

**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 STATUS REPORT

S. Gregory Hays, the chapter 11 bankruptcy trustee (the "Trustee") appointed in the above captioned case, hereby submits this Status Report covering approximately the first thirty (30) days of his appointment. The purpose of this 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

2. The Debtors' history and the events leading up to their bankruptcy filings have already been set out in numerous pleadings filed with this Court and the Trustee will not retread over the same ground again here.

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

3. On April 30, 2012, the Court ordered the appointment of the Trustee pursuant to Section 1104(a) of the Bankruptcy Code. The Trustee arrived at the Debtors' main office on the morning of May 1, 2012 and began operating the Debtors' businesses.

Operation of Debtors' Businesses by Trustee

4. 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 \$26 Million on the date of their bankruptcy filings to \$23 Million as of the end of April 2012 when the Trustee was appointed.

5. Although the value of the Debtors' loan portfolio has remained substantially stable since the Trustee's appointment, the Trustee has focused on marketing the loan portfolio and certain other assets quickly before the value of the loan portfolio declines any further.

6. The Trustee is also taking steps to maintain the value of the Debtors' businesses while they are being marketed for sale. Among other things, the Trustee has taken the following actions:

- A. Made the decision to leave the Debtors' bank accounts at the existing banks including Bank of the Ozarks but removed the former president from all of the accounts. The Trustee caused a new account to be opened with himself and the primary consultant assisting on the case, James R. Begnaud, CPA, as authorized signors on the account. . \$3 Million has been deposited into this account that only the Trustee and Mr. Begnaud have access to.. Neither the Debtors' former president,

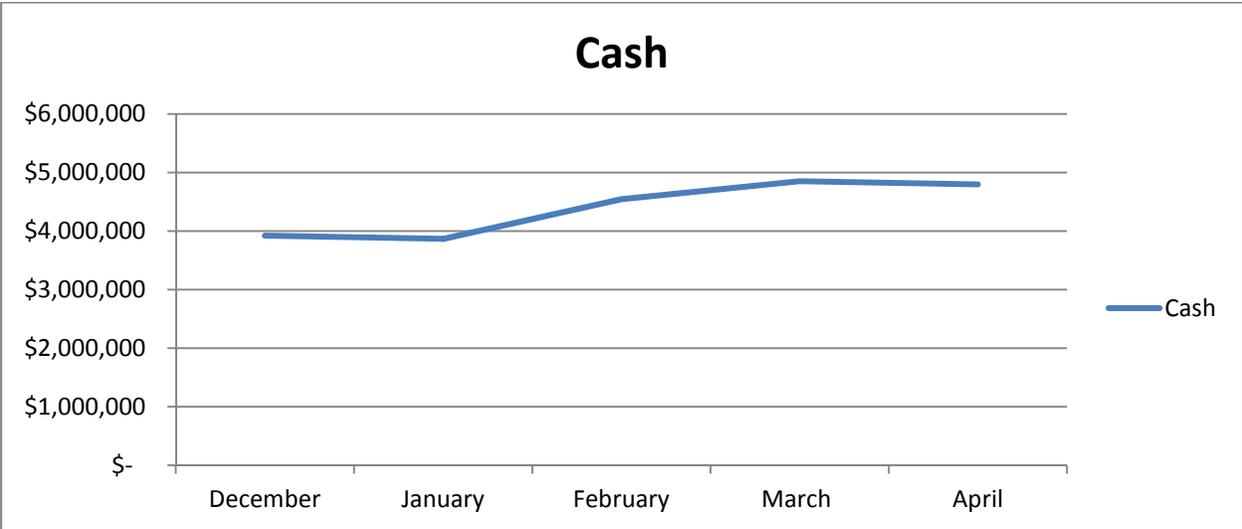
Mr. Bellville, or any other employee or representative of the Debtors has signature authority for this account.

