BREF CLARY CANNON LLP Patrick C Clary Nevada Bar No. 00053 Curtis W. Cannon Nevada Bar No. 10535 City Center West, Suite 503 7201 West Lake Mead Boulevard Las Vegas, Nevada 89128 5 Telephone: 702.382.0813 702.382-7277 6 7 Attorneys for Kokoweef, Inc. 8 DISTRICT COURT 9 CLARK COUNTY, NEVADA 10 -000-11 503 12 ST LAKE MEAD BOULEVARD, SUITE LAS VEGAS, NEVADA 89128 TED R. BURKE; MICHAEL R and LAURETTA L. ) KEHOE; JOHN BERTOLDO; PAUL BERNARD; 13 EDDY KRAVETZ; JACKIE and FRED KRAVETZ; GLARY GANNON LL STEVEN FRANKS; PAULA MARIA BARNARD; PETE T. and LISA A. FREEMAN; LEON GOLDEN; C.A. MURFF; GERDA FERN BILLBE; BOB and ROBYN TRESKA; MICHAEL RANDOLPH, 7201 WEST LAKE MEAD DEFENDANT KOKOWEEF, and FREDERICK WILLIS, 16 ) BRIEF IN SUPPORT OF ITS 2.382.08 ) RENEWED MOTION TO REQUIRE 17 Plaintiffs SECURITY FROM PLAINTIFFS 18 vs. LARRY L. HAHN, individually, and as President of and Treasurer of Kokoweef, Inc., and former President and DATE OF HEARING: 7/30/08 Treasurer of Explorations Incorporated TIME OF HEARING: 9:00 a.m. of Nevada; HAHN'S WORLD OF SURPLUS, 21 INC., a Nevada corporation; DOES I-X, inclusive; DOE OFFICERS, DIRECTORS and 22 PARTICIPANTS I-XX, 23 Defendants, 24 and 25 KOKOWEEF, INC., a Nevada corporation; EXPLORATIONS INCORPORATED OF NEVADA, a 26 dissolved Nevada corporation; 27 Nominal Defendants. 28

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### INTRODUCTION

Defendant Kokoweef, Inc. ("KOKOWEEF") filed its Motion for Security ("MOTION") seeking an order of this Court under NRS \$41.520 requiring Plaintiffs to post security. The Complaint alleges that Defendant Larry Hahn ("HAHN"), who is the President, Treasurer and a director of KOKOWEEF, and Hahn's World of Surplus, Inc. ("SURPLUS") defrauded KOKOWEEF and its predecessor, Explorations of Nevada, Incorporated ("EIN") and seeks recovery of the moneys allegedly improperly taken by HAHN and SURPLUS. The Complaint alleged three methods utilized by HAHN to commit the fraud:

- 1. Hahn caused KOKOWEEF or EIN to issue checks to third parties and deposited the checks in SURPLUS' bank account;
- 2. Hahn caused KOKOWEEF or EIN to issue checks to SURPLUS without justification; and
- 3. HAHN caused KOKOWEEF or EIN to expend funds for "personal" items that were not proper business expenses.

(The Complaint also alleges certain securities law violations, but no proof of those allegations was presented at the evidentiary hearing held on July 30, 2008.)

In addition to the allegations set forth in the Complaint, the Plaintiffs presented the testimony of their fraud examination expert, Talon Stringham ("STRINGHAM"). When asked whether the three items set forth above were evidence of fraud, STRINGHAM testified that a fraud examiner would consider them to be "red flags" which would justify further investigation. He could not, and would not, opine that fraud occurred in this matter.

KOKOWEEF presented testimony through Reta Van De Walker ("RETA") and HAHN. RETA testified that based upon her review of the checks and

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back up documentation, all checks written by KOKOWEEF and EIN were for proper business purposes, that receipts existed for most of the transactions and that she did not find any money missing from KOKOWEEF or EIN's accounts. When STRINGHAM was questioned whether the testimony of RETA justified the transactions and eliminated the "req flags," he stated that if her testimony was true, it was possible.

