



CLERK, U.S. BANKRUPTCY COURT  
NORTHERN DISTRICT OF TEXAS

**ENTERED**

THE DATE OF ENTRY IS ON  
THE COURT'S DOCKET

The following constitutes the ruling of the court and has the force and effect therein described.

Signed December 16, 2016

United States Bankruptcy Judge

IN THE UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION

IN RE:

AGS ENTERPRISES, INC.,  
KLN STEEL PRODUCTS COMPANY, LLC,  
  
DEBTORS

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CASE NO. 16-34322  
  
JOINTLY ADMINISTERED  
Chapter 11  
  
Judge Stacey G. C. Jernigan

**FINAL ORDER FOR USE OF CASH COLLATERAL PURSUANT TO SECTION 363 OF  
THE BANKRUPTCY CODE AND PROVIDING ADEQUATE PROTECTION AND  
GRANTING LIENS, SECURITY INTERESTS**

On the 12<sup>th</sup> day of December, 2016, the Court having considered the Emergency Motion For Interim And Final Orders (A) Authorizing Use Of Cash Collateral Pursuant To Section 363(c) and (B) Scheduling a Final Hearing Pursuant To Bankruptcy Rule 4001 as to Use of Cash Collateral (the "Motion") filed in this jointly administered case pursuant to Sections 105, 361, 363 and 364 of Title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") with respect to the use of the alleged cash collateral of Frost Bank (the "Frost Bank") on a final basis in accordance with the terms of this Order; and the Court having considered the

pleadings, the evidence and the arguments of counsel; and the Court having found that the Motion should be granted as provided herein,

**THE COURT HEREBY FINDS:**

1. On November 2, 2016, (the "**Petition Date**"), KLN Steel Products Company, LLC ("**KLN Steel**") and AGS Enterprises, Inc. ("**AGS**") (together, "**the Debtors**") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The Debtors are now operating their business and managing their property as debtors in possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code in this jointly administered case. No trustee or examiner and no official committee has been appointed.

2. This Court has jurisdiction over this matter pursuant to 28 U.S.C. § 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

3. Prior to these cases, KLN Steel managed its cash and receivables through an account at Frost Bank, Account No. XXXXX9270, and an account at Chase Bank, Account No. XXXXX9668 (together, the "**KLN Steel Accounts**"). The KLN Steel Accounts are utilized for receipt of payments of accounts receivable under its GSA contracts. Likewise, AGS manages its cash and receivables through an account at Frost Bank, Account No. XXXXX3979 (the "**AGS Account**") and, together with the KLN Steel Accounts, the "**Debtors' Accounts**"). All funds received into the KLN Steel Accounts were prepetition, and have been postpetition pursuant to the Emergency Interim Order for Use of Cash Collateral Pursuant to Section 363 of the Bankruptcy Code and Providing Adequate Protection and Granting Liens, Security Interests [Docket No. 29], transferred manually on a weekly basis to accounts at Frost Bank belonging to

affiliate KLN Manufacturing, LLC (“**KLN Manufacturing**”) and then utilized for payment of KLN Steel’s expenses, including employee payroll, rent, utilities and accounts payable.<sup>1</sup>

4. Frost Bank asserts a pre-petition lien on substantially all of AGS’ and KLN Manufacturing’s assets, including liens on accounts, general intangibles, instruments, monies, payments and other rights arising out of their respective GSA contracts. Frost Bank additionally asserts a security interest in substantially all the assets of KLN Steel on theories which include consent and/or estoppel. U-Loft has objected to “any of KLN Steel’s property being treated as cash collateral of Frost Bank[.]”

5. An immediate and critical need exists for the Debtors to obtain funds in order to continue the operation of the business. The nature of the Debtors’ business is manufacturing of wood and metal beds with its primary customer being the Federal Government under GSA contracts facilitated by the United States General Services Administration. Without access to the cash deposits made by customers into the KLN Steel Accounts, KLN Steel will not be able to pay operating expenses and obtain services needed to complete existing orders and carry on its manufacturing business through KLN Manufacturing. The ability to use the cash in the KLN Steel Accounts, in accordance with a budget approved by this Court, is vital to the confidence of KLN Steel’s vendors and providers of the goods and services essential to the manufacturing operations, and to the preservation and maintenance of the ongoing concern value of the KLN Steel estate.

6. Without immediate access to funds in the Debtors’ Accounts, the Debtors will not be able to pay operating expenses and obtain services needed to carry on the manufacturing business through KLN Manufacturing during this sensitive period in a manner that will avoid

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<sup>1</sup> No funds have been received into the AGS Account postpetition. However, if and when funds are received into the AGS Account, such funds would be cash collateral which would be swept into the KLN Manufacturing accounts at Frost Bank with the use of said funds governed by this Order and the Budget.

irreparable harm to the Debtors' estates. At this time, the Debtors' ability to use cash is vital to the confidence of the Debtors' and KLN Manufacturing's vendors and providers of the goods and services, and to the preservation and maintenance of the ongoing concern value of the Debtors' estates.

7. This Court finds and concludes that entry of this Order is in the best interests of the Debtors, the estates and all creditors, as its implementation will, among other things, allow for the uninterrupted operation of KLN Steel's existing manufacturing business and completion of orders.

**THEREFORE, IT IS HEREBY ORDERED AND ADJUDGED THAT:**

1. The Debtors are hereby authorized to use the cash in the Debtors Accounts subject to the protections and considerations described in this Order in the amounts and for the expenses set forth on the budget attached hereto as Exhibit "1" (the "Budget") not to exceed 110% of the aggregate amount thereof.

