

**UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF ALABAMA, SOUTHERN DIVISION**

In Re:) **Case No: 11-12254-WRS-11**
)
SMALL LOANS, INC., et al.) **Chapter 11**
)
Debtors.) **Jointly Administered**

CHAPTER 11 TRUSTEE'S SECOND INTERIM STATUS REPORT

S. Gregory Hays, the chapter 11 trustee (the "Trustee") appointed in the above captioned case, hereby submits this status report (the "Second Interim Status Report") covering approximately the period from June 2012 through August 2012. The Trustee's first status report (the "First Interim Status Report") was filed on June 4, 2012 [ECF Docket No. 374] approximately thirty (30) days after the Trustee's appointment. The purpose of this Second Interim Status Report is to provide the Court, the Debtors' creditors, and other parties in interest with an update regarding the actions taken by the Trustee to administer the Debtors' estates in a manner that will maximize the payout to creditors on their claims and otherwise fulfill the Trustee's duties pursuant to Section 1106 of Title 11 of the United States Code (as amended, the "Bankruptcy Code").

Chapter 11 Bankruptcy Cases Filed by Debtors

1. On December 16, 2011 (the "Petition Date"), Small Loans, Inc., The Money Tree, Inc., The Money Tree of Louisiana, Inc., The Money Tree of Florida Inc., and The Money Tree of Georgia Inc. (collectively, the "Debtors") filed voluntary chapter 11 bankruptcy cases in this Court.¹

¹ The Money Tree, Inc. filed Case No. 11-12255-WRS-11; The Money Tree of Louisiana, Inc. filed Case No. 11-12256-WRS-11; The Money Tree of Florida Inc. filed Case No. 11-12257-WRS-11; and The Money Tree of Georgia Inc. filed Case No. 11-12258-WRS-11. These cases and the chapter 11 case filed by Small Loans, Inc. are being jointly administered by this Court pursuant to the Order for Joint Administration entered by the Court on January 4, 2012.

Appointment of Trustee

2. On April 30, 2012, the Court ordered the appointment of the Trustee pursuant to Section 1104(a) of the Bankruptcy Code.

Operation of Debtors' Businesses by Trustee

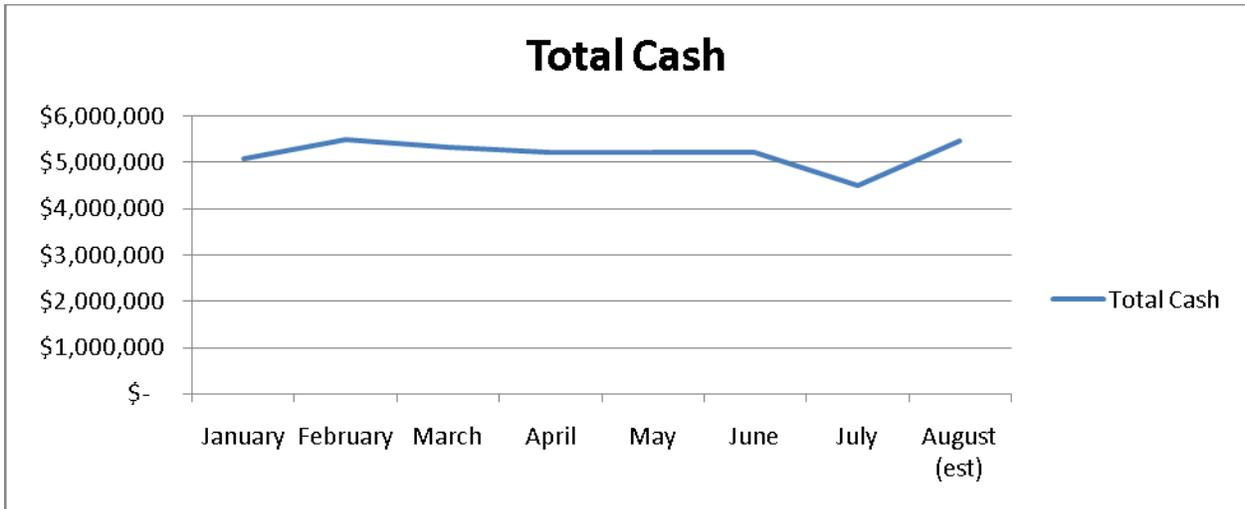
3. The Debtors are in the business of making consumer loans. Their most valuable asset, other than causes of action, is a loan portfolio which consists of debts owed to the Debtors for money loaned by the Debtors to their customers. As indicated by the chart below, the total receivables owed to the Debtors declined from a value of \$17.5 Million on the Petition Date to \$13.5 Million as of the end of July 2012.²

