF CALIFORNIA  
0005440330

1 **IT IS ORDERED** that:

2 1. The motion is granted. The Inter-Estate Agreement is approved except to the  
3 extent modified or clarified by this Order. The provisions of this Order shall prevail over any  
4 conflicting provisions in the Inter-Estate Agreement.

5 2. On the Effective Date of the Inter-Estate Agreement, the International  
6 Manufacturing Group, Inc. Chapter 11 Estate shall be substantively consolidated *nunc pro tunc* to  
7 May 30, 2014 (the "Petition Date"), pursuant to the terms of the Inter-Estate Agreement and this  
8 Order, with the following non-debtor entities, which will include all legal or equitable interests in  
9 property held by such entities, and that are hereafter referred to as the "Modified Selected  
10 Entities":

<u>CA LLC/LP #</u>	<u>Name</u>	<u>Ownership</u>
	<b>ACHOMAWI GLOVE MANUFACTURING, LLC</b>	100% DW
201104110022	<b>ACHOMAWI PACKAGING COMPANY, LLC</b>	100% DW
201133510132	<b>CAPITAL SPORTS MANAGEMENT, L.L.C.</b>	50% DW/50% Betsy
200912510332	<b>CLOVER RANCH, LLC</b>	50% DW/50% Betsy
	<b>D&amp;A INTERNATIONAL, LLC</b>	100% DW
201329010193	<b>DENNISTON DB, LLC</b>	100% DW
200814810133	<b>HEMODEX SOLUTIONS, LLC</b>	100% DW
201119210389	<b>IDS SACRAMENTO, LLC</b>	100% DW
200321910039	<b>LEFT AND RIGHT, LLC</b>	100% DW
201034110242	<b>OLIVEHURST GLOVE MANUFACTURERS, LLC</b>	33 $\frac{1}{3}$ % each DW/Betsy/ST&M*
201329100011	<b>OLIVEHURST LIMITED PARTNERSHIP</b>	GP –Denniston DB, LLC
201110210032	<b>RELYAID GLOBAL HEALTHCARE, LLC</b>	100% DW
201127610105	<b>RELYAID GLOBAL HEALTHCARE MANUFACTURING, LLC</b>	100% DW
201127610106	<b>RELYAID GLOBAL HEALTHCARE PACKAGING, LLC</b>	100% DW
201020310219	<b>SKW TRADING &amp; MARKETING, LLC ("ST&amp;M")*</b>	100% Sarah
201019710278	<b>W.I.M.G. JV, LLC</b>	100% DW
200309410009	<b>WANNAS ENTERPRISES, LLC</b>	50% DW/50% Betsy
201121610541	<b>ZHOU LANKA MEDICAL ENTEPRISES, LLC</b>	100% Sarah
C1284401 (CA)	<b>D &amp; A INTERNATIONAL IMPORT-EXPORT, INC.</b>	100% DW

<u>CA LLC/LP #</u>	<u>Name</u>	<u>Ownership</u>
C1637476 (CA)	<b>D &amp; A LATEX</b>	100% DW
C3406664 (CA)	<b>GLOBAL HEALTHCARE FINANCE, INC. (AKA GLOBAL HEALTHCARE FINANCE, LLC)</b>	100% DW
C3326868 (CA)	<b>WANNAS SERENDIPITY CHARITABLE FOUNDATION</b>	Pub. Bene. Corp.

MISC: **DESCO DENTAL**  
**SACRAMENTO CAPITALS TENNIS TEAM** (tennis team formerly owned by Capital Sports Management, LLC)

3. The IMG Trustee, in her capacity as trustee of the Consolidated IMG Estate, is authorized to file in the Consolidated IMG case all documents necessary to effectuate the provisions of this Order, including an amended mailing matrix to include those potential creditors of the Modified Selected Entities which are not already on the case matrix.

4. The IMG Trustee is authorized to control and dispose of all the assets of the Modified Selected Entities subject only to the requirements of the Bankruptcy Code and orders of this Court.

5. The IMG Trustee is deemed to have been appointed as trustee and shall have all the rights and powers and perform the duties of a trustee set forth in 11 U.S.C. 1106(a) as if the Modified Selected Entities had filed petitions under Title 11 on the Petition Date;

6. The provisions of Chapter 3 and Chapter 5 of Title 11 shall apply to the assets and creditors of the Modified Selected Entities as if the Modified Selected Entities had filed petitions under Title 11 on the Petition Date;

7. Paragraph 10 of the Inter-Estate Agreement is replaced with:

“10. The DW and IMG trustees shall propose and support a plan providing that all general unsecured claims allowed against the IMG, DW, BW and SW estates, shall be paid without duplication from a single claim pool, funded by the Consolidated DW and Consolidated IMG estates from the funds that remain after separate payment by the DW and IMG trustees of the administrative and priority claims allowed against their respective consolidated estates.”

