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8 **UNITED STATES BANKRUPTCY COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**
10 **SAN FERNANDO VALLEY DIVISION**

11 In re) **CASE NO.: 2:16-bk-12518 MT**
12) **CHAPTER II**
13 Ireland Needlecraft, Inc., d/b/a H&S Bicycles) **SECOND MOTION FOR USE OF**
14 Debtor.) **CASH COLLATERAL ON AN**
15) **INTERIM AND FINAL BASIS;**
16) **MEMORANDUM OF POINTS AND**
17) **AUTHORITIES**
18) **Date : November 3, 2016**
19) **Time : 9:30 a.m.**
20) **Place : Courtroom 302**
21) **Petition filed August 29, 2016**

22 **TO THE HONORABLE MAUREEN TIGHE, U.S. BANKRUPTCY JUDGE:**
23 **COMES NOW** the Debtor with its Motion.

24 The Debtor has operated two retail bicycle stores in Granada Hills and Burbank
25 California for a period of years. The Debtor owns considerable inventory and has regular
26 revenues from retail sales and repairs, has 10 to 12 employees and maintains workers
27 compensation insurance.

28 The Debtor filed its chapter II petition due to a number of reasons including
difficulties with a major supplier and problems with its financial record keeping.

The Debtor intends to reorganize its business and will propose a reorganizing plan.

1 The Debtor intends to reorganize its business and will propose a reorganizing plan.
2 It believes its prospects are good for various reasons including the following:

- 3 • The Debtor has been doing considerable work to improve its financial record
4 keeping in the past one half year and it has identified additional significant
5 improvements still to be made.
6 • The Debtor has identified strengths that should permit it to reorganize.

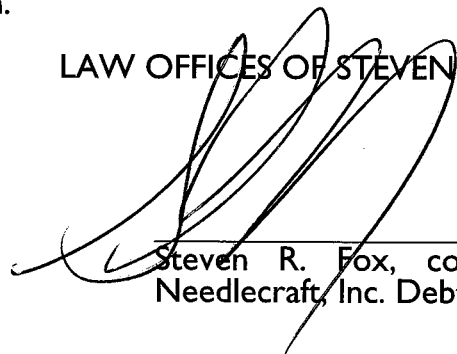
7 The Debtor seeks authorization to use its monies to operate its business. If the
8 Debtor cannot use its cash collateral, the Debtor would need to cease its business
9 operation and let its employees go.

10 The Debtor requests that the Court take the following actions:

- 11 1. Enter an order authorizing the Debtor to use cash collateral on an
12 interim basis per the budget with the requested variances, rollover
13 provisions and application of excess revenues to costs of goods sold.
14 Alternatively, the Debtor requests that it be authorized to use cash
15 collateral on a final basis and in the ordinary course of business.
16 2. Grant to entities asserting interests in the Debtor's monies
17 replacement liens in collateral of the estate as discussed below.
18 3. Such further relief as the Court deems appropriate and consistent
19 with this Motion.

20 Dated: October 13, 2016

LAW OFFICES OF STEVEN R. FOX



Steven R. Fox, counsel for Ireland
Needlecraft, Inc. Debtor-in-Possession

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TABLE OF CONTENTS

I.	Introduction and Summary of Relief Requested	3
II.	The Debtor, Its Business, and the Financial Difficulties	3
III.	Post-Petition Events	9
IV.	Request for Authority to Use Cash Collateral	10
V.	Conclusion	13

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**MEMORANDUM OF POINTS AND AUTHORITIES IN
SUPPORT OF MOTION TO USE CASH COLLATERAL
ON AN INTERIM AND FINAL BASIS**

1. This case was commenced on August 29, 2016, 2016, by the filing of a voluntary petition for relief under Chapter 11 of the U. S. Bankruptcy Code. Since then, the Debtor has been, and continues to be, a Debtor-in-Possession. No examiner or trustee has been appointed and no official committee of creditors has been established.

I.

Introduction and Summary of Relief Requested

2. The Debtor operates two retail bicycle stores in Granada Hills and Burbank California, will typically employ 10 to 12 employees and generates gross revenues in the \$1 million to \$2 million range annually.
3. The Debtor had financial and business difficulties which led to this chapter 11 filing. The Debtor is working to reorganize its businesses.
4. Giant Bicycles (“Giant”) and Cycling Sports Group (“CSG”) assert security interests in estate monies. For purposes here only, the Debtor assumes their interests are properly perfected though that may not be the case. Both entities are adequately protected as discussed below.
5. The Debtor seeks authority to use cash collateral either on an interim basis pursuant to the pro forma (“budget”) attached here as **Exhibit “A,”** and incorporated here or on a final basis but in the ordinary course of business.
6. LBR 4001-2 (c). LBR 4001-2 sets forth various provisions which, if they are sought, must be identified. None of those provisions are found in this Motion.

II.

The Debtor, Its Business, and the Financial Difficulties.

7. The Debtor’s background, considering its name, Ireland Needlecraft, Inc., is a bit unusual. The corporation was incorporated in 1986. The company manufactured and sold across the nation custom clerical, judicial and choir robes. In 1994,

- 1 Robert Stotts, Sr., purchased 100% of the stock of the company. The company
2 continued to manufacture and to sell robes until the early 2000s when the
3 Debtor acquired its first bicycle store in Burbank. The Debtor exited the
4 custom robe business in or about 2002. In about 2014, (vice president) Rob
5 Stotts Jr. and his wife personally leased the Granada Hills location and sublet the
6 premises (on an oral contract) the location to the Debtor. The Granada Hills'
7 location is the larger store but has lower gross revenues than the Burbank store.
8
- 9 8. The Debtor's recent gross revenues have been the following:
- | | |
|---------|---|
| 10 2014 | \$1,234,817 (per line I C federal tax return) |
| 11 2015 | \$ 1,948,647.56 (internal records) |
| 12 2016 | \$834,712.18 (internal records) YTD |
- 13 9. The Debtor's problems are not its reputation or its ability to generate business
14 and monies.
- 15 10. The Problems Leading to the Chapter 11 Filing. The Debtor's problems appear
16 to include the following.
- 17 11. First, in general the slowly growing economy has not assisted the two stores but
18 the economy, overall, is not a major factor for this filing.
- 19 12. Second, the Debtor had considerable difficulties with Giant and a demonstration
20 bicycle sales program. The Debtor's believes that these difficulties led the
21 Debtor to considerable financial distress and is aware that Giant does not agree
22 with the Debtor's belief on this point.
- 23 13. A third cause of the filing is that expenses were out of control and given the
24 problems the Debtor had with the financial record keeping, the Debtor's
25 management was not as aware of it as it could have been.
- 26 14. A fourth problem was record keeping. These problems are discussed in detail in
27 the attached declaration.
- 28 15. Fixing the Problems Leading to the Chapter 11 Filing. As to the record keeping,

1 the Debtor has been working hard to improve the quality and reliability of the
2 record keeping. The Debtor has been making extensive changes in the past
3 number of months and more will be made. Here some examples of changes
4 which have been made to the record keeping in the past few months:

- 5 • Only one Quickbooks program is now being used, that program is
6 run by the Debtor's bookkeeper.
- 7 • All transactions flow through that one program.
- 8 • The bookkeeper now balances the Paypal account and credit card
9 accounts weekly and the bank account daily.
- 10 • The Debtor has instituted tighter controls over cash to make sure
11 none gets pocketed.
- 12 • The Debtor has switched payroll from being done in-house to an
13 outside payroll company for payroll-twice a month. The outside
14 company pays the payroll taxes when payroll is paid and it also
15 performs all of the required payroll tax reporting.
- 16 • The bookkeeper is taking over the sales tax reporting effective with
17 the September, 2016, sales tax return.
- 18 • Gift card balances are now shown as a liability from the POS system
19 on the balance sheet. Quickbooks stays balanced with the POS
20 system as to gift card balances.
- 21 • Customer deposits are now balanced in the POS System and
22 reported on the balance sheet. Quickbooks stays balanced with the
23 POS system as to these deposits.
- 24 • Starting cash in the store registers is now the same in each store,
25 \$200 each day, to help make the nightly reconciliations more
26 reliable. Also, the nightly reconciliations are now balanced with the
27 POS system.