- B. Implemented an incentive plan to encourage store personnel to pursue collection of past due loans by paying a small bonus to employees who collect payment on accounts more than sixty (60) days old with a balance owed of at least \$100.00. The incentive plan was enacted on May 3, 2012; its results are not yet known but will be reported in a subsequent status report.
- C. Reduced the salary of the Debtors' president, Mr. Bellville, by approximately one-half (1/2) and eliminated his title as president. Mr. Bellville continues to assist the Trustee regarding daily management of the Debtors and with locating potential buyers regarding a sale of the company or its assets.
- D. Closed the accounting office space that was leased by the Debtors (the Trustee is rejecting the lease) and consolidated the Debtors' accounting operations with other operations in the Debtors' main office.
- E. Worked with lessors to convert certain store leases into month-to-month rentals and to request an extension of time to determine whether other leases should be assumed or rejected.
- F. Verified the Debtors' computer technology staff was backing up all data including the Debtors' loan portfolio on a daily basis.
- G. Approved purchase of a new air conditioner in the Debtors' computer server building because the old air conditioner was broken, causing

temperatures in the building to reach levels that threatened the integrity of the Debtors' computer system.

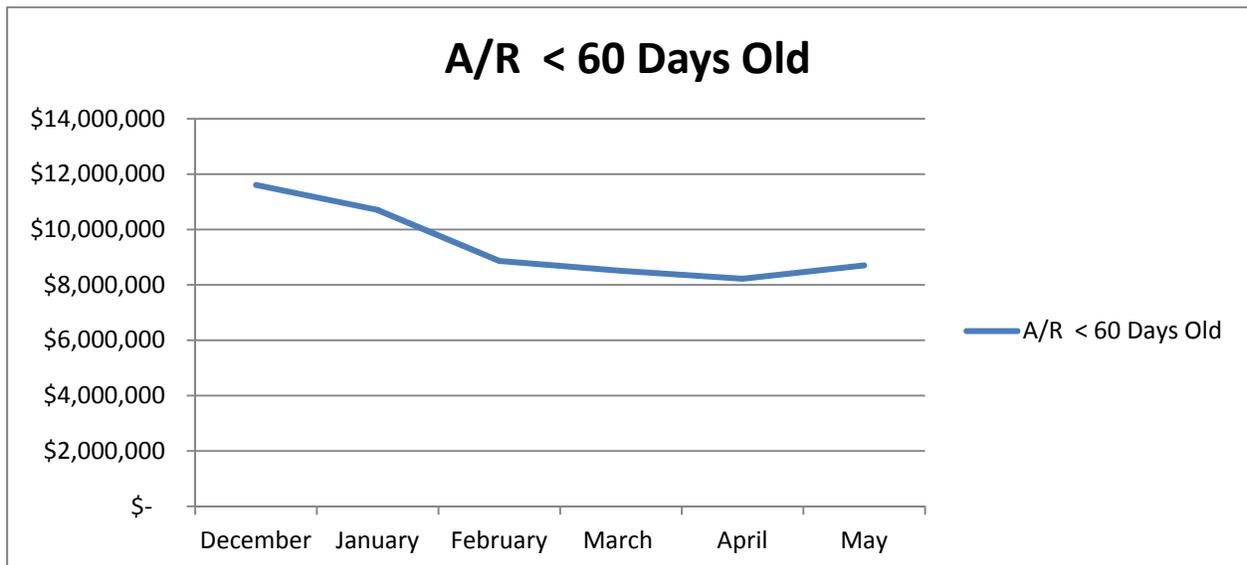
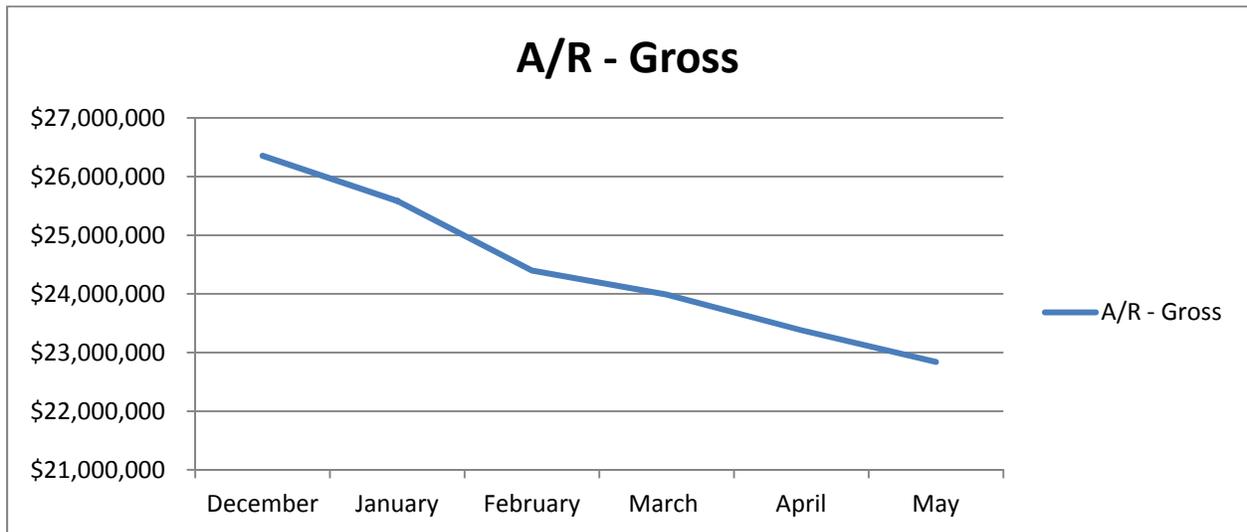
Status of Debtors' Finances