8. The proofs of claim filed by the DW and IMG trustees against the IMG, DW, BW and SW estates are deemed withdrawn.

1           9.       A claims bar date of June 1, 2015 is hereby established for any secured,  
2 administrative priority and/or unsecured creditors of any of the Modified Selected Entities to file  
3 a proof of claim (if asserting a pre-petition secured, priority and/or unsecured claim) or a motion,  
4 if seeking approval for an administrative claim, in the Consolidated IMG Estate (the “Claims Bar  
5 Date for the Modified Selected Entities”). The IMG Trustee will serve all known and potential  
6 creditors of the Modified Selected Entities with notice of the Claims Bar Date for the Modified  
7 Selected Entities.

8           10.       If the tax provisions of the Inter-Estate Agreement are later found to create a  
9 possible negative or phantom tax consequence for the creditors of the Consolidated IMG Estate or  
10 the DW Consolidated Estate, the IMG Trustee shall file a motion to modify the terms of the Inter-  
11 Estate Agreement to address such issue, and the Court reserves full jurisdiction to modify the  
12 Inter-Estate Agreement to address any such issue.

13           11.       With respect to the requested consolidation of DBS Air, LLC and RelyAid Global  
14 Healthcare, Inc., consideration of that portion of the relief requested is severed from the present  
15 Motion (FWP-16), and will be deemed to be a separate motion with a new designated motion  
16 control number (FWP-18). All pleadings in the present Motion shall be deemed to have been  
17 originally filed in the new motion FWP-18. Motion FWP-18 will be heard pursuant to the  
18 following briefing schedule: (a) the IMG Trustee shall file and serve on the limited notice list, a  
19 short notice of motion and motion with the new motion control number, and any additional  
20 supporting evidence and/or argument by March 18, 2015; (b) General Electric Capital  
21 Corporation may file any supplemental opposition by April 1, 2015, (c) the IMG Trustee may file  
22 any reply pleadings by April 8, 2015, and (d) the hearing on FWP-18 will be held on April 15,  
23 2015 at 10:00 a.m.

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12. The IMG Trustee may reimburse herself from the Consolidated IMG Estate funds for her share of the \$3,000 paid to JAMS for the mediation that enabled the settlement, which is the subject of this Motion

**APPROVED AS TO FORM.**

DESMOND, NOLAN, LIVAICH & CUNNINGHAM

JOSEPH & COHEN PC

/s/ J. Russell Cunningham  
J. RUSSELL CUNNINGHAM  
Attorneys for the DW Trustee

/s/ David A. Honig  
DAVID A. HONIG  
Attorneys for the Official Committee of Unsecured Creditors

REED SMITH LLP

/s/ Jonathan R. Doolittle  
JONATHAN R. DOOLITTLE  
Attorneys for General Electric Capital Corporation

**Dated:** February 06, 2015

Robert S. Bardwil  
Robert S. Bardwil, Judge  
United States Bankruptcy Court

# **EXHIBIT A**

## INTER-ESTATE AGREEMENT

This Inter-Estate Agreement (“Agreement”), dated November 19<sup>th</sup>, 2014, is made by and among: Beverly N. McFarland, as Trustee (“IMG Trustee”) of the Chapter 11 estate (the “IMG Estate”) of International Manufacturing Group, Inc. (“IMG”) before the United States Bankruptcy Court for the Eastern District of California (“Court”), Case No. 14-25820-D-11 (“IMG Case”); Hank Spacone, as Trustee (“DW Trustee”) of the Chapter 11 estate (the “DW Estate”) of Deepal Sunil Wannakuwatte (“Wannakuwatte”) in Case No. 14-25816-D-11 before the Court (“DW Case”); Alan S. Fukushima, as Trustee (“BW Trustee”) of the Chapter 7 estate (the “BW Estate”) of Betsy Kathryn Wannakuwatte (“Betsy”) in Case No. 14-27645-D-7 before the Court (“BW Case”); and Douglas M. Whatley, as Trustee (“SW Trustee”) of the Chapter 7 estate (the “SW Estate”) of Sarah Kathryn Wannakuwatte (“Sarah”) in Case No. 14-25678-D-7 before the Court (“SW Case”). In this Agreement, (i) IMG Trustee, DW Trustee, BW Trustee and SW Trustee are sometimes collectively referred to as the “Trustees” and each as a “Trustee,” (ii) IMG Estate, DW Estate, BW Estate, SW Estate, Consolidated IMG Estate (as defined below), and Consolidated DW Estate (as defined below) are sometimes collectively referred to as the “Estates” and each as an “Estate,” and (iii) IMG Case, DW Case, BW Case and SW Case are sometimes collectively referred to as the “Cases” and each as a “Case.”