4. The Trustee has been taking steps to maintain the value of the Debtors' businesses while the Debtors' assets have been marketed for sale. As discussed more fully below, the Trustee entered into a sale agreement for certain accounts owned by Best Buy Autos of Bainbridge, Inc., a Georgia corporation for which The Money Tree of Georgia, Inc. is the sole shareholder, which resulted in total sales of \$1,100,000. The Trustee has also entered into two additional agreements to sell the remaining Best Buy Autos assets for approximately \$347,000. In addition, the Trustee has a bid for the finance companies' charged-off paper for \$625,000 and an auction will be held shortly. In addition, on September 7, 2012 the Trustee filed a motion to sell the majority of the finance companies' assets for \$4,375,000. The total closed and pending sales of assets are approximately \$7,347,000 and there are additional assets to sell. Each of these transactions is discussed in more detail below:

² Much of the receivables on the Debtors' books are aged in a fashion that renders collection questionable, thus causing the value of the receivables portfolio to be worth far less than the face amount of the receivables that are outstanding.

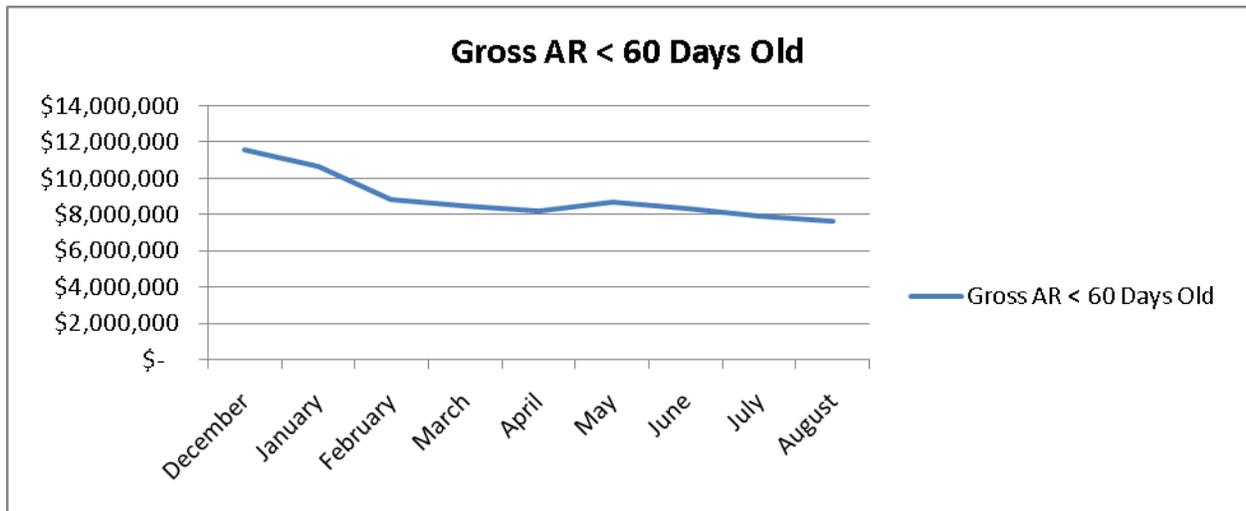
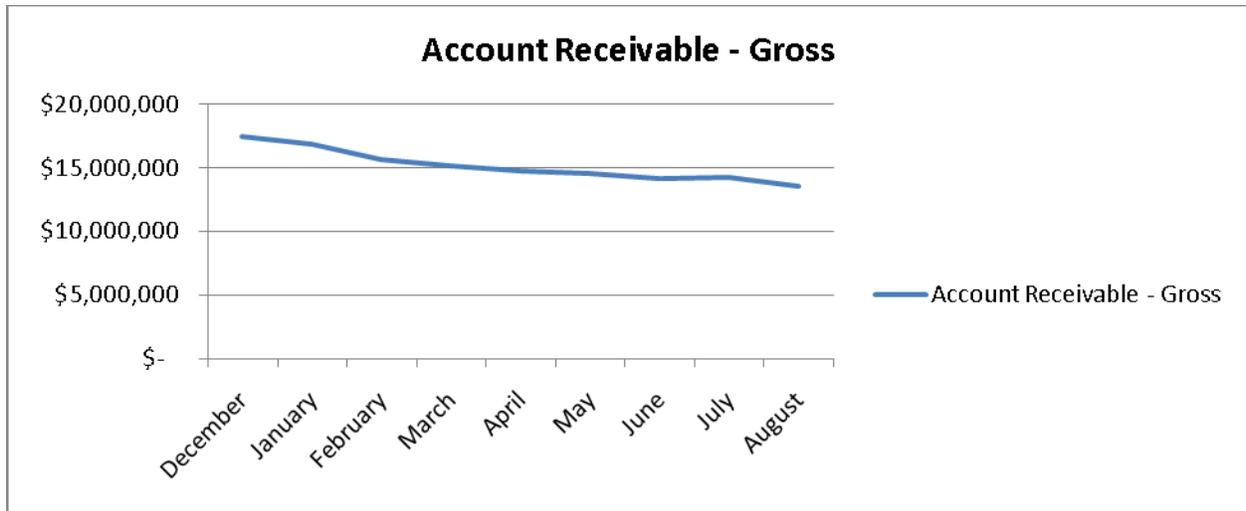
Status of Debtors' Finances