7. Prior to filing their bankruptcy cases, the Debtors sold certain receivables owned by Best Buy Autos of Bainbridge, Inc. ("Best Buy Auto"), a subsidiary of The Money Tree of Georgia, Inc., for \$4.5 Million. The Trustee has ownership of the remaining cash generated by that sale after expenses for sales taxes, payment of secured creditor and other direct expenses related to the sale. The Debtors, which are now being operated by the Trustee, currently have \$4.7 Million in cash and are current on all routine operating expenses. Through April 2012, however, the Debtors owe approximately \$950,000 in fees to attorneys and other professionals who have been employed in the Debtors' bankruptcy cases (see Paragraph 30 below). The Debtors' cash position is set out in the chart directly below.



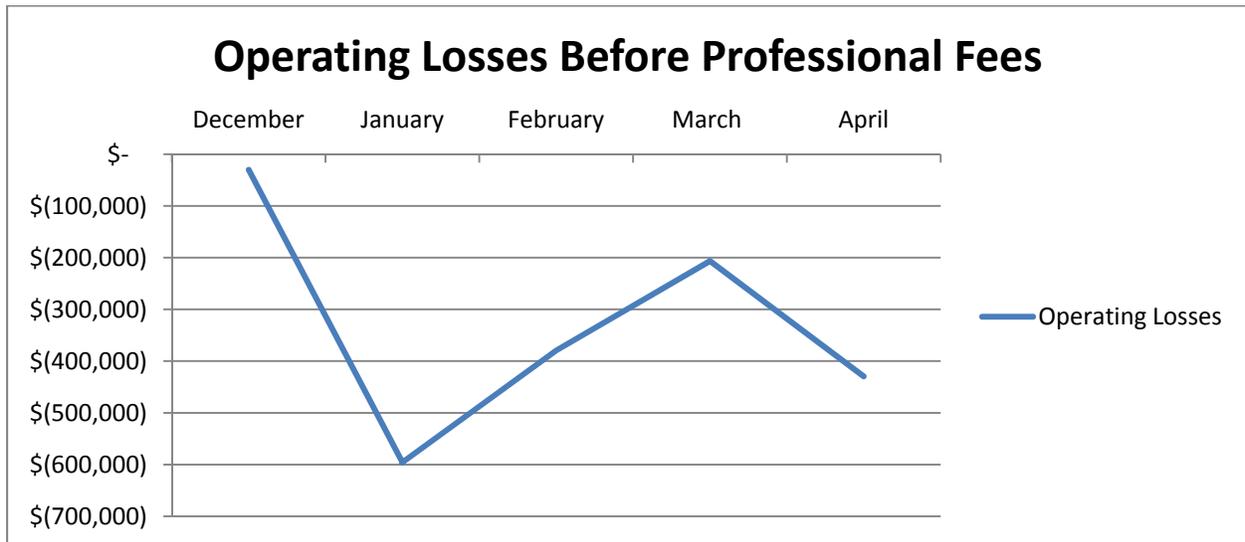
8. The Debtors' combined accounts receivable continue to decrease as a result of collections, write offs, and decreases in loan originations. Upon filing their bankruptcy cases, the Debtors systematically curtailed the origination of new loans but have continued their normal efforts in managing outstanding receivables. They 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 account 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 Best Buy Auto receivable of \$8.4 million are included in the "Gross" chart below but are not included in the subsequent chart of receivables less that 60 days. The less than 60 day receivables are for the finance company and are the primary account that bidders of assets will be considering in making a bid for the assets.