KOKOWEEF believes that the evidence presented at the hearing on July 30, 2008, shows that KOKOWEEF has satisfied its burden under NRS The Plaintiffs had little more than conjecture to support §41.520. their contention that wrongful conduct occurred. Since the Plaintiffs failed to present any competent testimony that the allegedly fraudulent activity set forth in the Complaint occurred, the Court should enter its order requiring the posting of security in the sum of Two Hundred Fifty Thousand Dollars (\$250,000).

I.

THE NAMED DEFENDANTS, OR THE CORPORATION, IN A SHAREHOLDERS' DERIVATIVE, SUIT MAY MOVE THE COURT TO REQUIRE THE PLAINTIFFS APPROXIMATELY EQUAL TO PROBABLE ANAMOUNT FURNISH SECURITY IN REASONABLE EXPENSES, INCLUDING ATTORNEY'S FEES, THAT WILL BE INCURRED IN THE DEFENSE OF THE ACTION

According to Subsection 3 of NRS §41.520, any defendant who is an officer or director of the corporation in a shareholders derivative suit, or the corporation itself, may move the Court for an order requiring the plaintiff to furnish security. Subsection 3 further states that "such motion must be based on one of more" of two grounds set forth in the statute. The grounds upon which the Plaintiffs relied in the MOTION are contained in paragraph (a) of Subsection 3, which provides as follows:

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That there is no reasonable possibility that the prosecution of the cause of action alleged in the complaint against the moving party will benefit the corporation or its security holders.

In the instant case, KOKOWEEF filed the MOTION based upon its belief that no wrongdoing had taken place. The cost of this litigation is so substantial that it could interfere with KOKOWEEF's ability to conduct mining operations, which is its business. In order to preserve the limited funds of the corporation for its necessary business purpose, the MOTION was filed and has been prosecuted vigorously by KOKOWEEF.

HAHN testified during the evidentiary hearing that KOKOWEEF has already incurred in excess of Fifty Thousand Dollars (\$50,000) in legal fees through June 2008. Based upon the activity that has occurred in this case to date, he also testified that it is anticipated that legal fees will likely reach Two Hundred Fifty Thousand Dollars (\$250,000) in this matter. Therefore, it was prudent for KOKOWEEF to file the MOTION requesting security from the Plaintiffs in order allow the corporation to defend this frivolous lawsuit and defend the rights of over eighty five percent (85%) of the shareholders of the corporation. The Plaintiffs in this matter hold less than fifteen percent (15%) of the issued and outstanding shares of common stock of KOKOWEEF.

### KOKOWEEF PRESENTED UNREFUTED TESTIMONY REGARDING EACH OF THE THREE ITEMS ALLEGED BY THE PLAINTIFFS AS THEIR BASIS FOR ACTION

II.

The first item of conduct of HAHN that was purported to be a fraud upon KOKOWEEF was the issuance of checks to third parties and depositing them in SURPLUS' bank account. The Complaint suggests that

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these checks were written to fictitious people. However, the testimony of RETA, along with KOKOWEEF's Exhibit 1, which was received into evidence, showed the Court that these checks were written to real people. Some of the people provide services to KOKOWEEF and reside on the mine property. Other checks were cashed at SURPLUS but issued based upon receipts provided to KOKOWEEF or EIN. A review of each of the checks will reveal the signature of the person to whom the check was written. All of this shows that the funds were delivered to those people. 1

The Plaintiffs were unable to present any evidence, other that the existence of "red flags", to support their allegations. While the hearing was not the trial on the merits, as the Court has pointed out a number of times, nevertheless the Plaintiffs had the burden to refute the facts presented by KOKOWEEF and show the Court that there was a reasonable possibility that they would succeed herein. Yet, they totally failed to do so.

