

July 2016

Significant events are in two categories: operational issues and bankruptcy issues.

On the operational side, we have reorganized the management of the company and have reduced staffing. The focus on the operational side is in, cutting expenses, moving to less expensive office space, management training, increasing sales and implementing systems and internal controls. The company did not have an accounting system for the monthly financial statements for the past 5 years and did not complete a tax return since 2010. The Trustee has implemented financial recordkeeping and reporting measures to get a standard balance sheet and income statement completed and is considering the cost benefit of the implementation of the Epicor financial systems.

Recently, the company has implemented a billing system that uses an on line email approval process of invoices and payment of billings. As you can see in the monthly bankruptcy reports, the company has very limited payables post-petition. The new system conserves significant time and accounting staff resources which can be used to help with other matters including bankruptcy reporting and claim reconciliation.

The company will be implementing the ADP Human Resources application. The company in the past had problems tracking vacation, sick leave and vacation time. The accounting staff have had to manually input data when received from the production and office personal. The ADP system will allow the company to ensure all company policy manuals are acknowledged by all employees. This will help to ensure all employees periodically review and understand employee policies.

The Trustee filed motion for contempt of the automatic stay against Ross Hansen for some of his actions in the case, including but not limited to, requesting an employee to damage estate equipment and for the moving of 176 pounds of silver from Federal Way to the Dayton Plant for the purpose of taking possession of those assets by Medallion Art Company LLC.

We are in the process of building a data base of cash in and cash out from 2007 to 2016. We are unable to complete the data base because the Debtor's records are missing a significant number of banking records. We have identified a number of areas that will required additional analysis including payments to American Express. The data base will be a key tool in the analysis of the flow of funds for the company.

Case Progress

The focus of the case has been to turn the company around from an operating loss of approximately \$300k per month to break even. There are three options that are under consideration, quick sale of the assets, sale of the assets following a period of internal reorganization and stabilization, or a filing of a plan to reorganize the company.

The Trustee has had a number of discussions with potential buyers. A history of reliable financial records and operating reports will be very important to a potential buyer to help maximize the sale price of the company.

The Trustee brought a motion to return more than \$1 million in stored inventory to storage customers. The Court has required more detailed proof of the ownership of that storage inventory before it will approve the return to customers. The Trustee is in the process of submitting the additional evidence of ownership to the Court.

The Trustee has filed a motion to pay accrued but unpaid vacation pay, in accordance with the Company's policies, to the employees who worked at the Tomball facility until that facility was closed in connection with the sale of that division in early June, 2016.