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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: COLOREP, INC., a California corporation, Debtor. Tax I.D. No. 94-3055023	Case No. 13-bk-27689-WB Chapter 11 (Motion for Joint Administration With Case No. 13-bk-27698-WB Pending)
In re: TRANSPRINT USA, INC., a Virginia corporation, Debtor. Tax I.D. No. 94-3055026	**EMERGENCY MOTION FOR ORDER EXTENDING THE DEADLINE TO FILE SCHEDULES AND STATEMENTS; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF** **Hearing Date** Date: July 15, 2013 Time: 2:00 p.m. Location: Courtroom 1375 255 East Temple Street Los Angeles, CA 90012

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TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE, THE OFFICE OF THE UNITED STATES TRUSTEE, THE DEBTORS' TWENTY LARGEST UNSECURED CREDITORS, THE DEBTORS' SECURED LENDER, OTHER CREDITORS ASSERTING A SECURITY INTEREST IN OR LIEN UPON THE DEBTORS' ASSETS, AND OTHER PARTIES IN INTEREST:

Colorep, Inc. ("**Colorep**") and Transprint USA, Inc. ("**Transprint**"), the debtors and debtors in possession in the above-captioned cases (together, the "**Debtors**"), hereby move (the "**Motion**") the Court for entry of an order extending the time for the Debtors to file their Schedules of Assets and Liabilities, and Statements of Financial Affairs (collectively, the "**Schedules**") for twelve (12) additional days beyond the standard fourteen (14)-day period, so that the Schedules would need to be filed twenty four (26) days after the Debtors' petition date.

The Debtors request, pursuant to Local Bankruptcy Rules ("**LBR**") 2081-1(a) and 9075-1(a), that the Court schedule a hearing on this Motion on less than 2 court days notice, upon timely notice to the Office of the United States Trustee ("**UST**"), the Debtors' twenty largest unsecured creditors, the Debtors' secured lender, other creditors asserting a security interest in or lien upon the Debtors' assets, and other interested parties, if any (collectively, the "**Interested Parties**"). A copy of this Motion was served, concurrently with the filing hereof with the Court, on the Interested Parties by courier or overnight delivery.

SUMMARY OF RELIEF REQUESTED

As described in more detail in the "Declaration Of Mark A. Fox In Support Of First Day Motions" (the "**Fox Declaration**"), the Debtors do not have a large treasury or accounting department, and the limited personnel in their accounting department are already fully occupied with the task of running the Debtors' operations and dealing with the transition into chapter 11. Further, the Debtors, with the consent of their primary prepetition secured lenders, brought Executive Sounding Board Associates Inc. ("**ESBA**") on board, subject to Court approval, immediately before the Debtors filed their chapter 11 cases to aid the Debtors in analyzing their assets and liabilities and to prepare for the expedited sale of the Debtors' assets. ESBA and its members require sufficient time to get up to speed with respect to the Debtors' operations and to evaluate the Debtors' assets and liabilities before they can properly evaluate the information comprising the Schedules and Statements once compiled. Due to these and other limitations and issues, if the Debtors are not given the requested twelve (12) day extension to file their Schedules, they may be forced to hire additional help, or, at the very least, will need to arrange to have their current employees work additional hours in order to ensure that the Schedules will be completed and filed within the fourteen (14)-day deadline established by Federal Rule of Bankruptcy Procedure ("**Bankruptcy Rule**") 1007(c).

The Debtors request that the relief in the Motion be granted on an emergency basis so that they may be able to successfully plan for the first several weeks of this chapter 11 case, during which time the Debtors' attention must be focused on numerous operating and compliance issues, as well as preparing for an expedited sale of assets in order to maximize recoveries in these cases.

This Motion is based on the points and authorities below, the evidence contained in the Fox Declaration filed concurrently herewith, the record in this chapter 11 case, and the arguments, evidence and representations that may be presented at or prior to the hearing on this Motion.

Pursuant to LBR 9075-1(a)(7), any opposition or objection to the Motion may be presented before or at the time of the hearing on the Motion if one is scheduled by the Court.