28

- 1 20. Given the numbers recited above, Cycling Sports Group appears to be fully
2 secured. Giant would be under-secured.
- 3 21. The Debtor intends to reorganize, to remain in business and to pay monies to its
4 creditors.
- 5 22. The Debtor has regular revenues and regular expenses from operating the two
6 stores. Attached here as **Exhibits "C"** and **"D"** are copies of P&L statements
7 for year 2015 and year 2016 (through July 31, 2016). The P&L statements reflect
8 loses. Going forward though, the Debtor anticipates it will be profitable though
9 as its cash flow will not be so tightly crimped.
- 10 23. Attached here as **Exhibit "E"** are copies of the Debtor's P&L statements
11 (accrual basis) for August-September. Note that because the Debtor is now
12 using its point of sale system, costs of goods sold are reflected at the time of sale
13 as opposed to the time of payment for the inventory. This leads to an
14 interesting situation. The Debtor, for purposes here, has two types of inventory
15 - inventory purchased prepetition and paid for prepetition; and inventory
16 purchased prepetition and not paid for prepetition. The POS system reflects the
17 costs of the inventory sold when the inventory is sold and not when the
18 inventory costs are paid. This leads to these two P&L statements showing some
19 loses because the cost of the inventory is reflected even though as to some
20 inventory the inventory was already paid for and as to other inventory, it was
21 not paid for. This likely means that it will take some months for the P&L
22 statements to begin to show profit.
- 23 24. **Exhibit "F"** is the budget to actual report.
- 24 25. Going forward there are reasons to believe that the company can do well. For
25 example:
- 26 • The Debtor has been working to get better control over its
27 financial record keeping. In the past, decisions could be made
28 without sufficient financial information. The Debtor has beefed up

- 1 its financial staff so that it can have better financial reporting. This
2 has led to an understanding that the Debtor's expenses are too
3 high.
- 4 • The Debtor is adjusting its cost structure, lowering expenses.
5 Likely lowered expenses could be from closing a store or by
6 conversely by increasing the number of stores the Debtor owns.
 - 7 • The Debtor in early August took a complete inventory at both
8 stores so it has a better understanding of its inventory and what to
9 order or not to order and when.
 - 10 • The Debtor has a strong brand identification within the local cycling
11 community, loyalty in the serious bicycle community, a local
12 clientele. The Debtor stocks a quantity of high end bicycles and
13 products that serious riders demand. Rob Stots Jr. regularly leads
14 rides of groups of these riders. They expect high quality repairs
15 which often are not available at other bicycle shops.
 - 16 • The Debtor is considering trying to expand the Burbank store
17 location. It is a busy store but because it is a bit small for its needs,
18 its revenues are perhaps not as high as they could be. For example,
19 a lot of bicycle purchasing is impulse, that is, falling in love with a
20 model out on the floor. There is not enough space in the Burbank
21 store to permit enough of this kind of love to occur. Instead it
22 often occurs that the sales people have to sell models out of boxes
23 or from catalogs.
 - 24 • At the Granada Hills store, the Debtor needs to bring in a higher
25 energy person who can push sales. This position comes with a
26 fairly high salary, something hard to pay with the existing margins in
27 retail bicycle sales. The Debtor is looking for that person.
- 28

- 1 • The Debtor is speaking with various bicycle suppliers to see about
- 2 entering into long term relations with one or two of them.
- 3 26. It is likely that the gross revenues for year 2016 will exceed \$1.5 million. The
- 4 Debtor normally has 10 to 12 employees. During the seasonal sales toward the
- 5 end of the year, the Debtor may add seasonal workers.
- 6 27. The Debtor has prepared a weekly projection of gross revenues, costs of goods
- 7 sold, overhead expenses, net profit and cash flow going period for a period of
- 8 months. It is attached here as **Exhibit "A"**.
- 9 28. The Debtor's asset base includes the following: (figures are approximate)
- 10 • cash on hand as of September 30, 2016: \$55,553.79
- 11 (Cash on hand as of petition date: under \$1,000)
- 12 • personal property including display cases, racks, lighting, shop tools
- 13 and furniture: \$21,284.
- 14 • inventory as of September 30, 2016: including bikes, clothing,
- 15 helmets, etc.:¹ Retail: \$1,317,418
- 16 Total Cost: \$767,908

24 ¹ The inventory figure here includes inventory from all suppliers and vendors,

25 not just Giant and Cycling Group.

26 Inventory as of approximately the filing date, including bikes, clothing,

27 helmets, etc.:

28 Retail: \$1,355,039

Total Cost: \$780,483

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III.

Post-Petition Events

29. The Debtor filed various first day motions including motions for authority to use cash collateral, to pay priority payroll, to provide adequate assurance of payment under §366, to permit post-petition the continuation of certain prepetition customer practices (including honoring warranties), and to set reclamation procedures. The Court has granted each of these motions.
30. The Debtor provided compliance information to the U.S. Trustee. H&S maintains workers compensation and general liability insurances.
31. The Debtor intends to file a plan of reorganization and to remain in business. The Debtor believes that it will have one or more impaired classes voting to support plan confirmation and anticipates having new value on hand, if necessary.
32. During the case, the Debtor has sold inventory which appear to be subject to security interests in favor of Giant and CSG. As to Giant, the Debtor has sold inventory post-petition with a value of \$3,919 wholesale and \$5,220 retail. As to CSG, the Debtor has sold inventory post-petition with a value of \$17,116 wholesale and \$22,248 retail.

IV.

Request for Authority to Use Cash Collateral.

33. The Debtor seeks authority to use cash collateral either on an interim basis under a budget or on a final basis in the ordinary course of business.
34. The Debtor requires cash collateral to operate its business, to pay employees, to pay rent and utilities and pay other expenses. Without the use of cash collateral, the Debtor will be unable to remain in business. If the Debtor cannot use cash collateral, its reputation in the local bicycle community and in the industry will be severely harmed. Authorizing the relief requested below will benefit entities asserting interests in estate monies as the use of cash collateral will protect their security. If their security interests extend to the Debtor's monies, then the

- 1 Debtor does not have unencumbered sources of monies or other assets to pay
2 ordinary course of business obligations.
- 3 35. Variance. The Debtor has done its best to make accurate projections
4 concerning income and expenses. However, budgeting is not an exact science,
5 especially as the Debtor operates in a retail environment where it does not
6 control sales - the customer does. It also cannot control calls on its shops for
7 repair services though in the case of anticipated sales and repair work the
8 Debtor can make educated estimates. There may be considerable variance week
9 to week and month to month before the final hearing on cash collateral. The
10 Debtor requests that it be permitted to vary from the proposed budget by as
11 much as 20% as to any one category. If the Debtor determines it needs to vary
12 from any one budgeted item by more than 20% variances, the Debtor proposes
13 that it provide written notice by email or telecopier of the variance to the
14 entities asserting interests in the estate's monies. If they do not object to the
15 variance within 48 business hours, then the variance will be deemed approved.
16 In the event either entity objects, then the Debtor may seek to set a hearing to
17 obtain approval of the variance.
- 18 36. Rolling Unspent Budgeted Monies Forward. The budget is a weekly budget. It is
19 likely the Debtor will underspend in certain categories in some weeks. The
20 Debtor requests that the Court authorize it to carry over from pervious weeks
21 any unused monies to be used in the same categories in future weeks.
- 22 37. The Debtor requests that the monies carried forward not count toward the
23 variance. The rollover is important because the Debtor projects revenues
24 weekly but retail sales and repair work will occur based on the whims and
25 desires of consumers, not based on a pre-set production schedule.
- 26 38. Applying Any Excess Revenues to Costs of Goods Sold. It may be that in some
27 periods the Debtor's gross revenues exceed the projected figures. If this
28 happens, this means the Debtor has had additional sales. That is the time when

1 it should be able to use the excess revenues to purchase additional product for
2 sale.

3 39. The Debtor requests that in the event that its gross revenues exceed the
4 projected figures that it be permitted to apply up to 75% of such excess gross
5 revenues to costs of goods sold. COGS includes these categories: Costs of
6 materials, e.g. purchasing products; and direct labor costs for jobs.

7 40. The Entities Interests Are Adequately Secured. They are afforded
8 adequate protection of its claim in many ways.

9 a. The value of the assets discussed above.