[5]

9. 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 operating losses are set out in the chart directly below. These losses are after depreciation and bad debt expenses but do not include payment of professional fees .



Bonding and Insurance

10. The Trustee has confirmed that appropriate 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.

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

12. The Trustee has obtained replacement policies for the Debtors' workers compensation policies that expired on May 1, 2012.

13. The Trustee has filed an Application Pursuant to Fed. R. Bankr. P. 2014(a) for Entry of an Order Under Sections 327(a) and 328(a) of the Bankruptcy Code Authorizing Employment and Retention of International Aviation Marketing, Inc. as Aircraft Broker for the Chapter 11 Trustee and Motion for Order Pursuant to Fed. R. Bankr. P. 6004(c) for Entry of an

Order Under Section 363(f) of the Bankruptcy Code Authorizing and Approving the Chapter 11 Trustee's Sale of Aircraft Free and Clear of All Liens, Claims, and Encumbrances [Docket No. 373] (the "Aircraft Broker Motion") to request permission from the Bankruptcy Court to employ an aircraft broker to sell an airplane owned by the Debtors. The airplane is currently uninsured to fly but under the Trustee's agreement with the aircraft broker, the broker will insure the airplane while it is transported to the broker's facility and during any test flights.

14. As required by the Bankruptcy Administrator, the Trustee purchased a \$5 Million bond for an operating company. The Trustee is monitoring the cash balance and will report to the Bankruptcy Administrator when the cash balance exceeds the \$5 million bond and make arrangements to increase the bond.

Marketing and Sales of Debtors' Assets

15. On May 10, 2012, the Trustee filed an Application Pursuant to Fed. R. Bankr. P. 2014(a) for Entry of an Order Under Section 327(a) of the Bankruptcy Code Authorizing Employment and Retention of Renova Partners, LLC as Broker for the Chapter 11 Trustee [ECF Docket No. 340] whereby the Trustee requested permission from the Bankruptcy Court to employ Renova Partners, LLC ("Renova Partners") to market certain of the Debtors' assets. Renova Partners is actively marketing these assets and has taken the following actions in its capacity as the Trustee's broker:

- A. Identified and contacted over twenty-five potentially interested parties and provided a Confidential Information Memorandum ("CIM") to potential bidders that have signed the Non-Disclosure Agreement.
- B. Explained to potential bidders the process of bidding in an asset sale conducted pursuant to Section 363 of the Bankruptcy Code.