5. Through August the estates have \$5.5 Million in cash and the Debtors are current on all routine operating expenses, but not all professional fees are paid. The Debtors' cash position is set out in the chart directly below.

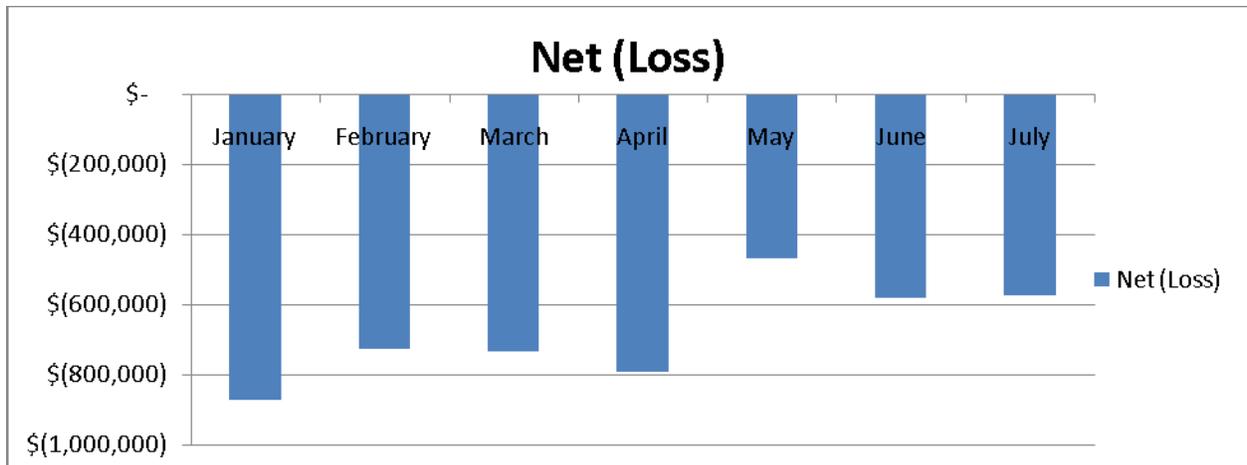


6. The Debtors' combined accounts receivable continue to decrease as a result of cash collections, write offs, and decreases in loan originations. Upon filing their bankruptcy cases, the Debtors systematically curtailed the origination of new loans but have continued their normal efforts in managing outstanding receivables. As reported in the First Interim Status Report, the Trustee and relevant managers have increased their efforts to collect accounts by instituting incentives to branch personnel and have continued their normal procedures in writing off uncollectible accounts. The overall result is a gradual reduction in the volume of outstanding accounts as is reflected in the charts directly below, which summarize the Debtors' gross accounts receivable as well as accounts receivable less than sixty (60) days old. The less than sixty (60) day old receivables are for the finance companies and are the primary accounts that bidders of assets will be considering when making a bid for the Debtors' remaining assets. The charts below reflect the receivables of the finance companies, excluding the Best Buy Autos

receivables. The Best Buy Autos accounts were sold in August 2012 and that transaction is further discussed in the Best Buy Autos section in this Second Interim Status Report.



7. From an operations standpoint, the Debtors continue to operate at a loss but cash flow is sufficient to continue through the sale process. The Debtors' net losses are set out in the chart directly below. The losses are fully burdened with all expenses to include allowances for doubtful accounts, depreciation and bankruptcy related expenses such as professional fees accrued through July 2012 (See the Professional Fee section below for additional information.) The losses do not include any fees incurred to date for the Trustee or his professionals.