WHEREFORE, the Debtors respectfully request that the Court enter an order, substantially in the form of the proposed order attached hereto as Exhibit "1": (i) extending the deadline to file the Schedules by an additional twelve (12) days; and (ii) granting any and all further relief the Court deems just and proper.

Date: July 11, 2013

Respectfully submitted,

/s/ Margreta M. Morgulas
GARY E. KLAUSNER,
MARGRETA M. MORGULAS, and
KIZZY L. JARASHOW, Members of
STUTMAN, TREISTER & GLATT
PROFESSIONAL CORPORATION

[Proposed] Reorganization Counsel for
Debtor and Debtor in Possession

MEMORANDUM OF POINTS AND AUTHORITIES

I.

STATEMENT OF FACTS

A. Petition Date and Jurisdiction

On July 10, 2013 (the "**Petition Date**"), the debtors and debtors in possession in the above-captioned chapter 11 cases (the "**Debtors**") commenced these cases by filing voluntary petitions under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**"). Pursuant to Bankruptcy Code sections 1107(a) and 1108, the Debtors are continuing to operate their businesses and manage their financial affairs as debtors in possession. No official committee of unsecured creditors has yet been appointed in these cases.

This Court has jurisdiction over the Debtors, these chapter 11 cases and this Motion pursuant to 28 U.S.C. §§ 1334 and 157(b), and venue is proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409.

B. The Debtors' Business

Originally founded as a technology development company in 1989, the company that later became known as Colorep shifted its focus in 2003 to industrial printing applications. By 2005 Colorep had advanced its textile technology and had invented a patented process for dyeing and decorating fabric known as AirDye®, which is widely regarded as revolutionary because it does not result in water pollution and significantly reduces energy use, costs and time from design to market.

In 2007 Colorep began licensing AirDye® technology to manufacturers and resellers in the home interior, hospitality and apparel industries, which licensing continues to be very profitable for Colorep.

Due to the success of the AirDye® technology, in September 2009, Colorep began doing business as "AirDye Solutions."

At the end of 2007, Colorep acquired Transprint, a privately held, employee-owned company, with headquarters and manufacturing facilities in Harrisonburg, Virginia.. Transprint, a leading supplier of transfer-printing paper was a strategic and potentially lucrative acquisition for

Colorep as it gave Colorep access to manufacturing capabilities, a global customer base, and a design library exceeding 15,000 unique designs.

Transprint is the wholly-owned subsidiary of Colorep. Colorep is owned by over 300 shareholders, with interests in 1 or more of the 5 series of preferred stock (Series A-E) and/or in Colorep's common stock.

C. <u>Events Leading to Chapter 11 Filing</u>

In 2011, the Debtors began experiencing significant cash flow constraints, which rendered the Debtors unable to pay ordinary course operating expenses, pay overhead, acquire necessary raw materials to meet customer demands and purchase parts and supplies required for the maintenance of their equipment and manufacturing and production facility in Virginia. As a result, the quality and availability of the Debtors' product began to decline and its key vendor and customer relationships eroded.

In or around June 2011, the Debtors entered into that certain Loan and Security Agreement (as amended, supplemented and modified, the "**Meserole Prepetition Loan Agreement**") with Meserole, LLC ("**Meserole**"). Pursuant to the Meserole Prepetition Loan Agreement, the Debtors had the ability to access up to $25 million on the terms and conditions set forth in the Meserole Prepetition Loan Agreement. In exchange, the Debtors granted Meserole a first priority secured lien on virtually all of their tangible and intangible assets.

Unfortunately, the Meserole loan did not result in the stabilization of the Debtors' operations as had been hoped. Accordingly, throughout 2012, the Debtors continued to experience cash shortages and, therefore, were unable to purchase necessary raw materials and timely produce ordered product. Further, the Debtors were unable to sustain the quality of the product they did produce as they lacked the capital necessary to improve or even perform necessary service and repairs to the equipment utilized in their production process. The Debtors' inability to timely meet demand and resolve the increasing quality control issues resulted in material cancellations and an ever-shrinking customer base.

The Debtors' working capital constraints also resulted in their inability to meet their obligations to their employees in a timely and consistent manner. This resulted in significant morale issues and ultimately in the loss of many key employees in 2012, which further diminished their capacity to fulfill customer orders and meet obligations to vendors.