10 Giant's claim is for \$74,870 (retail) and \$458,276 (demo). By agreement with
11 Giant, the Debtor returned all but a handful of the demo bikes to Giant shortly
12 before the chapter 11 case commenced. The value of the remaining Giant
13 inventory at the Debtor's two stores is \$74,513.32 at cost and \$132,430.00 at
14 retail. Giant is an over-secured creditor as to its retail claim.

15 CSG's claim is \$220,879.63. The value of its inventory is \$287,406.96 at cost
16 and \$486,728.30 at retail. CSG is an over-secured creditor.

17 b. The Debtor continuing to operate the business and maintaining and
18 servicing the inventory and equipment.

19 c. Operating the business creates additional revenues.

20 d. All assets are adequately insured.

21 e. Providing replacements lien to the two entities to the extent their
22 prepetition liens attached to property of the Debtor prepetition
23 and with the same validity, priority, and description of collateral.
24 To be clear, if there is a defect in a security interest prepetition,
25 that same defect would apply post-petition.

26 f. The Court may order the Debtor at the interim hearing or at the
27 final hearing to make adequate protection payments. The Debtor
28 does not propose to make adequate protection payments until later

1 in the case so that the Debtor can continue to work on its
2 businesses and profitability.

3 41. Waivers and Cash Collateral Stipulation Form 4001-2; Notice. There is no
4 stipulation for the use of cash collateral. There are no provisions in the Motion
5 that are referenced in Official Form 4001-2.

6 42. The Debtor is not here waiving

- 7 1. any right to dispute the validity of any lien;
- 8 2. to challenge whether particular assets are subject to a security
9 interest
- 10 3. to invalidate a security interest,
- 11 4. to surcharge collateral or
- 12 5. to maintain any claims that the Debtor may have against any
13 creditor asserting secured interests.

14 **VII.**

15 **Conclusion**

16 The Debtor requests that the Court take the following actions:

- 17
- 18 1. Enter an order authorizing the Debtor to use cash collateral on an
19 interim basis per the budget with the requested variances, rollover
20 provisions and application of excess revenues to costs of goods
21 sold.

22

23 Alternatively, the Debtor requests that it be authorized to use cash
24 collateral on a final basis and in the ordinary course of business.

- 25
- 26 2. Grant to entities asserting interests in estate monies replacement
27 liens in collateral of the estate.

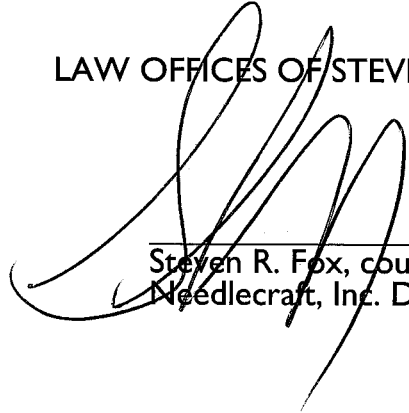
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3. Such further relief as the Court deems appropriate and consistent
with this Motion.

Dated: October 13, 2016

LAW OFFICES OF STEVEN R. FOX



Steven R. Fox, counsel for Ireland
Needlecraft, Inc. Debtor-in-Possession

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DECLARATION OF ROBERT STOTTS, JR.

I, Robert Stotts, Jr., declare as follows:

1. I am the vice president of, and the person who oversees the day to day functions of the Debtor-in-Possession, Ireland Needlecraft d/b/a H&S Bicycles. I make this declaration in support of the Debtor's Motion identified above in the case caption. My business address is 16908 San Fernando Mission Blvd, Granada Hills, CA 91344. My statements here are based on my personal knowledge. If called to testify concerning the contents of this Declaration, I could and would do so competently.

I.

Personal Knowledge and Authentication.

2. I am the Debtor's vice president. I oversee the day to day operations with assistance from my father Robert Stotts Sr., who is the Debtor's president and C.E.O. I have worked for the Debtor for 19 years. I am also a salaried employee.
3. My roles with the Debtor are described in detail in my First Day Declaration. In part,
 - I oversee office administration including the creation and maintenance of the Debtor's financial books and records,
 - I oversee customer and public relations and
 - I am working with counsel on the chapter 11 case.
4. I have personal knowledge of the Debtor's business having worked in the business for many years.
5. I am one of the custodians of the Debtor's books, records, and documents. The Debtor maintains records of its transactions in the regular course of business, and it is the Debtor's practice and procedure to maintain records and to record transactions, acts, and events at or about the time the transaction occurs. The Debtor relies on these records in connection with its business dealings. I

- 1 oversee the safekeeping of business records including financial records. The
2 Debtor has business records in written and in electronic form.
- 3 6. I have personal knowledge of the procedures for creating, receiving, maintaining,
4 storing and retrieving documents and records. The Debtor's business records
5 are received, maintained, stored and retrieved in the ordinary course of the
6 company's course of business. It is the ordinary course of the business to
7 receive, maintain, store and retrieve records including any business records
8 attached as exhibits discussed below. People with knowledge of the records and
9 any exhibits contained below recorded or made these exhibits discussed below.
10 While in the instance of some exhibits I did not personally prepare them, I am
11 responsible for their creation and I read them and asked questions about them
12 (to ascertain reliability). The records were recorded at or near the time of their
13 receipt or creation in the ordinary course of business. The exhibits discussed
14 below are what they appear to be.
- 15 7. I am the chief management person tasked with working on the chapter 11 case.

16 II.

17 Background Facts.

- 18 8. The Debtor, an S-corporation, operates two retail bicycle stores in Granada
19 Hills and in Burbank, California. The Debtor also sells bicycles and related
20 products online. The Burbank store is a smaller store and inventory is bursting
21 through the walls with more sales than the Granada Hills store. The latter is
22 larger, more beautiful looking, but with lower sales.
- 23 9. The Debtor's background, considering its name, Ireland Needlecraft, Inc., is a bit
24 unusual. The corporation was incorporated in 1986. The company manufactured
25 and sold across the nation custom clerical, judicial and choir robes. In 1994, my
26 father, Robert Stotts, Sr., purchased 100% of the stock of the company. (He later
27 transferred his interest to a trust.) The company continued to manufacture and
28 to sell robes. In about 2000, the company acquired its first bicycle store in

- 1 Burbank. The Debtor exited the custom robe business in or about 2002. In
2 about 2014, my wife and I personally leased the Granada Hills location. I sub-
3 lease, on an oral contract, the location to the Debtor.
- 4 10. The Debtor's recent gross revenues have been the following:
- | | |
|--------|---|
| 5 2014 | \$1,234,817 (per line I C federal tax return) |
| 6 2015 | \$ 1,948,647.56 (internal records) |
| 7 2016 | \$834,712.18 (internal records) YTD |
- 8 11. The Debtor's problems are not its reputation or its ability to generate business
9 and monies.
- 10 12. The Problems Leading to the Chapter 11 Filing. The Debtor's problems appear
11 to include the following.
- 12 13. First, in general the slowly growing economy has not assisted the two stores but
13 the economy, overall, is not a major factor for this filing.
- 14 14. Second, Giant Bicycle ("Giant") is understood to be one of the largest
15 manufacturers of bicycles in the world. Prepetition the Debtor had considerable
16 difficulties with the "demo bike" program which Giant had brought the Debtor
17 into. The program led the Debtor to considerable difficulties which has been
18 spoken of elsewhere. Suffice it to say here that the problems caused the Debtor
19 considerable financial distress.
- 20 15. A third cause of the filing is that expenses were out of control and given the
21 problems we had with the financial record keeping, we were not as aware of it as
22 we could have been.
- 23 16. A fourth problem was record keeping. Those problems included the following:
- 24 • The company books and records were maintained on two separate
 - 25 Quickbooks programs. They did not speak with each other.
 - 26 • One person did the payroll and payroll tax reporting while the bookkeeper,
 - 27 who did all other financial record keeping, did not have necessary payroll tax
 - 28 information such as gross numbers for payroll and payroll tax figures.