2. As protection against any diminution in the aggregate value of Frost Bank's pre-petition interests in its pre-petition collateral that is permitted to be used hereunder by the Debtors, if any, Frost Bank is hereby granted valid, binding, enforceable, and perfected replacement liens (the "Replacement Liens") coextensive as to the types of collateral and of the same priority with Frost Bank's valid and perfected pre-petition liens in the property and assets of the Debtors, if any.

3. To the extent such Replacement Liens are insufficient to protect Frost Bank from diminution in value of its valid and perfected pre-petition liens, if any, in the property and assets of the Debtors, Frost Bank is hereby granted a super-priority administrative expense claim, and all other benefits and protections allowable under Bankruptcy Code § 507(b).

4. Notwithstanding anything to the contrary herein, this Order is without prejudice to, and shall not limit, the right of any party to contest the extent, validity, or priority of the pre-petition indebtedness owed to Frost Bank and any alleged pre-petition liens securing such indebtedness, if any, including but not limited to U-Loft's, LGC Building, Ltd.'s and any other party in interest's right to contest Frost Bank's asserted lien on the KLN Steel Accounts.

5. Notwithstanding any provisions of the Interim Order and/or this Second Interim Order, the prepetition ad valorem tax liens held by Dallas County, Bexar County and Judson ISD incident to any real property or tangible personal property of the Debtors, if any such liens exist, shall neither be primed by nor subordinated to any liens granted herein.

6. The provisions of this Order shall be binding upon and inure to the benefit of Frost Bank and the Debtors. However, nothing herein shall prevent the Debtors, U-Loft or Frost Bank from seeking any form of relief under the Bankruptcy Code.

**IT IS SO ORDERED.**

### End of Order ###

**SUBMITTED BY:**

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**PROPOSED ATTORNEYS FOR THE DEBTORS**

**KLN STEEL PRODUCTS CO, LLC, AGS ENTERPRISES, INC. AND  
KLN MANUFACTURING, LLC  
3 MONTH BUDGET**

	9-Dec	16-Dec	23-Dec	30-Dec	6-Jan	13-Jan	20-Jan	27-Jan	3-Feb	10-Feb	17-Feb	24-Feb
<b>Current Balance</b>	<b>184,676</b>	<b>58,426</b>	<b>818,800</b>	<b>716,178</b>	<b>517,103</b>	<b>453,583</b>	<b>240,309</b>	<b>203,309</b>	<b>163,912</b>	<b>493,618</b>	<b>308,118</b>	<b>282,618</b>
<b>Estimated Deposits from Revenue</b>	<b>235,560</b>	<b>1,323,101</b>	<b>121,678</b>	<b>102,000</b>	<b>76,269</b>	<b>2,726</b>	<b>-</b>	<b>36,603</b>	<b>1,402,695</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance</b>	<b>420,236</b>	<b>1,381,527</b>	<b>940,478</b>	<b>818,178</b>	<b>593,372</b>	<b>456,309</b>	<b>240,309</b>	<b>239,912</b>	<b>1,566,607</b>	<b>493,618</b>	<b>308,118</b>	<b>282,618</b>
Corporate												
Payroll	-	50,000	-	50,000	-	50,000	-	50,000	-	50,000	-	50,000
Utilities	-	59,000	5,000	-	-	45,000	-	-	-	45,000	-	-
CPA Firm	-	30,000	-	-	-	-	-	-	-	20,000	-	-
Rent	85,802	-	-	-	85,802	-	-	-	-	-	-	-
Corporate Housing	1,456	-	-	-	1,456	-	-	-	85,802	-	-	-
Insurance												
Health	-	50,905	-	-	-	-	-	-	1,456	-	-	-
Worker's Comp	8,000	-	-	-	20,000	-	-	-	-	-	-	-
IT Tech Services	4,531	-	-	-	2,000	-	-	-	2,000	-	-	-
Subcontract Manf	-	162,505	-	170,000	4,531	-	-	-	4,531	-	-	-
Installation Services	72,071	149,082	-	25,000	-	20,000	11,000	-	125,000	-	-	-
Taxes	-	-	-	-	-	-	-	-	108,700	-	-	-
Logistics	26,009	30,000	100,000	-	-	-	-	-	300,000	-	-	-
Ancillary	136,941	4,235	92,800	20,000	-	75,000	-	-	250,000	-	-	-
US Trustee fees - AGS	-	-	-	325	-	-	-	-	150,000	-	-	-
US Trustee fees - KLN Steel	-	-	-	9,750	-	-	-	-	-	-	-	-
Auctioneer Fee	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees - Coats Rose <sup>1</sup>	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	45,000	25,000	25,000
Consumables	2,000	2,000	1,500	1,000	1,000	1,000	1,000	1,000	500	500	500	500
<b>TOTAL PAYMENTS</b>	<b>361,810</b>	<b>562,727</b>	<b>224,300</b>	<b>301,075</b>	<b>139,789</b>	<b>216,000</b>	<b>37,000</b>	<b>76,000</b>	<b>1,072,989</b>	<b>185,500</b>	<b>25,500</b>	<b>75,500</b>
<b>REMAINING BALANCE</b>	<b>58,426</b>	<b>818,800</b>	<b>716,178</b>	<b>517,103</b>	<b>453,583</b>	<b>240,309</b>	<b>203,309</b>	<b>163,912</b>	<b>493,618</b>	<b>308,118</b>	<b>282,618</b>	<b>207,118</b>

<sup>1</sup> Accrued fees; professional fees will be paid only upon entry of an order approving such fees.