### RECITALS

A. IMG is engaged in the retail sale and distribution of consumable or disposable medical supplies for dentists and supplies and equipment for tattoo artists. The United States Attorney’s Office has alleged that IMG was involved in a massive Ponzi scheme with its president, Wannakuwatte, by channeling an amount in excess of \$120 million in investor funds through IMG and related-entity bank accounts over several years, and defrauding approximately 200 victims consisting primarily of individual investors.

B. Prior to the filing of the IMG case, Wannakuwatte entered into a plea agreement with the United States Attorney’s Office in which he admitted to engaging in criminal activity, agreed to the filing of a Chapter 11 case for himself and related business entities, and stipulated to the appointment of a trustee in each case.

C. On May 30, 2014, IMG initiated the IMG Case by filing a voluntary petition for relief under chapter 11 of Title 11 of the United States Code (the “Code”). On June 25, 2014, IMG Trustee was appointed in the IMG Case and remains in that capacity.

D. On May 30, 2014, Wannakuwatte initiated the DW Case by filing a voluntary petition for relief under chapter 11 of the Code. On June 24, 2014, DW Trustee was appointed in the DW Case and remains in that capacity.

E. On May 29, 2014, Sarah initiated the SW Case by filing a voluntary petition for relief under chapter 7 of the Code. The SW Trustee was appointed in the SW Case and remains in that capacity.

F. On July 25, 2014, Betsy initiated the BW Case by filing a voluntary petition for relief under chapter 7 of the Code. The BW Trustee was appointed in the BW Case and remains in that capacity.

G. On November 13, 2014, Wannakuwatte confirmed his plea agreement and was sentenced to a term of 20 years' imprisonment by the United States District Court for the Eastern District of California.

H. Based on their review of the claims asserted against their respective Estates, the Trustees have concluded that, apart from protective inter-estate claims filed by the Trustees themselves, the general unsecured claims scheduled in the IMG Case and the DW Case, as well as the general unsecured claims filed in the IMG Case, the DW Case and the BW Case, are substantially identical and consist almost entirely of claims asserted by or on behalf of victims of the Ponzi scheme.

I. The IMG Trustee, DW Trustee and their respective counsel have conducted a preliminary analysis of the sources of potential recovery on general unsecured claims asserted in the Cases. The IMG Trustee and DW Trustee have concluded that any such recovery is likely to require litigation against third parties based on rights, claims and causes of action that may constitute the property of one or more of the Estates or of affiliated non-debtor entities.

J. The Trustees have discussed the above and related matters with respect to the potential substantive consolidation of the Estates and certain non-debtor affiliates. On November 11, 2014, the Trustees became party to an inter-estate term sheet arising from a mediation session conducted at JAMS on that date by the IMG Trustee and DW Trustee with the Honorable Judge Randall Newsome (Ret.). The Trustees thus concurred in a mutual resolution of the matters addressed by this Agreement as detailed below.

## AGREEMENT

NOW, THEREFORE, in consideration of the following and the mutual covenants and conditions set forth below, the Trustees agree as follows:

1. Incorporation of Recitals. The foregoing recitals are true and are a part of this Agreement.

2. Condition – Court Approval. The effectiveness of this Agreement is conditioned on entry of (a) an order in the IMG Case approving the compromise under Federal Rule of Bankruptcy Procedure 9019, or such other procedure as may be directed by the Court (collectively, “Approval Procedure”), and authorizing the IMG Trustee to enter into and carry out the terms of this Agreement (the “IMG Approval Order”), (b) an order in the DW Case approving the compromise under an Approval Procedure and authorizing the DW Trustee to enter into and carry out the terms of this Agreement (the “DW Approval Order”), and (c) to the extent and in the manner directed by the Court, orders in each of the BW and SW Cases approving the compromise under an Approval Procedure and authorizing the BW and SW Trustees to enter into and carry out the terms of this Agreement (the “Additional Approval Orders” and, collectively with the IMG Approval Order and the DW Approval Order, the



“Approval Orders”). Promptly after execution of this Agreement, the IMG Trustee shall file and diligently prosecute a motion seeking the IMG Approval Order, the DW Trustee shall file and diligently prosecute a motion seeking the DW Approval Order, and the BW and SW Trustees shall, if so directed by the Court, file and diligently prosecute motions seeking the Additional Approval Orders. The Trustees shall support the motions seeking the Approval Orders.