- 1 • One person did all the sales tax reporting and payments while the other
2 person had only sales tax income figures.
- 3 • Outside sales were not run through the Debtor's POS (Point of Sale) system
4 and the same was largely true for Paypal. As to Paypal, the Debtor had only
5 summary numbers of the aggregate transactions but not the details.
- 6 • Information could be and was transferred by old fashioned means between the
7 two Quickbooks programs.
- 8 • The COGS in Quickbooks was not a true COGS as it was based on paid
9 vendor invoices only.
- 10 • The POS system had inventory reflected in it that had no values.²
- 11 17. As to the record keeping, we have been working hard to improve the quality and
12 reliability of the record keeping. We have been making extensive changes in the
13 past number of months and more will be made. Here some examples of changes
14 which have been made to the record keeping in the past few months:
- 15 • Only 1 Quickbooks program is now being used, that program is run by the
16 Debtor's bookkeeper.
- 17 • All transactions flow through that one program.
- 18 • The bookkeeper now balances the Paypal account and credit card accounts
19 weekly and the bank account daily.
- 20 • We have instituted tighter controls over cash to make sure none gets
21 pocketed.
- 22 • We switched payroll from being done in-house to an outside payroll company
23 for payroll-twice a month. The outside company pays the payroll taxes when
24 payroll is paid and it also performs all of the required payroll tax reporting.

26 ² I am not a bookkeeper or accountant. I have done my best to understand
27 these shortfalls but my understanding is limited. My purpose in detailing
28 these shortcomings is describe some problems the Debtor had pre-
bankruptcy.

- 1 • The bookkeeper is taking over the sales tax reporting effective with the
- 2 September, 2016, sales tax return.
- 3 • Gift card balances are now shown as a liability from the POS system on the
- 4 balance sheet. Quickbooks stays balanced with the POS system as to gift card
- 5 balances.
- 6 • Customer deposits are now balanced in the POS System and reported on the
- 7 balance sheet. Quickbooks stays balanced with the POS system as to these
- 8 deposits.
- 9 • Starting cash in the store registers is now the same in each store, \$200 each
- 10 day, to help make the nightly reconciliations more reliable. Also, the nightly
- 11 reconciliations are now balanced with the POS system.
- 12 • Now new inventory is inputted in the POS system always with an invoiced
- 13 amount to it.
- 14 18. There are still financial record keeping corrections and improvements to be
- 15 made . For example, I understand that we are not presently able to provide true
- 16 COGS figures thru our POS system. We are working on that. Also, COGS is
- 17 not presently broken down between the two stores. As I understand it, when
- 18 we can see the two stores' COGS as reliable separate figures, that may help us
- 19 understand if one store is really more profitable than the other.
- 20 19. As a result of all of the above, the Debtor had developed cash flow shortages
- 21 and nervous suppliers.
- 22 20. Creditors Asserting Secured Claims. There appear to be a couple of creditors
- 23 holding security interests in monies and in receivables. Based on filed UCC I
- 24 Financing Statements, these appear to be the secured creditors: Giant and
- 25 Cycling Sports Group ("CSG"):
- 26 • Giant, lien recorded May 24, 2012, owed \$74,870.32 (retail) and \$458,276.40
- 27 (demo bikes), asserting interest in proceeds in money, but expressly limited to
- 28 the sale of all inventory, equipment and goods provided to the Debtor by

- 1 Giant, and all receivable which may exist from the sale of Giant supplied
2 inventory, equipment and goods. The value of the Giant inventory on hand at
3 the time the case commenced was \$74,513.32 (at cost) and \$132,430.00 (at
4 retail value).
- 5 • Cycling Sports Group, Inc., (Cannondale) lien recorded March 28, 2012, owed
6 \$220,879.63, asserting an interest in money but expressly limited to proceeds
7 and receivables received from the sale of this creditor's bicycle and bicycle
8 related products in the Debtor's possession. The value of the Cannondale
9 inventory on hand when the case commenced was \$287,406.96 (at cost) and
10 \$486,728.30 (at retail).
- 11 21. Copies of the two UCC I Financing Statements are attached here as **Exhibit**
12 **"B."**
- 13 22. Given the numbers recited above, Cycling Sports Group appears to be fully
14 secured. Giant would not be fully secured.
- 15 23. The Debtor intends to reorganize, to remain in business and to pay monies to its
16 creditors.
- 17 24. The Debtor has regular revenues and regular expenses from operating the two
18 stores. Attached to my declaration as **Exhibits "C"** and **"D"** are true and
19 correct copies of P&L statements for year 2015 and year 2016 (through July 31,
20 2016). They were prepared under my direction. The P&L statements reflect
21 losses. Going forward though, I anticipate the Debtor will be profitable though
22 as its cash flow will not be so tightly crimped. I should also note that costs of
23 goods sold ("COGS") is not broken down between stores, something we are
24 currently working on being able to do.
- 25 25. Attached here as **Exhibit "E"** are true and correct copies of the Debtor's P&L
26 post-petition both accrual and cash based.
- 27 26. Attached here as **Exhibit "F"** is a true and correct copy of the Debtor's budget
28 to actual report.

- 1 27. Going forward there are reasons to believe that the company can do well. For
2 example:
- 3 • The Debtor has been working to get better control over its financial record
4 keeping. In the past, decisions could be made without sufficient financial
5 information. The Debtor has beefed up its financial staff so that it can have
6 better financial reporting. This has led to an understanding that the Debtor's
7 expenses are too high.
 - 8 • The Debtor is adjusting its cost structure, lowering expenses. Likely lowered
9 expenses could be from closing a store or by conversely by increasing the
10 number of stores the Debtor owns.
 - 11 • The Debtor in early August took a complete inventory at both stores so it has
12 a better understanding of its inventory and what to order or not to order and
13 when.
 - 14 • The Debtor has a strong brand identification within the local cycling
15 community, loyalty in the serious bicycle community, a local clientele. The
16 Debtor stocks a quantity of high end bicycles and products that serious riders
17 demand. I regularly lead rides of groups of these riders. They expect high
18 quality repairs which often are not available at other bicycle shops.
 - 19 • The Debtor is considering trying to expand the Burbank store location. It is a
20 busy store but because it is a bit small for its needs, its revenues are perhaps
21 not as high as they could be. For example, a lot of bicycle purchasing is
22 impulse, that is, falling in love with a model out on the floor. There is not
23 enough space in the Burbank store to permit enough of this kind of love to
24 occur. Instead it often occurs that the sales people have to sell models out of
25 boxes or from catalogs.
 - 26 • At the Granada Hills store, the Debtor needs to bring in a higher energy
27 person who can push sales. This position comes with a fairly high salary,
28 something hard to pay with the existing margins in retail bicycle sales. The

- 1 Debtor is looking for that person.
- 2 • The Debtor is speaking with various bicycle suppliers to see about entering
- 3 into long term relations with one or two of them.
- 4 28. It is likely that the gross revenues for year 2016 will exceed \$1.5 million. The
- 5 Debtor typically has 10 to 12 employees though this amount may go up or down
- 6 at times. During the seasonal sales toward the end of the year, the Debtor may
- 7 add seasonal workers.
- 8 29. The Debtor has prepared a weekly projection of gross revenues, costs of goods
- 9 sold, overhead expenses, net profit and cash flow going period for a period of
- 10 months. It is attached here as **Exhibit "A"**.
- 11 30. The Debtor's asset base includes the following: (figures are approximate)
- 12 • cash on hand as of September 30, 2016: \$55,553.79
 - 13 (Cash on hand as of petition date: under \$1,000)
 - 14 • personal property including display cases, racks, lighting, shop tools
 - 15 and furniture: \$21,284.
 - 16 • inventory as of September 30, 2016: including bikes, clothing,
 - 17 helmets, etc.:³ Retail: \$1,317,418
 - 18 Total Cost: \$767,908

19 III.

20 Post-Petition Events

- 21 31. The Debtor filed various first day motions including motions for authority to use
- 22 cash collateral, to pay priority payroll, to provide adequate assurance of payment
- 23

24 ³ The inventory figure here includes inventory from all suppliers and vendors,

25 not just Giant and Cycling Group.

26 Inventory values as of approximately the filing date, including bikes, clothing,

27 helmets, etc.:

28 Retail: \$1,355,039
Total Cost: \$780,483

1 under §366, to permit post-petition the continuation of certain prepetition
2 customer practices (including honoring warranties), and to set reclamation
3 procedures. The Court has granted each of these motions.

4 32. The Debtor provided compliance information to the U.S. Trustee. H&S
5 maintains workers compensation and general liability insurances.

6 33. The Debtor intends to file a plan of reorganization and to remain in business.
7 The Debtor believes that it will have one or more impaired classes voting to
8 support plan confirmation and anticipates having new value on hand, if necessary.