The second issue was whether Hahn caused KOKOWEEF or EIN to issue checks to SURPLUS without justification. The testimony of RETA stated that the checks to surplus were backed up by receipts for goods provided to KOKOWEEF. The testimony of HAHN stated that he purchased goods needed by KOKOWEEF, or EIN, through SURPLUS. Additionally, he testified that those items were sold to KOKOWEEF or EIN at the actual cost of those items or, if purchased on a discount basis, at that discounted cost. HAHN further explained that SURPLUS did not charge KOKOWEEF or EIN the full price that was charged to other customers.

<sup>&</sup>lt;sup>1</sup>Larry Butler, who resides at the mine and acts as the *defacto* security guard for the mine, was present at the hearing to testify that the checks payable to him were for reimbursement of mine expenses and he received the funds, but there was insufficient time available for him to testify.

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Finally, SURPLUS provided these goods to KOKOWEEF or EIN without receiving immediate payment. In fact, Exhibit 6, which was received into evidence at the evidentiary hearing and which is the balance sheet for KOKOWEEF for the period ending December 31, 2007, shows that, as of that date KOKOWEEF still owed SURPLUS in excess of \$41,000!

When STRINGHAM was asked whether he had evidence that these goods were not sold and delivered to KOKOWEEF, he could only say that, when two businesses have common officers, it is a "red flag" that suggests further investigation to determine whether transactions were handled properly. He could not opine that any of the transactions set forth in Defendants' Exhibit 1 were improper.

The last issue is that checks were written for "personal items" that did not appear to be proper business expenses. First, it must be remembered that a majority of these checks were written to third parties, not HAHN or SURPLUS. Exhibit 1 contains the checks referred to in the Complaint, along with receipts that go with the checks. A substantial number of those receipts are for food and gasoline.

KOKOWEEF is not arguing that "on their face", these items may not appear to be "normal" business expenses. However, KOKOWEEF is not a "normal" operating business.

As the testimony of RETA and HAHN showed, KOKOWEEF is a mining exploration business. It is the belief of all parties that KOKOWEEF is close to locating the discovery that KOKOWEEF and its predecessor, EIN, had been attempting to locate for approximately thirty (30) years!

KOKOWEEF does not operate with paid staff. The testimony showed that most of the work performed at KOKOWEEF is done by shareholders,

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including HAHN. They are not paid for their services; however, at the mine they are fed, and work clothes are provided to them. A number of people, including Larry Butler ("BUTLER"), reside on the property and act as security guards. In addition, dogs roam the property to guard against intruders. They must be fed, and the receipts show amounts expended for dog food. These working dogs are providing services to KOKOWEEF and are fed by the company.

Finally, a substantial amount of the money spent is for gasoline. The mine is approximately sixty (60) miles from Las Vegas, Nevada near Mountain Pass in California. It is necessary to purchase gasoline for the rigs and other equipment used in the mining operations.

These are the expenses that STRINGHAM has questioned. He was only able to say that these expenses did not appear to be business-related. However, he admitted that it was possible that they were business-related, but he could not opine without further review of documentation that he did have in his possession, although it is questionable whether his review of such further documentation would help explain to him how an exploration mining business is conducted.

III.

KOKOWEEF HAS SHOWN THAT THERE IS NO REASONABLE POSSIBILITY THAT THE PROSECUTION OF THE CAUSE OF ACTION ALLEGED IN THE COMPLAINT AGAINST THE MOVING PARTY WILL BENEFIT THE CORPORATION OR ITS SECURITY HOLDERS,

The burden placed upon KOKOWEEF is significant. However, it should be clear that the Nevada Legislature did not establish a burden for defendants that was insurmountable. Defendants were not placed in a position to prove to the Court that under no circumstances could plaintiff in a shareholders' derivative action prove a case.

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The burden is "reasonable possibility." While not defined in Nevada Revised Statutes, the Court should balance the equities to reach its decision in this matter. The Court made an analogy to a preliminary injunction. While this may not be a "perfect" comparison, it does give some standards to consider.