3. Effective Date. The effective date (“Effective Date”) of this Agreement shall be the earlier of (a) the date on which the last of the Approval Orders becomes final and non-appealable and (b) if a timely appeal is filed from one or more of the Approval Orders but no stay is obtained pending such appeal, the date on which the Trustees reasonably agree that the Agreement shall become effective.

4. Creation of Consolidated DW Estate. As of the Effective Date, the BW and SW Estates shall be substantively consolidated into the DW Estate, creating the “Consolidated DW Estate.” The Consolidated DW Estate shall also substantively consolidate and include all ownership interests in all entities in which DW, BW, and SW hold an ownership interest (collectively, “DW Affiliates”). The compensation payable to the BW and SW Trustees shall be determined by the Court pursuant to applicable provisions of the Code in the BW Case and the SW Case, respectively, and such amounts shall be allowed as Chapter 11 administrative expenses of the Consolidated DW Estate. The compensation allowed the DW Trustee in the DW Case shall be subordinated to the compensation so allowed the BW Trustee and SW Trustee.

5. Creation and Potential Expansion of Consolidated IMG Estate. As of the Effective Date, or on such later date or dates as are determined by the IMG Trustee consistent with orders of the Court (each an “Applicable Later Date”), all DW Affiliates that are selected for consolidation by the IMG trustee (“Selected Entities”) shall be substantively consolidated into the IMG Estate, creating the “Consolidated IMG Estate.” Upon the Effective Date or Applicable Later Date, all assets of the Selected Entities shall become property of the Consolidated IMG Estate, and creditors of the Selected Entities shall be afforded notice and opportunity to file timely proof(s) of claim against the Consolidated DW Estate and the Consolidated IMG Estate, as applicable.

6. Administration of Other Property. The DW and IMG Trustees shall separately administer, for the benefit of their respective Consolidated Estates, all other scheduled and unscheduled real and personal property of such Estates (“Other Property”).

7. Litigation Rights. As of the Effective Date and any Applicable Later Date, except to the extent necessary to administer the Other Property, all claims, causes of action and legal rights of the Consolidated DW Estate and the Consolidated IMG Estate under both non-bankruptcy and bankruptcy law, including the provisions of Sections 502, 522, 542, 543, 544, 545, 547, 548, 549, 550, 553, 723 and 724 of the Code, or arising from the creation of the Consolidated DW Estate or the creation or expansion of the Consolidated IMG Estate (collectively, “Litigation Rights”), shall be combined into a common pool over which the IMG Trustee shall have exclusive right of control.

8. Allocation of Certain Proceeds. The gross proceeds from liquidation of the assets of the Selected Entities and gross recoveries made on account of the Litigation Rights shall be

distributed 75% to the Consolidated IMG Estate and 25% to the Consolidated DW estate, with the associated broker commissions and special counsel fees and costs allocated and paid pro rata by the respective Consolidated Estates. Concomitantly, the contractual payment obligations (including, without limitation, obligations to IMG Funding, LLC, under its pending settlement with certain Trustees) and contingent fee obligations associated with the foregoing gross proceeds and gross recoveries shall be incurred in the same proportions, i.e., 75% by the Consolidated IMG Estate and 25% by the Consolidated DW Estate.

9. Withdrawal of Inter-Estate Claims. As of the Effective Date, the proofs of claim filed by the DW Trustee and IMG Trustee against the other Estates shall be deemed withdrawn.

10. Allowance of General Unsecured Claims. All general unsecured claims allowed against the Estates shall be paid without duplication from a single claim pool, funded by the Consolidated DW Estate and Consolidated IMG Estate from the funds that remain after separate payment by the DW Trustee and IMG Trustee of the administrative and priority claims allowed against their respective Consolidated Estates.

11. Tax Matters. With respect to the formal tax structure or reporting status of any asset, liability, entity, or claim under the direct or indirect control of the Consolidated DW Estate or the Consolidated IMG Estate, the DW Trustee and IMG Trustee may take action that may alter such status only upon mutual agreement unless otherwise ordered by the Court.