9 34. During the case, the Debtor has sold inventory which appear to be subject to
10 security interests in favor of Giant and CSG. As to Giant, the Debtor has sold
11 inventory post-petition with a value of \$3,919 wholesale and \$5,220 retail. As to
12 CSG, the Debtor has sold inventory post-petition with a value of \$17,116
13 wholesale and \$22,248 retail.

14 IV.

15 Request for Authority to Use Cash Collateral.

16 35. The Debtor seeks authority to use cash collateral either on an interim basis
17 pursuant to the budget or on a final basis and in the ordinary course of business.

18
19 36. The Debtor requires cash collateral to operate its business, to pay employees, to
20 pay rent and utilities and pay other expenses. Without the use of cash collateral,
21 the Debtor will be unable to remain in business. If the Debtor cannot use cash
22 collateral, its reputation in the local bicycle community and in the industry will be
23 severely harmed. Authorizing the relief requested below will benefit entities
24 asserting interests in estate monies as the use of cash collateral will protect their
25 security. If their security interests extend to the Debtor's monies, then the
26 Debtor does not have unencumbered sources of monies or other assets to pay
27 ordinary course of business obligations.
28

- 1 37. Variance. The Debtor has done its best to make accurate projections
2 concerning income and expenses. However, budgeting is not an exact science,
3 especially as the Debtor operates in a retail environment where it does not
4 control sales - the customer does. It also cannot control calls on its shops for
5 repair services though in the case of anticipated sales and repair work the
6 Debtor can make educated estimates. There may be considerable variance week
7 to week and month to month before the final hearing on cash collateral. The
8 Debtor requests that it be permitted to vary from the proposed budget by as
9 much as 20% as to any one category. If the Debtor determines it needs to vary
10 from any one budgeted item by more than 20% variances, the Debtor proposes
11 that it provide written notice by email or telecopier of the variance to the
12 entities asserting interests in the estate's monies. If they do not object to the
13 variance within 48 business hours, then the variance will be deemed approved.
14 In the event either entity objects, then the Debtor may seek to set a hearing to
15 obtain approval of the variance.
- 16 38. Rolling Unspent Budgeted Monies Forward. The budget is a weekly budget. It is
17 likely the Debtor will underspend in certain categories in some weeks. The
18 Debtor requests that the Court authorize it to carry over from pervious weeks
19 any unused monies to be used in the same categories in future weeks.
- 20 39. The Debtor requests that the monies carried forward not count toward the
21 variance. The rollover is important because the Debtor projects revenues
22 weekly but retail sales and repair work will occur based on the whims and
23 desires of consumers, not based on a pre-set production schedule.
- 24 40. Applying Any Excess Revenues to Costs of Goods Sold. It may be that in some
25 periods the Debtor's gross revenues exceed the projected figures. If this
26 happens, this means the Debtor has had additional sales. That is the time when
27 it should be able to use the excess revenues to purchase additional product for
28 sale.

- 1 41. The Debtor requests that in the event that its gross revenues exceed the
2 projected figures that it be permitted to apply up to 75% of such excess gross
3 revenues to costs of goods sold. COGS includes these categories: Costs of
4 materials, e.g. purchasing products; and direct labor costs for jobs.
- 5 42. The Entities Interests Are Adequately Secured. They are afforded adequate
6 protection of its claim in many ways.
- 7 a. The value of the assets discussed above.
- 8 Giant's claim is for \$74,870 (retail) and \$458,276 (demo).
9 By agreement with Giant, H&S returned prepetition all but a
10 handful of the demo bikes to Giant. The value of the
11 remaining Giant inventory at the Debtor's two stores is
12 \$74,513.32 at cost and \$132,430.00 at retail. Giant is an
13 over-secured creditor as to its retail claim.
- 14 CSG's claim is \$220,879.63. The value of its inventory is
15 \$287,406.96 at cost and \$486,728.30 at retail. CSG is an
16 over-secured creditor.
- 17 b. The Debtor continuing to operate the business and
18 maintaining and servicing the inventory and equipment.
- 19 c. Operating the business creates additional revenues.
- 20 d. All assets are adequately insured.
- 21 e. Providing replacements lien to the two entities to the extent
22 their prepetition liens attached to property of the Debtor
23 prepetition and with the same validity, priority, and
24 description of collateral. To be clear, if there is a defect in a
25 security interest prepetition, that same defect would apply
26 post-petition.
- 27
28


1 f. The Court may order the Debtor at the interim hearing or at the
2 final hearing to make adequate protection payments. The
3 Debtor does not propose to make adequate protection
4 payments until later in the case so that the Debtor can
5 continue to work on its businesses and profitability.

6 45. Waivers and Cash Collateral Stipulation Form 4001-2; Notice. There is no
7 stipulation for the use of cash collateral. There are no provisions in the
8 Motion that are referenced in Official Form 4001-2.

9 46. The Debtor is not here waiving (1) any right to dispute the validity of any
10 lien, (2) to challenge whether particular assets are subject to a security
11 interest, (3) to invalidate a security interest, (4) to surcharge collateral or
12 (5) to maintain any claims that the Debtor may have against any creditor
13 asserting secured interests.

14
15 I declare under penalty of perjury and under the laws of the United States
16 of America that the forgoing is true and correct.

17 Executed this October 13, 2016, at Burbank, California.

18
19 
20 Robert Stotts, Jr.

21
22
23
24
25
26
27
28

Exhibit “A”

H&S Bikes
 Budget of Cash Receipts and Disbursements
 For the 16-week period from 10/9/16 thru 1/31/17

	10/15/2016	10/22/2016	10/29/2016	11/5/2016	11/12/2016	11/19/2016	11/26/2016
Revenue-Burbank	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Revenue-Granada Hills	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total Revenue	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Cost of Good Sold	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Gross Profit	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Expenses							
Advertising and promotion	500	500	500		500		500
Auto Expense	1,406				1,406		
Bank Service Charges			100				
Bookkeeping			1,583				1,083
CC Merchant Fees			1,500				
Equipment Leases						40	
Insurance - Health, Liab, & WC	1,963				1,550		
Office, Admin and Fees	1,349				1,349		
Payroll and PR Tax	12,500		12,500			12,500	
Rent Expense				9,732			
Repairs and Maintenance	1,503				1,953		
Sales Tax		5,940					5,940
Telephone & Utilities	1,810				1,810		315
US Trustee Fees			975				
Total Expense	21,031	5,940	13,975	12,915	8,568	12,540	7,838
Net Ordinary Income	(11,031)	4,060	(3,975)	(2,915)	1,432	(2,540)	2,162
Beginning Cash	67,224						
Ending Cash	56,193	60,253	56,278	53,363	54,795	52,255	54,417

H&S Bikes
Budget of Cash Receipts and
For the 16-week period for

For the week ending:	12/3/2016	12/10/2016	12/17/2016	12/24/2016	12/31/2016	January	TOTAL
Revenue-Burbank	20,000	20,000	20,000	30,000	30,000	100,000	360,000
Revenue-Granada Hills	5,000	5,000	5,000	8,000	8,000	20,000	86,000
Total Revenue	25,000	25,000	25,000	38,000	38,000	120,000	446,000
Cost of Good Sold	15,000	15,000	15,000	19,000	19,000	72,000	260,000
Gross Profit	10,000	10,000	10,000	19,000	19,000	48,000	186,000
Expenses							
Advertising and promotion			500		500	1,000	4,000
Auto Expense		1,406				1,406	5,624
Bank Service Charges	100				100	100	400
Bookkeeping		1,083		1,133		2,166	7,049
CC Merchant Fees	1,500					2,100	5,100
Equipment Leases			40			40	120
Insurance - Health, Liab, & W		474				624	4,611
Office, Admin and Fees		1,349			1,349	1,349	6,745
Payroll and PR Tax	12,500		12,500		12,500	25,000	100,000
Rent Expense	9,732					9,732	29,196
Repairs and Maintenance			1,503		183	1,503	6,645
Sales Tax				5,940		7,000	24,820
Telephone & Utilities		1,850			315	1,850	7,950
US Trustee Fees						1,950	2,925
Total Expense	23,832	6,162	14,543	7,073	14,947	55,820	205,185
Net Ordinary Income	(13,832)	3,838	(4,543)	11,927	4,053	(7,820)	(19,185)
Beginning Cash							
Ending Cash	40,585	44,423	39,880	51,807	55,860	48,040	48,040

Footnotes:

General - The weekly dates at the top of each column refer to the end of the weeks.