The Debtors' total post-petition net loss through July is \$4.8 Million and does not include accruals for professional fees regarding the Trustee or his professionals. This continuing post-petition loss, added to the millions operating losses pre-petition, is the primary reason the Trustee has been quickly moving toward a sale of the Debtors' assets. The Trustee is concerned that if he continues to manage the business and waits for a higher price on the assets, current interest will dissipate and the losses will escalate, resulting in almost no distribution to subordinated debenture holders. Of note is that the Debtors' total loss up to Petition Date was approximately \$64 Million.

Aircraft

8. The Debtors own a 1975 Beechcraft B58 Baron N7262R SN: TH-579 (the "Aircraft") and they have been trying to sell the Aircraft for a number of years. After his appointment, the Trustee contacted several aircraft brokers and quickly identified a buyer at \$90,000 for the Aircraft and presented this offer to the Committee of Unsecured Creditors (the "Committee"). A Committee member recommended listing the Aircraft with a broker to maximize the value for the estates. As a result, the Trustee contacted several additional aircraft brokers and subsequently chose International Aviation Marketing, Inc. ("International Aviation")

because of that firm's extensive experience and knowledge with regard to the aircraft market. The Trustee believed that International Aviation was well qualified and uniquely able to represent the Trustee in an efficient and timely manner. International Aviation was also able to offer flight insurance for the transfer of the Aircraft to their facility and for individual test flights. This ability saved the estates from having to incur additional insurance charges by eliminating the need to purchase a separate policy for the Aircraft.

9. The Trustee sought court approval and engaged International Aviation for a success fee equal to five percent (5%) of the gross sales price paid for the Aircraft (the "Success Fee"), so long as the price for which the Aircraft sold would net at least \$90,000 for the estates [ECF Docket No. 373]. The agreed upon compensation was consistent with the fees charged by International Aviation in bankruptcy and non-bankruptcy matters of this type. The professional services that International Aviation rendered to the Trustee included identifying and contacting potential purchasers who might be interested in buying the Aircraft; managing the sale process; and assisting the Trustee in closing any sale transaction.

10. In August 2012, International Aviation presented a buyer who has offered a purchase price amount of \$95,000, which meets the sale requirements approved by the Court, and the Trustee executed a purchase agreement with the buyer. All closing conditions have been met and the Trustee is waiting on the receipt of the sales proceeds.

Best Buy Autos

11. On August 13, 2012, the Trustee and his professionals completed an auction of Best Buy Autos' open accounts portfolio. Although the assets were marketed to a half dozen interested buyers of auto receivables, no bidders attended the auction to top the "stalking horse" bid and the assets were sold to Automotive Capital Corporation ("ACC") pursuant to an asset

purchase agreement. ACC's winning bid was \$1,610,000, less a \$310,000 credit for payments received by the Debtors from June 10, 2012 through August 13, 2012, and less an additional \$152,000 credit for the number of days that transpired between July 26, 2012 through closing due to certain collections made by the Debtors (\$8,000 per day for 19 days), to equal a net amount purchase price of \$1,148,000. The \$1,148,000 net purchase price was offset by a previous \$50,000 deposit, resulting in a net profit to the estates equal to \$1,098,000. Importantly though, the Trustee was able to collect approximately \$500,000 from the accounts before they were sold to ACC. The Trustee retained this money and when it is added to the \$1,148,000 paid by ACC for the accounts, the amount recovered by the estates equals \$1,648,000. That amount exceeds the original purchase price agreed upon by the Trustee and ACC by \$38,000.

12. The Trustee has also entered into two (2) additional asset purchase agreements with ACC. The first asset purchase agreement is for the sale of all remaining automobile inventory owned by Best Buy Autos as well as certain additional loans generated by Best Buy Autos after June 10, 2012. ACC is going to pay a combined purchase price for these assets in the amount of \$311,129.40 with \$240,000 of the purchase price allocated for the automobile inventory and the remaining \$71,129.40 allocated for the additional loans. The second asset purchase agreement is for the sale of all charged-off accounts, all furniture, fixtures, and equipment, and a "rollback" vehicle owned by Best Buy Autos. ACC is going to pay a combined purchase price for these assets in the amount of \$35,000 with \$20,000 of the purchase price allocated for the charged-off accounts and the furniture, fixtures, and equipment and \$15,000 allocated for the "rollback" vehicle. The closing for these sales is anticipated to take place within the next seven (7) to ten (10) days.