- C. Met with and negotiated with three (3) parties who have expressed an interest in acquiring the companies as a whole.
- D. Reviewed the auto portfolio and sent information regarding the auto loans to several potential bidders.
- E. Reviewed the charge off portfolio and identified three (3) bidders who are interested in acquiring charged off receivables owed to the Debtors (the Debtors have \$30 Million in charged off receivables)
- F. Researched information regarding the loan portfolios in order to respond to inquiries by interested buyers.
- G. Reviewed prior transactions for documentation and sales price information.

16. The CIM which contains detailed loan information and other information of interest to potential buyers of the Debtors' assets, was released by the Trustee on May 31, 2012. A copy has been provided to the Bankruptcy Court but is not attached as an exhibit here because the information is confidential for buyers.

17. The Trustee anticipates accepting a "stalking horse" bid which will set the initial price for the Debtors' assets and then holding an auction to determine the final price paid for the assets. It is anticipated that the auction process may take place toward the end of June 2012.

18. The Trustee is in discussion with certain interested buyers regarding the Best Buy Auto accounts receivables and the interested buyers have already begun conducting their due diligence.

19. The Trustee filed the Aircraft Broker Motion (discussed in the Bonding and Insurance section above) to sell an airplane owned by the Debtors. The Trustee's aircraft broker will list the airplane at a price of \$149,000.00 and will be entitled to receive a five percent (5%) commission on the gross sales price.

20. In the near future, the Trustee anticipates filing a motion, with approval from the Unsecured Creditors' Committee, for authority to sell miscellaneous small assets owned by the Debtors, including furniture, fixtures and equipment, automobiles, a box truck and certain other items.

Case Administration Issues

21. The Trustee filed an Application Pursuant to Fed. R. Bankr. P. 2014(a) for Entry of an Order Under Section 327(a) of the Bankruptcy Code Authorizing the Employment and Retention of Christian & Small, LLP as Attorneys for the Chapter 11 Trustee [ECF Docket No. 338] on May 8, 2012 and an Application Pursuant to Fed. R. Bankr. P. 2014(a) for Entry of an Order Under Section 327(a) of the Bankruptcy Code Authorizing the Employment and Retention of Hays Financial Consulting, LLC as Accountants for the Chapter 11 Trustee [ECF Docket No. 339 on May 9, 2012.

22. The Trustee filed a Motion Pursuant to Sections 105(a), 327, 328 and 330 of the Bankruptcy Code for Authorization to Employ Professionals in the Ordinary Course of Business *Nunc Pro Tunc* [ECF Docket No. 359] on May 24, 2012.

23. The deadline for the Trustee to assume or reject certain leases for which the Debtors are the lessee expires on June 25, 2012. The deadline was previously extended by the Debtors before the Trustee's appointment and may not be extended again with written permission by the lessors; therefore, the Trustee is contacting 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 will file a motion likely requesting an additional three (3) month extension to assume or reject leases. The Trustee anticipates selling the Debtors' stores before the end of the additional extension period.

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

Legal Investigations

25. The Trustee and the Unsecured Creditors' Committee are currently investigating 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 all of that law firm's work product, investigation materials, analysis, and documents.

26. The Trustee has contacted the U.S. Securities and Exchange Commission and the Trustee is working with them regarding their investigation into the Debtors.

27. The Trustee has been in contact with Georgia Secretary of State and is working with the Debtors to produce certain documents that may be responsive to a subpoena issued by that office. The initial estimates for document production were very expensive due to the extensive electronic data requests made by the Georgia Secretary of State. The Trustee is attempting to identify and produce investor correspondence without incurring a great deal of expense.

Claims Review and Analysis

28. The Debtors employed Kurtzman Carson Consultants, LLC ("KCC") as Claims and Noticing Agent. KCC entered the proofs of claims into their system and, on request of the Clerk of the Bankruptcy Court formatted the data and loaded it into the ECF System. This resulted in two (2) separate claims databases, each of which has had to be updated and reconciled. This duplication of effort was inefficient and resulted in an unnecessary increase in professional fees. The Trustee is working to resolve the duplications and excesses in the claims process, and to resolve claims issues in the most efficient matter possible so as to avoid confusion among the investors and other creditors.