Revenue - Burbank	Estimated based on historical revenue from P&L and discussion with management
Revenue - Granada Hills	Estimated based on historical revenue from P&L and discussion with management
Cost of Goods Sold	Estimated at 60% based on historical financial statements and discussion with management, decreased to 50% during holiday sales.
Gross Profit	Derived based upon total income minus total Cost of Goods Sold.
Advertising and promotion	includes web site design, sales & holiday promotions
Auto Expense	Audi lease \$650/mo, fuel \$200/mo, van loan pymt \$410/mo, car ins \$146/mo
Bank Service Charges	Monthly service fee and misc bank charges. Does not include credit card merchant fees.
Bookkeeping	Cost of independent bookkeeper to record and reconcile daily operations and prepare monthly operating reports.
CC Merchant Fees	Estimated based on 3% charges by credit card company on 50% of revenue transactions.
Equipment Leases	Credit card machine processors, Burbank \$20, Granada Hills \$20.
Insurance -	Includes insurance for Health (\$150/qtr), Life (\$263, semi-annual), Liability (Allied \$474) & Worker's compensation (\$1076 - last pmt Nov, until 4/2017)
Office, Admin and Fees	Includes dues and subs, office supplies, licenses and fees, postage, web hosting, merchant system charges, and security. See Table 1.
Payroll and PR Tax	Estimated employee payroll at Burbank \$5K, Granada Hills \$3K and officers comp \$4500, for each semi-monthly pay period.
Rent Expense	Burbank lease of \$4200/mo plus Granada Hills lease which include property tax and CAM charges \$5532/mo.
Repairs and Maintenance	Estimate includes window covering repair, security maintenance & workshop repairs-Burbank
Sales and local Taxes	Sales tax is based upon revenue, estimated approx 2/3 of sales are taxable at 9%, due on the 23rd day of the following month.
Telephone & Utilities	Telephone and utilities for Burbank and Granada Hills based on historical P&L.
US Trustee Fees	quarter.

Dues and Subs	100
Office Supplies	445
Licenses and Fees	100
Postage	15
Web hosting	210
Merchant system	278
Security	201
Total	1,349

Exhibit “B”

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

1. NAME & PHONE OF CONTACT AT FILER [optional]
Mary Cowan
440)461-9661

3. SEND ACKNOWLEDGMENT TO: (Name and Address)
VCS UCC Services Group
PO BOX 24101
CLEVELAND, OH 44124
JSA

DOCUMENT NUMBER: 32546740002
FILING NUMBER: 12-7306389100
FILING DATE: 03/28/2012 13:07
IMAGE GENERATED ELECTRONICALLY FOR XML FILING
THE ABOVE SPACE IS FOR CA FILING OFFICE USE ONLY

DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME Ireland Needlecraft, Inc.				
1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
c. MAILING ADDRESS 109 N Victory Blvd		CITY Burbank	STATE CA	POSTAL CODE 91502
			COUNTRY USA	
d. SEE INSTRUCTIONS	ADD'L DEBTOR INFO	1e. TYPE OF ORGANIZATION Corporation	1f. JURISDICTION OF ORGANIZATION CA	1g. ORGANIZATIONAL ID#, if any CA-C1531018 <input type="checkbox"/> NONE

ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME				
2b. INDIVIDUAL'S LAST NAME Stotts	FIRST NAME Robert	MIDDLE NAME L.	SUFFIX Sr	
c. MAILING ADDRESS 109 N Victory Blvd		CITY Burbank	STATE CA	POSTAL CODE 91502
			COUNTRY USA	
d. SEE INSTRUCTIONS	ADD'L DEBTOR INFO	2e. TYPE OF ORGANIZATION	2f. JURISDICTION OF ORGANIZATION	2g. ORGANIZATIONAL ID#, if any <input type="checkbox"/> NONE

SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - Insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME Cycling Sports Group, Inc.				
3b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
c. MAILING ADDRESS 6 Trowbridge Drive		CITY Bethel	STATE CT	POSTAL CODE 06801
			COUNTRY USA	

4. This FINANCING STATEMENT covers the following collateral:
As collateral security for the payment of all debts, obligations or liabilities now or hereafter existing, absolute or contingent, of the DEBTOR or any one or more of them to SECURED PARTY (hereinafter called INDEBTEDNESS), DEBTOR, pursuant to the provisions of the Uniform Commercial Code of the State in which DEBTOR is conducting business, hereby grants SECURED PARTY a security interest in all inventory of goods and merchandise, materials and equipment now held or hereafter sold by SECURED PARTY to DEBTOR bearing the tradename(s) Cannondale, GT, Schwinn and Mongoose of SECURED PARTY and all additions and accessions thereto or therefore and my proceeds thereof or therefrom including but not limited to accounts receivable, promissory notes, installment contracts, contract rights, chattel paper and instruments arising therefrom (hereinafter called the COLLATERAL).

5. UCC DESIGNATION: LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG. LIEN NON-UCC FILING

6. This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS Attach Addendum [if applicable]

7. Check to REQUEST SEARCH REPORT(S) on Debtor(s)
 [ADDITIONAL FEE] [optional] All Debtors Debtor 1 Debtor 2

8. OPTIONAL FILER REFERENCE DATA
UCC# U118369Ref# 103845

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Cannondale

Page 2

UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

1. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

1a. ORGANIZATION'S NAME Ireland Needlecraft, Inc.		
1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME, SUFFIX

0. MISCELLANEOUS:

DOCUMENT NUMBER: 32546740002
IMAGE GENERATED ELECTRONICALLY FOR XML FILING
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1. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME H & S Bicycles					
11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX		
1c. MAILING ADDRESS 109 N Victory Blvd		CITY Burbank	STATE CA	POSTAL CODE 91502	COUNTRY USA
1d. SEE INSTRUCTIONS	ADD'L DEBTOR INFO	11e. TYPE OF ORGANIZATION	11f. JURISDICTION OF ORGANIZATION CA	11g. ORGANIZATIONAL ID#, if any <input checked="" type="checkbox"/> NONE	

2. ADDITIONAL SECURED PARTY'S or ASSIGNOR S/P'S NAME - Insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME					
12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX		
2c. MAILING ADDRESS		CITY	STATE	POSTAL CODE	COUNTRY

13. This FINANCING STATEMENT covers timber to be cut or as-extracted collateral, or is filed as a fixture filing.
14. Description of real estate:

16. Additional collateral description:

15. Name and address of RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

17. Check only if applicable and check only one box.
Debtor is a Trust or Trustee acting with respect to property held in trust or Decedent's Estate

18. Check only if applicable and check only one box.
 Debtor is a TRANSMITTING UTILITY
 Filed in connection with a Manufactured-Home Transaction - effective 30 years
 Filed in connection with a Public-Finance Transaction - effective 30 years

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UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

1. NAME & PHONE OF CONTACT AT FILER [optional]
Mary Cowan
440)461-9661

3. SEND ACKNOWLEDGMENT TO: (Name and Address)
VCS UCC Services Group
PO BOX 24101
CLEVELAND, OH 44124
JSA

DOCUMENT NUMBER: 33247610002
FILING NUMBER: 12-7314738228
FILING DATE: 05/24/2012 10:58
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DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME Ireland Needlecraft, Inc.				
1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
c. MAILING ADDRESS 109 North Victory Boulevard		CITY Burbank	STATE CA	POSTAL CODE 91502
				COUNTRY USA
d. SEE INSTRUCTIONS	ADD'L DEBTOR INFO	1e. TYPE OF ORGANIZATION Corporation	1f. JURISDICTION OF ORGANIZATION CA	1g. ORGANIZATIONAL ID#, if any CA-C1531018 <input type="checkbox"/> NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME				
2b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
Stotts	Robert		Jr.	
c. MAILING ADDRESS 109 North Victory Boulevard		CITY Burbank	STATE CA	POSTAL CODE 91502
				COUNTRY USA
d. SEE INSTRUCTIONS	ADD'L DEBTOR INFO	2e. TYPE OF ORGANIZATION	2f. JURISDICTION OF ORGANIZATION	2g. ORGANIZATIONAL ID#, if any <input type="checkbox"/> NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - Insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME Giant Bicycle, Inc.				
3b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
c. MAILING ADDRESS 1587 Old Conejo Road		CITY Newbury Park	STATE CA	POSTAL CODE 91320
				COUNTRY USA

4. This FINANCING STATEMENT covers the following collateral:
To secure payment and performance of all obligations Debtor hereby grants to Secured Party a continuing security interest in all inventory, equipment, and goods manufactured by or distributed by Secured Party, whenever sold, consigned or delivered, directly or indirectly, to or for the benefit of Debtor by Secured Party, wherever located, now owned and hereafter acquired including but not limited to all bicycles, bicycle frames, bicycle forks, electric bicycles, exercise machines, stationary spin bike, clothing, helmets with the following brands: Giant, Giant Bicycle, Mosh, La Free, Dual Fit, Tempo And all accessories, supplies and parts including repossessions and returns; and all proceeds from the sale thereof; and all existing or subsequently arising, accounts and accounts receivable and supporting obligations which may from time to time hereafter come into existence during the term of this Security Agreement. Secured Party's security interest is explicitly limited to outstanding obligations between Secured Party and Debtor.