Charged-Off and Legal Accounts

13. The Trustee and his professionals marketed the finance companies' charged-off and legal portfolio of accounts to several parties including hedge funds, collections firms and general buyers of charged-off receivables. Unfortunately, given the non-electronic nature of the portfolio of the charged-off accounts (the account files are maintained and collected out of the individual branches as opposed to a central location such as the Debtors' home office in Bainbridge, Georgia), tepid interest was received from potential third party bidders. After execution of an asset purchase agreement with ACC for a purchase price equal to \$209,346, the Trustee postponed the auction after learning that other bidders for the active open accounts in the branch locations might pay more for the charged-off accounts in a bundled sale. After subsequent negotiations, ACC offered to increase its bid from \$209,346 to \$510,000 for the charged-off and legal accounts. In connection with the sale discussed in the Finance Company Assets section below, Western Shamrock has bid \$625,000 for charged-off accounts and the auction will be held in September or October 2012 in conjunction with the auction of the finance company receivables.

Finance Company Assets

14. In the aggregate, the Trustee and his professionals identified and contacted 55 potential buyers of the assets of The Money Tree, Inc.s ("TMT") 46 remaining branch offices³ including Georgia (29), Alabama (9), Louisiana (7) and Florida (1). Each of the 55 potential buyers contacted were provided a brief document summarizing the acquisition opportunity. Confidentially agreements were entered with 23 of the 55 potential buyers. Upon execution of a confidentiality agreement, a confidential information memorandum was sent to the 23 remaining buyers and followed up with additional due diligence information as requested. Several buyers

³ Approximately 50% of the Debtors' locations were closed prior to the Trustee's appointment.

requested branch visits to review the accounts and these visits were coordinated by the Debtors' management and regional personnel. In order to gauge value, offers were solicited for the assets in the form of written bids.

15. Throughout this sale process, the Trustee has kept the counsel for the Committee involved in the process and advised them of all offers. The Committee has reviewed the asset purchase agreement and the Trustee's plans to accept a stalking horse bid and hold an auction for the sale of all finance company receivables.

16. On September 7, 2012, the Trustee filed a motion to sell the assets for \$4.375 Million [ECF Docket No. 544]. This amount, combined with the \$625,000 competing bid that the Trustee has received from Western Shamrock for the charged-off and legal accounts brings the net total to the estates to \$5,000,000. Filed with the motion to sell are the asset purchase agreement and bidding procedures. This information will be sent to all parties that the Trustee's broker previously contact to determine if there is any interest in bidding at the auction.

Additional Assets to Sell

17. A non-debtor entity, Home Furniture Mart, Inc. ("HFM"), owns inventory consisting of various electronic and appliances valued at \$135,000. The inventory is located at the Debtors' 45 branches and in Debtors' the home office warehouse. The Trustee offered to sell this inventory to Western Shamrock and their bid was too low and not accepted. The Trustee is contacting other parties to obtain bids for this inventory and plans to file a motion to sell this in near future. The Debtors are currently taking a physical inventory to verify the inventory quantities. The Trustee is moving quickly as the inventory is located in the branches that will be sold in the upcoming auction.

18. After the auction, the Debtors will also remain in possession of all the furniture, fixtures and equipment located the Debtors' home office in Bainbridge, Georgia. These assets, along with a warehouse full of furniture and equipment from the 50 locations that were closed in 2011, will be sold by the Trustee after the Debtors' home office is shut down.

Case Administration Issues

19. The Trustee and his professionals have successfully filed all of the Debtors' State and Federal income tax returns for the year 2011.

20. The deadline for the Trustee to assume or reject certain leases for which the Debtors are the lessees was originally set to expire on June 25, 2012. The Trustee obtained permission from the Court and the landlords to extend this deadline to September 23, 2012. Any further extension will require the Trustee to again obtain permission from the Court and the lessors; therefore, given the pending sale, the Trustee will contact landlords to request that they approve the Trustee's request to extend the time to assume or reject leases. After the approvals are received, the Trustee's counsel intends to file a motion requesting an additional extension of time for the Trustee to assume or reject leases.

21. All fees payable to the Bankruptcy Administrator are current.

Professional Fees

22. In excess of \$1.5 million in professional fees were incurred by the Debtors and the Committee from the Petition Date through the date of the Trustee's appointment on April 30, 2012. The Trustee reviewed the fee applications in detail and worked with the professionals to reduce the fees on a negotiated basis without the expense of filing detailed fee objections. The Trustee negotiated with HGH Associates, LLC, KCC, Burr & Forman, Warren, Averett, Kimbrough & Marino, LLC, and Baker Donelson and was successful in negotiating a \$174,500

aggregate reduction in their professional fees. Final, reduced, amounts payable were approved by the Court and paid to those companies.