By the end of 2012, the situation had worsened and the Debtors went through a number of "dark" periods during which time production halted completely and employees went unpaid.

In March 2013, the Debtors, with the consent of their primary secured lenders, hired Mark A. Fox of The Fox Group as the Chief Restructuring Officer and interim Chief Operating Officer. Since that time, the Debtors have worked to improve customer relationships and employee morale, and, most importantly, to try and resolve the operational issues faced by the Debtors.

From March through June 2013, the Debtors adjusted staffing to appropriate levels, minimized overall expenditures and eliminated expenditures that did not directly support the Debtors' production and research and development operations. Further, the Debtors have focused on rebuilding the most valuable customer and vendor relationships and on minimizing the Debtors' exposure with respect to those relationships that had historically not been profitable. Moreover, the Debtors focused on improving inventory analysis and control with an aim to improving the Debtors' ability to timely meet customer orders. Although significant cash shortages did not permit extensive business development efforts, to the extent feasible, the Debtors have worked to expand the Debtors' licensing activities to new, active markets around the globe.

Despite the significant improvements made since March 2013, it became clear in June 2013, that the Debtors could not continue to operate absent either a de-leveraging of their balance sheet or significant, additional capital infusions. When it became clear that new capital would not be available on reasonable terms, the Debtors determined that a chapter 11 process whereby the value of the Debtors' assets could be maximized through an efficient sale process was the only feasible alternative.

In connection with the stabilization of the Debtors' operations and businesses, the preparations and negotiations necessary for the anticipated Bankruptcy Code Section 363 sale of the Debtors' assets, and the Debtors' successful emergence from chapter 11, the Debtors are seeking, in a separate application to be filed shortly with the Court to retain Executive Sounding Board Associates, Inc. ("**ESBA**") *nunc pro tunc* to the Petition Date.

D. <u>The Need To Extend The Time to File The Schedules</u>.

By this Motion, the Debtors request that the Court grant them an extension of ten (10) business days to file their Schedules, to and including August 5, 2013. The Debtors believe that they can file complete and accurate Schedules by this date, but reserve the right to seek further extensions if necessary. As described in more detail in the "Declaration Of Mark A. Fox In Support Of First Day Motions" (the "**Fox Declaration**"), the Debtors do not maintain a large treasury or accounting department. The two (2) full-time employees in the Debtors' accounting department are already fully occupied with the day-to-day accounting needs of operating the Debtors' businesses, smoothing the entry into chapter 11, and preparing due diligence materials in connection with the anticipated sale of assets. Further, the Debtors, with the consent of their primary prepetition secured lenders, brought ESBA on board, subject to Court approval, immediately before the Petition Date to aid the Debtors in analyzing their assets and liabilities and to prepare for the expedited sale of the Debtors' assets. ESBA and its members require sufficient time to get up to speed with respect to the Debtors' operations and to evaluate the Debtors' assets and liabilities before they can properly evaluate the information comprising the Schedules and Statements once compiled.

When a chapter 11 case is filed, many operating issues arise in the early stages of the case that must be promptly addressed. Analyzing and compiling the information needed to complete the Schedules in these cases is a task that will require significant time and effort. Further, preparing information necessary to effect the contemplated sale of assets will further burden the same employees. Identifying all of the Debtors' assets, liabilities and contractual obligations, as well as compiling the information necessary to complete the Statement of Financial Affairs, involves retrieving and reviewing numerous documents and records. Once the information comprising the Schedules is compiled, the Debtors and their professionals need time to evaluate such information. Thus, it is almost certain that the Debtors will not be able to prepare and file their Schedules within 14 days from the Petition Date, as required by Rule 1007(c) of the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**").

II.

ARGUMENT

Pursuant to Bankruptcy Rule 1007(c), the Debtors must file their Schedules within 14 days from the date on which they filed the petitions. Bankruptcy Rule 1007(c) also provides that, for cause shown, the Court may grant an extension of the time for filing the requisite information, and Local Bankruptcy Rule 1007-1(e) similarly enables the Debtors to request such an extension upon demonstration of cause. See also Bryant v. Smith, 165 B.R. 176, 182 (W.D. Va. 1994) (stating that applications for extension of time to file bankruptcy schedules should be normally granted in the absence of bad faith).