12. Binding Effect of Agreement. This Agreement is binding upon the Trustees and may be modified in writing upon the written agreement of both Trustees, or by bankruptcy court approval, if necessary. However The Agreement cannot be modified or rescinded by any plan of reorganization or plan of liquidation that may be subsequently confirmed in the IMG Case or the DW Case, and is binding upon any Chapter 7 trustee that may be subsequently appointed in the IMG Case or the DW Case.

13. Law and Jurisdiction. The Court shall retain exclusive jurisdiction to enforce the terms of this Agreement.

14. Attorneys' Fees and Costs. Should any dispute arise out of this Agreement, each party shall be responsible to pay for its losses and damages, including attorneys' fees, expert fees, litigation expenses, and costs, unless the lawsuit is voluntarily dismissed.

15. Entire Agreement. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties. No supplement, modification, waiver or termination of this Agreement, or any provision hereof, shall be binding, unless executed in writing by the parties to be bound thereby. The terms of this Agreement are contractual and not merely a recital.

16. Joint Drafting. The Trustees and their counsel have reviewed this Agreement, and agree that any rule of construction to the effect that any ambiguity in the interpretation of an agreement is to be resolved against the drafting party shall not apply. This Agreement shall be construed as if drawn and prepared by all parties hereto jointly. Any uncertainty and ambiguity shall not be interpreted for or against any one party.

17. No Third Party Beneficiaries. Except as otherwise specifically provided for in this Agreement, nothing contained in this Agreement shall create any rights, remedies or defenses in favor of any party of interest that is not a party to this Agreement.

18. Counterparts. This Agreement may be executed in counterparts and a facsimile signature shall be deemed an original signature for purposes of executing this Agreement.

19. Additional Performance. The Trustees further agree to execute such documents or take such as actions as may reasonably be required to fully implement this Agreement.

20. Trustees' Execution in Representative Capacity Only. The Trustees are executing this Agreement solely in their representative capacities. Nothing in this Agreement creates any liability of any kind directly against the Trustees or their individual or business assets. In the event of any breach of this Agreement, the party seeking a remedy therefor shall look solely to the applicable Estates for any damages or specific performance.

**[SIGNATURE BLOCKS APPEAR ON THE FOLLOWING PAGE]**

IN WITNESS WHEREOF, the Trustees hereto have executed this Agreement as of the date specified.

BEVERLY N. McFARLAND, SOLELY IN HER CAPACITY AS TRUSTEE OF THE CHAPTER 11 ESTATE OF INTERNATIONAL MANUFACTURING GROUP, INC.

By: Beverly N. McFarland

HANK SPACONE, SOLELY IN HIS CAPACITY AS TRUSTEE OF THE CHAPTER 11 ESTATE OF DEEPAI SUNIL WANNAKUWATTE

By: Hank Spacone

ALAN S. FUKUSHIMA, SOLELY IN HIS CAPACITY AS TRUSTEE OF THE CHAPTER 7 ESTATE OF BETSY KATHRYN WANNAKUWATTE

BY: Alan S. Fukushima

DOUGLAS M. WHATLEY, SOLELY IN HIS CAPACITY AS TRUSTEE OF THE CHAPTER 7 ESTATE OF SARAH KATHRYN WANNAKUWATTE

BY: \_\_\_\_\_

IN WITNESS WHEREOF, the Trustees hereto have executed this Agreement as of the date specified.

BEVERLY N. McFARLAND, SOLELY IN HER  
CAPACITY AS TRUSTEE OF THE CHAPTER 11  
ESTATE OF INTERNATIONAL MANUFACTURING  
GROUP, INC.

By: 

HANK SPACONE, SOLELY IN HIS CAPACITY AS  
TRUSTEE OF THE CHAPTER 11 ESTATE OF DEEPAI,  
SUNIL WANNAKUWATTE

By: \_\_\_\_\_

ALAN S. FUKUSHIMA, SOLELY IN HIS CAPACITY  
AS TRUSTEE OF THE CHAPTER 7 ESTATE OF  
BETSY KATHRYN WANNAKUWATTE

BY: \_\_\_\_\_

DOUGLAS M. WHATLEY, SOLELY IN HIS  
CAPACITY AS TRUSTEE OF THE CHAPTER 7  
ESTATE OF SARAH KATHRYN WANNAKUWATTE

BY:  \_\_\_\_\_