29. The Trustee also started the claims review process early in the case so that claims may be finalized shortly after a sale occurs and a chapter 11 plan is confirmed. 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:

- A. The Trustee has reviewed the monthly invoices for KCC and is i has questioned the bills with KCC. The Application to retain KCC [ECF Docket No. 20] had no references to fees nor a budget for the work to be undertaken.
- B. The Trustee has advised KCC not to undertake any claims reconciliation work and instead asked the Debtors' staff to review all claims as filed on the Claims Register in the Debtors' bankruptcy cases. The Debtors' staff is presently working on the claims reconciliation process and estimates that ninety percent (90%) of the claims have errors and will need to be corrected. The Trustee had discovered significant errors in the data on ECF, , and all the claims will have to be carefully reviewed for errors.
- C. The Trustee plans to file omnibus motions to object to the 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.
- D. The Trustee has requested via the Unsecured Creditors' Committee that investors not file amended claims at this time and wait for the Trustee to send letters to affected investors to resolve issues with their claims.
- E. The Trustee has been in contact with the IRA Custodian, FTC of Onaga, and requested that it voluntarily reduce fees for the IRA accounts. The Custodian has

agreed to reduce fees and will notify the two hundred seventy (270) investors representing \$10 Million in subordinated debentures that are held in IRA accounts.

Restructuring Costs / Professional Fees Prior to Trustee's Appointment

30. The Debtors have incurred an estimated \$1.4 Million in restructuring costs. Approximately \$1.3 million of this amount was incurred after the Debtors' bankruptcy filings for the period December 15, 2011 through May 30, 2012 (the Trustee was not appointed until May 1, 2012). Below is a chart of the estimated total professional fees and amounts currently payable. These amounts are “estimated” because not all firms have filed final fee applications:

	Pre-Petition	Post-Petition	Total	Payable(4)
Debtor Professionals				
Baker Donaldson	84,104	450,000	534,104	250,000
Warren Averett (1)	110,000	131,615	215,719	81,615
Kurtzman Carson (2)		180,000	180,000	85,000
Burr & Forman(4)		23,000	23,000	14,500
Committee Professionals				
Greenberg Traurig (1)		310,913	310,913	310,913
HGH (1)		<u>206,925</u>	<u>206,925</u>	<u>206,925</u>
Total	194,104	1,302,453	1,470,661	948,953

Notes:

- (1) Fee application filed.
- (2) KCC fees are estimated through May
- (3) Trustee recommends the court approve to settle the dispute with Burr & Forman LLP.
- (4) Estimated total amount payable after application of retainers, subject to Bankruptcy Court approval. The Trustee may dispute some of these fees at later date and is not indicating approval by indicating “Estimated Payable”

31. The Trustee’s counsel has met with Burr & Forman LLP and reviewed all of its work product and investigative materials. The Trustee and his counsel have worked, in conjunction with counsel for the Unsecured Creditors' Committee, to resolve the \$23,000

administrative attorney fee claim of Burr & Forman LLP. The Trustee now recommends payment to Burr & Forman LLP in the amount of \$14,500 in full satisfaction of Burr & Forman LLP's administrative claim for attorney's fees and expenses. This represents a settlement and compromise with Burr & Forman LLP, which the Trustee believes in his business judgment to be in the best interests of the creditors and the estate.

WHEREFORE, the Chapter 11 bankruptcy trustee, S. Gregory Hays, respectfully requests that the Court approve this status report and grant the Trustee authority to continue in his efforts to sell the assets of the Debtors in Chapter 11 and wind down the Debtors' estates.

Respectfully submitted,

/s/ Bradley R. Hightower

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Bankruptcy Trustee

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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 4th day of June, 2012:

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

/s/ Bradley R. Hightower

OF COUNSEL