5. ALT DESIGNATION: LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG. LIEN NON-UCC FILING

6. This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS **7. Check to REQUEST SEARCH REPORT(S) on Debtor(s)**
Attach Addendum [if applicable] [ADDITIONAL FEE] [optional] All Debtors Debtor 1 Debtor 2

8. OPTIONAL FILER REFERENCE DATA
UCC# U115350Ref# 101108

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Page 2

JCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

1. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

1a. ORGANIZATION'S NAME Ireland Needlecraft, Inc.		
1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME, SUFFIX

1c. MISCELLANEOUS:

DOCUMENT NUMBER: 33247610002
IMAGE GENERATED ELECTRONICALLY FOR XML FILING
THE ABOVE SPACE IS FOR CA FILING OFFICE USE ONLY

1. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME H & S Bicycles				
11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
11c. MAILING ADDRESS 109 North Victory Boulevard	CITY Burbank	STATE CA	POSTAL CODE 91502	COUNTRY USA
11d. SEE INSTRUCTIONS	ADD'L DEBTOR INFO	11e. TYPE OF ORGANIZATION	11f. JURISDICTION OF ORGANIZATION CA	11g. ORGANIZATIONAL ID#, if any <input checked="" type="checkbox"/> NONE

2. ADDITIONAL SECURED PARTY'S or ASSIGNOR S/P'S NAME - Insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME				
12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
12c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

13. This FINANCING STATEMENT covers timber to be cut or as-extracted collateral, or is filed as a fixture filing.

14. Description of real estate:

15. Name and address of RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

16. Additional collateral description:

17. Check only if applicable and check only one box.

Debtor is a Trust or Trustee acting with respect to property held in trust or Decedent's Estate

18. Check only if applicable and check only one box.

- Debtor is a TRANSMITTING UTILITY
- Filed in connection with a Manufactured-Home Transaction - effective 30 years
- Filed in connection with a Public-Finance Transaction - effective 30 years

CA FILING OFFICE COPY

Exhibit “C”

9:10 PM
08/26/16
Accrual Basis

H & S Bicycles
H&S 2015 P&L Collapsed
January through December 2015

*unaudited
based on records
which may be
incorrect
Management is NOT
going back to 2015
yet to clean up
records*

H&S Bicycles	Jan - Dec 15
Ordinary Income/Expense	
Income	
Groupon	1,778.11
Income-Burbank	926,522.11
Income-GH	331,835.82
Internet Income-PayPal	60,743.75
Prior Year Income	600,267.77
Warehouse Sublease	27,500.00
Total Income	1,948,647.56
Cost of Goods Sold	1,695,405.51
Gross Profit	253,242.05
Expense	
Advertising	238.14
Advertising and Promotion	4,663.18
Automobile Expense	12,762.21
Bank Service Charges	766.54
BURBANK	272,511.13
Computer and Internet Expens	2,588.58
Donation	85.67
Equipment Rental/Lease	1,894.55
GRANADA HILLS	165,267.62
Insurance	17,028.93
Interest Expenses	2,394.89
Meals and Entertainment	2,609.93
Medical	97.25
Payroll	17,609.82
Postage and Delivery	428.34
Printing and Reproduction	46.87
Promotional Expense	75.00
Reconciliation Discrepancies	6,600.00
Repairs	1,637.72
Service Fees	180.00
Taxes	1,021.72
Trailer/Storage Rent Expense	32.65
Travel	3,378.49
Void	0.00
Warehouse	61,056.28
Web Hosting	2,519.88
Total Expense	577,495.39

9:10 PM
08/26/16
Accrual Basis

H & S Bicycles
H&S 2015 P&L Collapsed
January through December 2015

H&S Bicycles	Jan - Dec 15
Net Ordinary Income	-324,253.34
Other Income/Expense	
Other Income	
Interest	0.17
Total Other Income	0.17
Net Other Income	0.17
Net Income	-324,253.17

Exhibit “D”

8:38 PM
08/26/16
Accrual Basis

H & S Bicycles
Profit & Loss
January through July 2016

H&S Bicycles	<u>Jan - Jul 16</u>
Ordinary Income/Expense	
Income	
Groupon	106.09
Income-Burbank	549,144.22
Income-GH	213,987.89
Internet Income-PayPal	50,448.68
Special Order Kits	9,965.00
Warehouse Sublease	17,500.00
Total Income	<u>841,151.88</u>
Cost of Goods Sold	<u>783,886.92</u>
Gross Profit	57,264.96
Expense	
Advertising and Promotion	6,973.86
Automobile Expense	12,751.28
Bank Service Charges	691.46
BURBANK	150,685.72
Computer and Internet Expense	14.98
Donation	250.00
Equipment Rental/Lease	815.08
GRANADA HILLS	111,735.34
Insurance	5,922.31
Interest Expenses	3,369.82
Licenses and Permits	25.00
Meals and Entertainment	1,439.42
Medical	900.00
Payroll	10,882.81
Postage and Delivery	369.05
Printing and Reproduction	81.74
Professional Fees	21,832.12
Repairs	405.00
Service Fees	131.45
Taxes	161.09
Trailer/Storage Rent Expense	65.30
Travel	903.49
Void	0.00
Warehouse	18,169.67
Web Hosting	1,507.29
Total Expense	<u>350,083.28</u>
Net Ordinary Income	<u>-292,818.32</u>

*Unaudited
based on records
which may be
incorrect.
Management will
be working to
clean up records
for year 2016 as
quickly as
possible.*

8:38 PM
08/26/16
Accrual Basis

H & S Bicycles
Profit & Loss
January through July 2016

	H&S Bicycles	Jan - Jul 16
Other Income/Expense		
Other Income		
Interest		0.14
Total Other Income		0.14
Net Other Income		0.14
Net Income		-292,818.18

Exhibit “E”

Accrual Basis

Ireland Needlecraft, Inc dba H&S Bicycles

Profit & Loss

August 29 through September 30, 2016

	<u>Aug 29 - Sep 30, 16</u>
Ordinary Income/Expense	
Income	
Income-Burbank	70,778.65
Income-GH	32,138.92
Internet Income-PayPal	14,888.90
Special Order Kits	0.00
Total Income	<u>117,806.47</u>
Cost of Goods Sold	<u>81,793.91</u>
Gross Profit	36,012.56
Expense	
Advertising and Promotion	730.17
Automobile Expense	1,391.35
Bank Service Charges	58.35
BURBANK	20,389.55
Equipment Rental/Lease	116.44
GRANADA HILLS	22,220.24
Insurance	1,549.47
Interest Expenses	97.41
Payroll	2,327.88
Postage and Delivery	19.27
Professional Fees	2,166.66
Void	0.00
Total Expense	<u>51,066.79</u>
Net Ordinary Income	<u>-15,054.23</u>
Net Income	<u><u>-15,054.23</u></u>