23. Approximately \$778,000 in professional fees have been paid and these fees are reflected in the charts titled Total Cash and Net (Loss) above. The Trustee and his professionals will be filing fee applications in the near future.

Legal Investigations

24. The Trustee and the Committee continue to investigate potential claims against third parties. In furtherance of the same, the Trustee's counsel, Christian & Small, LLP, has met with attorneys from Burr Forman LLP (who conducted an initial investigation for the Debtors regarding potential third party claims) and obtained from them that law firm's work product, investigation materials, analysis, and documents.

25. The Trustee has communicated with the U.S. Securities and Exchange Commission (the "SEC") and no further reports or documents have been requested by the SEC regarding their inquiries.

26. The Trustee has communicated with the Georgia Secretary of State and has obtained the State's agreement to close its investigation without requiring extensive and expensive document production that was originally requested. The estimated costs to undertake the electronic discovery to comply with the subpoena was over \$28,000 and the Georgia Secretary of State has now closed its investigation.

Claims Review and Analysis

27. The Trustee has terminated the employment of Kurtzman Carson Consultants, LLC ("KCC") as the Claims and Noticing Agent for this matter.

28. The Trustee continues the claims review process so that claims may be finalized shortly after a sale occurs and before a Chapter 11 Plan is filed. This will allow distributions to creditors to be made more rapidly. The Trustee's efforts as with regard to claims to date are as follows:

29. The Debtors' staff, in coordination with the Trustee and his professionals, has reviewed all claims and has prepared schedules of claims that require clarifications and or objections.

30. The Trustee plans to file omnibus motions to object to erroneous claims; to have numerous claims allowed only in the scheduled amounts; and to have numerous claims allowed as a claim only in the respective case for the proper debtor entity.

31. The Trustee has been in contact with the IRA Custodian, FTC of Onaga ("FTCO"), and requested that FTCO voluntarily reduce fees for the IRA accounts. After much discussion, FTCO agreed to reduce its fees by 50% or \$10,800 for costs of administering the IRA accounts that are charged to the Debtors. FTCO has sent notices to two hundred seventy (270) investors representing \$10 Million in subordinated debentures held in IRA accounts.

Bonding and Insurance

32. The Trustee has confirmed that appropriate liability insurance is in place and the Trustee has been listed as an additional insured on all policies owned by the Debtors to make certain that the policies remain current.

33. The Trustee has reviewed medical insurance issues and continued the Debtors' stop loss medical policy, which is designed to protect the Debtors against certain large medical claims.

34. The Trustee increased the cash bond from \$5 Million to \$6 Million to cover the estates as required by the Bankruptcy Administrator.

Next Steps

35. The Trustee's pressing priorities are to hold the auction, close the assets sale to the high bidder and then wind down the Debtors' business operations. At the same time, the Trustee will be resolving the claims issues discussed above so that an accurate claims register is available to make a distribution. The Trustee will seek to propose a Joint Plan of Distribution ("Plan") with the Committee so that a distribution can be made to creditors. The Trustee anticipates that a Plan can be filed in October 2012. After the Plan is filed, the Trustee and the Committee will focus on potential third party litigation claims as mentioned above.

Respectfully submitted,

/s/ Bradley R. Hightower

Daniel D. Sparks

Eric J. Breithaupt

Bradley R. Hightower

Attorneys for S. Gregory Hays, Chapter 11 Trustee

OF COUNSEL:

CHRISTIAN & SMALL LLP

505 North 20th Street, Suite 1800

Birmingham, Alabama 35203

Phone: (205) 795-6588

Fax: (205) 328-7234

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing pleading upon the following via the ECF system or by placing a copy of same in the United States mail, postage prepaid, addressed as follows on this the 14th day of September, 2012:

Teresa R. Jacobs
U.S. Bankruptcy Administrator
Frank M. Johnson, Jr. Federal Building
One Church Street, Suite 103
Montgomery, Alabama 36104

John D. Elrod
R. Kyle Woods
Greenberg Traurig, LLP
The Forum – Suite 400
3290 Northside Parkway, NW
Atlanta, Georgia 30327

Those persons who have requested notice pursuant to Fed. R. Bankr. P. 2002

/s/ Bradley R. Hightower
OF COUNSEL