Given the state of the Debtors' financial affairs, the small size of the Debtors' accounting department, the large number of potential creditors, the impending asset sale, and the urgent nature of the Debtors' filings, it will take additional time for the Debtors to analyze and compile the information required to complete their Schedules. Consequently, it is almost a certainty that the Debtors will not be able to prepare and file the Schedules within 14 days of the Petition Date.

Specifically, the analysis and compilation of the information for the Schedules will take significant time because: (i) the Debtors' operations are significantly intertwined and the Debtors have, to date, only maintained a consolidated set of books and records; (ii) there are urgent other demands upon the Debtors as a result of the filing of these cases that will consume the time of the Debtors' small staff; (iii) the Debtors, with the consent of their primary prepetition secured lenders, brought ESBA on board, subject to Court approval, immediately before the Petition Date to aid the Debtors in analyzing their assets and liabilities and to prepare for the expedited sale of the Debtors' assets. ESBA and its members require sufficient time to get up to speed with respect to the Debtors' operations and to evaluate the Debtors' assets and liabilities before they can properly evaluate the information comprising the Schedules and Statements once compiled; (iv) certain of the Debtor's liabilities may constitute contingent, unliquidated claims relating to obligations that are difficult to quantify; and (v) the Debtors and their professionals need time to evaluate the information comprising the Schedules once compiled.

The Debtors are currently in the process of assembling the requisite information, and anticipate that they will be in a position to complete and file their schedules within twenty four (24) days of the Petition Date. As a result, the requested extension of twelve (12) days, in addition to the standard fourteen (14)-day period, is reasonable and appropriate, and the Debtors submit that ample cause exists to grant the requested relief.

III.

CONCLUSION

Based upon the arguments and authorities set forth above, the Debtors respectfully request that this Court enter an order, substantially in the form of the proposed order attached hereto as Exhibit "1,": (i) extending for twelve (12) days the time within which the Debtor must file the Schedules, to and including August 5, 2013; and (ii) granting any and all further relief the Court deems just and proper.

Date: July 11, 2013

Respectfully submitted,

/s/ Margreta M. Morgulas
GARY E. KLAUSNER,
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[Proposed] Reorganization Counsel for
Debtor and Debtor in Possession

Exhibit "1"

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: COLOREP, INC., a California corporation, Debtor. Tax I.D. No. 94-3055023	Case No. 13-bk-27689-WB Chapter 11 (Motion for Joint Administration With Case No. 13-bk-27698-WB Pending) **[PROPOSED] ORDER EXTENDING THE DEADLINE TO FILE SCHEDULES**
In re: TRANSPRINT USA, INC., a Virginia corporation, Debtor. Tax I.D. No. 94-3055026	**Hearing Date** Date: July 15, 2013 Time: 2:00 p.m. Location: Courtroom 1375 255 East Temple Street Los Angeles, CA 90012 [To be set by Court]

Upon review and consideration of the "Emergency Motion For Order Extending The Deadline To File Schedules And Statements" (the "**Motion**")[1], filed by Colorep, Inc. ("**Colorep**") and Transprint USA, Inc. ("**Transprint**"), the debtors and debtors in possession in the above-captioned cases (together, the "**Debtors**"), the accompanying "Declaration of Mark A. Fox in Support of First Day Motions," and all other pleadings and evidence submitted in connection with the Motion, the Court hereby finds that good cause exists for the relief requested in the Motion, all other pleadings and evidence submitted in connection with the Motion, and the arguments of counsel, the Court hereby finds that:

1. Notice was appropriate under the circumstances; and

2. Good cause exists to grant the relief requested in the Motion and extend the time for the Debtor to file their Schedules.

THEREFORE, IT IS ORDERED THAT:

1. The Motion is granted in its entirety.

2. The deadline by which the Debtors must file their Schedules is hereby extended for 12 days beyond the standard 14 day period, to and including August 5, 2013.

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[1] All capitalized terms not explicitly defined herein shall have the same definition ascribed to them as in the Motion.