KOKOWEEF has presented documentation and testimony to the Court to show that the transactions complained of by the Plaintiffs are not The Plaintiffs have not provided evidence that wrongful conduct occurred.

In this case, a dissident group of shareholders holding less than fifteen percent (15%) of the issued and outstanding shares of the common stock of KOKOWEEF are seeking to remove HAHN as the President, and gain control Treasurer and Director of KOKOWEEF corporation. The alleged basis for doing so is that the books and records were not kept by a certified public accountant and a small number of receipts are not available to verify the basis of some It should be remembered that the testimony was that the expenditure. receipts were not missing but rather were illegible due to thermal paper fading over the years!

KOKOWEEF, by virtually any standard, has met its burden of proof. IV.

THE PLAINTIFFS' OPPOSITION AND REFUSAL TO CONSENT TO PRE-HEARING DISCOVERY PREVENTED BOTH SIDE FROM LEARNING MORE ABOUT THE ALLEGATIONS OF THE COMPLAINT.

The evidentiary hearing was the time for the parties to set forth the factual basis of their position to allow the Court to determine reasonable possibility that the a there was allegations of the Complaint could be proven. While the evidentiary

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hearing was not to be the "trial on the merits," the Plaintiffs had a burden to show the Court that they had a "reasonable possibility" to prove their case. One thing is clear: the Plaintiffs failed to carry their burden.

Once KOKOWEEF provided the Court with an explanation of the transactions in question, the Plaintiffs had a burden to show the Court that the transactions were fraudulent.

KOKOWEEF utilized RETA, who is an independent contractor brought to it by none other than Plaintiff Ted Burke, the principal complaining Plaintiff in this case. RETA has over thirty (30) years of experience doing bookkeeping, tax preparation and reviews of businesses books' and records, including audits. It was also brought out that RETA had prior experience dealing with the books and records of a mining company. Her testimony was unequivocal; there was no wrongful conduct by HAHN or SURPLUS and all transactions were for the benefit of KOKOWEEF or EIN and that they received the value for which they were charged.

Plaintiffs' expert, STRINGHAM, was qualified, for the purposes of the evidentiary hearing only, as an expert in detecting fraud. STRINGHAM testified that fraud examination was only part of the work he performs, but he did not elaborate on the nature of his other work or the amount of time he spends on fraud detection.

What is clear from the testimony of STRINGHAM is that he could not make a determination, based upon the limited amount of records that he purportedly reviewed, whether wrongful conduct occurred. At best, he could only say that various "red flags" existed that gave him, as a fraud examiner, reason to want to do further investigation to determine the propriety of the transactions in question.

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The Court should keep in mind that the Defendants sought an opportunity to conduct discovery. Part of the purpose of the discovery was to learn about the investigation conducted by STRINGHAM prior to the preparation of his first affidavit, which was filed with the Court on or about May 15, 2008. The Defendants were also concerned that STRINGHAM had not been provided the receipts that had been delivered to Plaintiffs' attorney, Neil Beller, Esq., in the late fall of 2007.

Even limited discovery would also have enabled STRINGHAM to obtain more documentation that he needed to reach a more definitive opinion of what transpired and whether the transactions in question were proper. STRINGHAM actually stated in his direct examination that his analysis was hindered by not having the ability to do discovery prior to the hearing. Unfortunately, the Plaintiffs fought the opportunity to learn more about their case and to enable their expert to appear before the Court and provide it with a knowledgeable, informed opinion. Instead, the Court heard STRINGHAM state numerous times throughout his direct examination from Mr. Beller that he did not have sufficient documentation to make a determination whether the transactions were proper. These same responses were recited during his cross examination by KOKOWEEF's counsel, Mr. Clary. Finally, he stated that he was unable to opine that fraud occurred!