Cash Basis

Ireland Needlecraft, Inc dba H&S Bicycles

Profit & Loss

August 29 through September 30, 2016

	<u>Aug 29 - Sep 30, 16</u>
Ordinary Income/Expense	
Income	
Income-Burbank	70,778.65
Income-GH	32,138.92
Internet Income-PayPal	14,888.90
Total Income	<u>117,806.47</u>
Cost of Goods Sold	<u>81,793.91</u>
Gross Profit	36,012.56
Expense	
Advertising and Promotion	730.17
Automobile Expense	1,391.35
Bank Service Charges	58.35
BURBANK	20,389.55
Equipment Rental/Lease	116.44
GRANADA HILLS	22,220.24
Insurance	1,549.47
Interest Expenses	97.41
Payroll	2,327.88
Postage and Delivery	19.27
Professional Fees	2,166.66
Total Expense	<u>51,066.79</u>
Net Ordinary Income	<u>-15,054.23</u>
Net Income	<u><u>-15,054.23</u></u>

Exhibit “F”

H&S Bikes
 Budget vs Actual Report
 For the period from Filing date 8/29/16 thru 10/08/16

	9/3/2016 Week 1			9/10/2016 Week 2				
	Budget	Actuals	Variance \$	As a %	Budget	Actuals	Variance \$	As a %
For the week ending:								
Revenue-Burbank	27,000	25,505	(1,495)	-5.54%	27,000	20,369	(6,631)	-24.56%
Revenue-Granada Hills	10,500	6,135	(4,365)	-41.57%	10,500	6,381	(4,119)	-39.23%
Total Revenue	37,500	31,640	(5,860)	-15.63%	37,500	26,750	(10,750)	-28.67%
COGS -Labor & Material	22,500	581	(21,919)	-97.42%	22,500	2,329	(20,171)	-89.65%
Gross Profit	15,000	31,059			15,000	24,421		
Expenses								
Advertising and promotion					800	-	(800)	-100.00%
Auto Expense (lease, fuel, ins)					1,392	166	(1,226)	-88.07%
Bank Service Charges	150	58	(92)	-61.10%				
Bookkeeping	1,583	-	(1,583)	-100.00%		1,083	1,083	100.00%
CC Merchant Fees		1,794	1,794	100.00%				
Equipment Leases					40	-	(40)	-100.00%
Insurance - Health, Liab, & WC					2,334	-	(2,334)	-100.00%
Interest Exp (Credit Cards)								
Office, Admin and Fees		349	349	100.00%	1,048	278	(770)	-73.47%
Payroll and PR Tax	16,500	-	(16,500)	-100.00%				
Rent Expense		6,232	6,232	100.00%	6,232	-	(6,232)	-100.00%
Repairs and Maintenance		20	20	100.00%	250	183	(67)	-26.97%
Sales Tax								
Telephone & Utilities						818	818	100.00%
US Trustee Fees								
Total Expense	18,233	8,453			12,096	2,527		
Net Ordinary Income	(3,233)	22,606			2,904	21,893		
Beginning Cash	4,013	11,935						
Ending Cash								

H&S Bikes
 Budget vs Actual Report
 For the period from Filing da

	9/17/2016 Week 3			9/24/2016 Week 4			10/1/2016 Week 5					
	Budget	Actuals	Variance \$	As a %	Budget	Actuals	Variance \$	As a %	Budget	Actuals	Variance \$	As a %
For the week ending:												
Revenue-Burbank	27,000	16,191	(10,809)	-40.03%	27,000	15,310	(11,690)	-43.30%	27,000	18,455	(8,546)	-31.65%
Revenue-Granada Hills	10,500	10,532	32	0.31%	10,500	6,542	(3,958)	-37.70%	11,000	4,612	(6,388)	-58.07%
Total Revenue	37,500	26,723	(10,777)	-28.74%	37,500	21,852	(15,648)	-41.73%	38,000	23,066	(14,934)	-39.30%
COGS -Labor & Material	22,500	8,953	(13,547)	-60.21%	22,500	6,645	(15,855)	-70.47%	22,500	11,454	(11,046)	-49.09%
Gross Profit	15,000	17,770			15,000	15,207			15,500	11,612		
Expenses												
Advertising and promotion	-	1,126	1,126	100.00%	-	500	500	100.00%	-	-	-	-
Auto Expense (lease, fuel, ins)	-	-	-	-	-	476	476	100.00%	-	68	68	100.00%
Bank Service Charges	1,583	-	(1,583)	-100.00%	-	-	-	-	150	-	(150)	-100.00%
Bookkeeping	-	40	40	100.00%	-	1,083	1,083	100.00%	1,583	-	(1,583)	-100.00%
CC Merchant Fees	-	474	474	100.00%	2,250	-	(2,250)	-100.00%	-	-	-	-
Equipment Leases	-	40	40	100.00%	-	1,075	1,075	100.00%	-	-	-	-
Insurance - Health, Liab, & WC	-	9	9	100.00%	-	246	246	22.16%	-	436	436	100.00%
Interest Exp (Credit Cards)	-	11,884	(4,616)	-27.98%	201	-	-	-	16,500	14,306	(2,194)	-13.29%
Office, Admin and Fees	-	20	20	100.00%	-	-	-	-	-	9,732	9,732	100.00%
Payroll and PR Tax	-	-	-	-	6,000	632	(5,368)	-89.47%	-	-	-	-
Rent Expense	-	-	-	-	1,875	1,269	(606)	-32.32%	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Sales Tax	-	-	-	-	-	-	-	-	-	-	-	-
Telephone & Utilities	-	-	-	-	-	-	-	-	-	-	-	-
US Trustee Fees	-	-	-	-	-	-	-	-	-	-	-	-
Total Expense	18,083	13,554			10,326	5,281			18,233	24,543		
Net Ordinary Income	(3,083)	4,217			4,674	9,926			(2,733)	(12,931)		
Beginning Cash												
Ending Cash												

H&S Bikes

Budget vs Actual Report

For the period from Filing da

	For the week ending:				Cumulative
	Budget	Actuals	Variance \$	As a %	
			10/8/2016		
			Week 6		
Revenue-Burbank	27,000	17,165	(9,835)	-36.43%	112,994 (49,006) -30.25%
Revenue-Granada Hills	11,000	2,309	(8,691)	-79.01%	36,511 (27,489) -42.95%
Total Revenue	38,000	19,474	(18,526)	-48.75%	149,506 (76,494) -33.85%
COGS -Labor & Material	22,500	5,431	(17,069)	-75.86%	35,394 (99,606) -73.78%
Gross Profit	15,500	14,044			114,112
Expenses					
Advertising and promotion		69	69	100.00%	569 (231) -28.81%
Auto Expense (lease, fuel, ins)	1,392	1,097	(295)	-21.20%	2,934 150 5.37%
Bank Service Charges	-	-	-		58 (242) -80.55%
Bookkeeping	-	1,083	1,083	100.00%	3,249 (1,500) -31.58%
CC Merchant Fees	-	1,500	1,500	100.00%	3,294 1,044 46.42%
Equipment Leases	40		(40)	-100.00%	40 (40) -50.13%
Insurance - Health, Liab, & WC	2,334	-	(2,334)	-100.00%	4,668 (3,119) -66.81%
Interest Exp (Credit Cards)					
Office, Admin and Fees	1,048	278	(770)	-73.47%	1,596 (701) -30.51%
Payroll and PR Tax	-	-	-		26,190 (23,310) -47.09%
Rent Expense	9,732	-	(9,732)	-100.00%	15,963 (1) -0.01%
Repairs and Maintenance	250		(250)	-100.00%	223 (277) -55.48%
Sales Tax					632 (5,368) -89.47%
Telephone & Utilities	1,875	437	(1,438)	-76.68%	3,750 (1,226) -32.69%
US Trustee Fees					
Total Expense	16,671	4,465			93,642 58,823
Net Ordinary Income	(1,171)	9,579			(2,642) 55,289
Beginning Cash					
Ending Cash					67,224

Ending Cash 10/8/16

<u>Recap</u>	
Beginning Cash	11,935
Cash In/(Out)	55,289
Ending Cash s/b	67,224
Ending Cash	67,224
Unlocated Diff	(0)

Footnotes:

General - The weekly dates at the top of each column refer to the end of the weeks.

Revenue - Burbank	City of Burbank was doing construction to the sidewalks and road during the week ending 9/24/16. No parking was allowed on the street and sidewalk was tore up limiting access to the store resulting in lower sales
Auto Expense (lease, fuel, ins)	Overage was due to Van ins \$371 was due 9/20 not 10/20