Since the Plaintiffs refused to allow discovery, they lost the opportunity to obtain information and documentation that could have supported their position. Of course, it must also be remembered that failing to obtain the documentation could also have prevented them from having in hand the documents that showed, as Exhibit 1 shows, that their case lacked any merit!

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THE COURT MUST WEIGH THE EVIDENCE PRESENTED AT THE HEARING AND MAKE A DETERMINATION WHETHER KOKOWEEF HAS CARRIED ITS BURDEN AND WHETHER THE PLAINTIFFS HAVE REFUTED ANY SHOWING MADE BY KOKOWEEF.

As set forth above, KOKOWEEF believes it has provided the Court with competent testimony from RETA that no wrongdoing has occurred. At best, the Plaintiff have provided the Court provided with testimony from Plaintiffs' expert that "red flags" exist, but "red flags" do not constitute fraud.

The Court made it clear that it was not obligated to believe the testimony of any witness and that it could accept the testimony or KOKOWEEF agrees, but even if all of the testimony is disregard it. believed, the Plaintiffs still must lose.

In KOKOWEEF's view, a review of the testimony presented by the three (3) witnesses, RETA, HAHN and STRINGHAM, makes it clear that no wrongdoing occurred. RETA, while not qualified for the purposes of this hearing as an expert, has extensive experience in bookkeeping and audit. She testified that she was originally hired, again through Plaintiff Ted Burke, no less, to computerize the shareholder records of EIN. She completed that task in 2002 and heard nothing more from KOKOWEEF or EIN until the summer of 2007. At that point in time, she was retained to organize the business records of EIN and KOKOWEEF for the years 2006 and 2007 and put them in the computer program, After she completed that task, at the insistence of Plaintiff Ted Burke, she was retained by KOKOWEEF to organize the business records of EIN for the years 2003, 2004 and 2005. While she was in the process of preparing these records, this litigation was RETA was retained by KOKOWEEF to testify regarding the commenced.

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actions taken by her and what she found when she organized the documents.

RETA has no motivation to misstate what she found. There are no agreements for future work once the litigation is completed.

STRINGHAM was hired for one purpose, namely to find evidence to support the allegations of fraud in the Complaint. STRINGHAM has not visited the mine, has reviewed limited documentation and has modified his testimony to support the position for which he was retained.

During STRINGHAM's direct testimony regarding his first affidavit, when asked about documentation that he reviewed in preparation of the affidavit, he stated "checks only." During cross-examination, he denied that was all that he had reviewed.

In his second affidavit, on page 2, paragraph 7, line 21, STRINGHAM stated as follows: "[a]s of today, the only new information I have received is a copy of the QuickBooks data for EIN and Kokoweef, and supporting binders of bank statements, and mine receipt files for 2003-2007" (emphasis added).

On cross-examination, STRINGHAM testified that he did not believe that he had the "three red 4" binders" of receipts that were provided to Plaintiffs by KOKOWEEF in the late fall of 2007. He made it clear that he never received red binders, but he did receive a volume of receipts. However, he could not recall whether he received the volume of receipts in May 2008 or July 2008.

On cross-examination when asked what he received in May 2008, he was not certain. When reminded that he had previously testified that he only received checks, he backtracked and denied that is what he said. He then testified that he believed he had more than checks in May 2008.

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Finally, when asked to review the language of his second affidavit, he could not recall what he received, or when.

STRINGHAM was also asked whether he was experienced in doing fraud reviews of small companies. He testified that he has such experience. When asked whether it was common to find that small companies did not keep their books and records in perfect condition, he answered "yes"! When asked whether he would expect to find "red flags" in small businesses, he again answered "yes"! Finally, when asked whether this meant that fraud occurred, he said "no".

KOKOWEEF believes that the testimony of RETA, which is supported by copies of checks and receipts, should be believed by the Court. Her testimony and the documentation (Exhibit 1) show that no wrongful conduct took place. On the other hand, the Court can believe the testimony of STRINGHAM as well. However, that testimony is insufficient to support a conclusion that there is a reasonable possibility that fraud occurred. The most the Court can draw from the testimony of STRINGHAM is that he found "red flags", which he admitted was not fraud.

Defendants believe that the Court also has a reasonable basis not to believe the testimony of STRINGHAM. His affidavits and testimony were inconsistent. This is the key issue utilized by a court to make a determination whether a witness is being truthful. Changing one's testimony, as occurred at the evidentiary hearing, is evidence of a lack of candor.

VI.

THE LEVEL OF SECURITY DOES NOT HAVE TO REMAIN STATIC, AND THE COURT MAY MODIFY THE AMOUNT OF THE SECURITY FROM TIME TO TIME.

At the conclusion of the evidentiary hearing, the Court requested

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that counsel for the parties address in their briefs whether the amount of security required by the Court could be modified once the Plaintiffs were ordered to post security. This question can be answered by direct reference to NRS \$41.520(4)(b), which provides, in pertinent part, as follows:

The amount of the security may thereafter from time to time be increased or decreased in the discretion of the court upon showing that the security provided has or may become inadequate or is excessive.

This statute allows the Court to set the security at an amount that appears appropriate under the circumstances at the time the request for security is made by a party. As set forth above, KOKOWEEF believes that it has provided the Court with more than adequate evidence that Plaintiffs' case lacks merit. The testimony also makes it clear that KOKOWEEF, both for itself, and as indemnification for HAHN (as an officer and director of KOKOWEEF) has incurred legal fees in excess of Fifty Thousand Dollars (\$50,000) in this case. The Court is aware that the parties have not reached the answer stage of this litigation. Therefore, KOKOWEEF believes that the Court should require a bond in the amount of Two Hundred Fifty Thousand Dollars (\$250,000), testified by HAHN. This figure is not an unreasonable estimate of the legal fees and costs that will likely be incurred herein by KOKOWEEF.

If the Court is concerned about issuing an order for security that is substantially in excess of what is necessary to protect KOKOWEEF, the issuance of a an order for security in the sum of One Hundred Fifty Thousand Dollars (\$150,000) should be adequate for the next few months. At that time, KOKOWEEF should be free to seek an increase in the security under NRS §41.520(4)(b).

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### CONCLUSION

KOKOWEEF has provided the Court with evidence to support its position that there is no reasonable possibility that neither KOKOWEEF nor its shareholders will benefit from this action. To the contrary of such benefit, or lack thereof, the evidence shows that KOKOWEEF will be substantially damaged by having to defend this case.

Based upon the foregoing, the Court should enter its order requiring Plaintiffs to post surety in the sum of Two Hundred Fifty Thousand Dollars (\$250,000). Alternatively surety in the sum of One Hundred Fifty Thousand Dollars (\$150,000) should be required with the condition that KOKOWEEF may return to the Court to seek an increase in the surety once the fees incurred approach a significantly higher amount. Without the surety, KOKOWEEF will be irreparably harmed, which shows that the Court analogy to seeking injunctive relief was correct.

Respectfully submitted

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### CERTIFICATE OF SERVICE BY MAILING

Defendant Kokoweef, Inc.'s Brief in Support of its Renewed Motion To Require Security from Plaintiffs, was served on the Plaintiffs by mailing a copy thereof, first-class postage prepaid, to their attorney, Neil J. Beller, Esq., Neil J. Beller, Ltd., 7408 West Sahara Avenue, Las Vegas, Nevada 89117, and was served on Defendants Larry L. Hahn, individually, and as President of and Treasurer of Kokoweef, Inc. and former President and Treasurer of Explorations Incorporated of Nevada, and Hahn's World of Surplus, Inc. by mailing a copy thereof, first-class postage prepaid, to their attorney, M Nelson Segel, Esq., 724 South Ninth Street, Las Vegas, Nevada 89101, August 6, 2008.

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Patrick C. Clary

Attorneys for Defendant Kokoweef, Inc.