

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

-----	x	Case Nos. 06-51848
In re	:	(Jointly Administered)
	:	
CEP HOLDINGS, LLC, <i>et al.</i> ,	:	Chapter 11
	:	Honorable Marilyn Shea-Stonum
Debtors.	:	
-----	x	Related to Doc No. 255

EXHIBIT A

Transcript of CEP hearing 06-51848, 10/24/06

Please be seated

JUDGE: Good morning . . . um . . . today is a status conference and hearing date in CEP Holdings LLC in two cases being jointly administered. Yesterday, we had a telephonic pre-hearing conference which established certain . . . which updated the agenda that had been filed by the debtor's counsel with respect to matters that were scheduled for hearing today. I'm going to take appearances of counsel, but before I do that, are there any further updates with respect to matters that the Court . . . are there further resolutions or . . . hopefully not . . . further matters to be addressed?

WEARSCH: Good morning, Your Honor, Tom Wearsch, Baker & Hostettler on behalf of the debtors . . . Thank you, Your Honor. With respect to updates walking through the order that's on the proposed docket sheet, Mr. Hutchinson will give a fuller discussion with respect to the financing order when we reach that point . . .

JUDGE: I guess the only thing . . . have there been resolutions of anything that was described as going forward from yesterday's call?

WEARSCH: Yes . . .

JUDGE: Okay

WEARSCH: I was walking down according to the numbers on the sheet.

JUDGE: Okay, thanks.

WEARSCH: Documents have been circulated late last night. The participating customers circulated further agreed comments which all of the parties were reviewing this morning and Mr. Hutchinson will give a further update with respect to that. With respect to the second matter, the sale procedures motion, late last night, with the consent of the debtors, an objection was filed, by . . . I forget the name of the exact landlord, but it's the Tuscaloosa landlord, as well as other entities represented by Michael Parker. I spoke with Mr. Parker this morning and we resolved the issues with regard to that objection, so the only objection with regard to the sale procedures would be the limited objection of Carlisle and JP Morgan Chase, which hopefully we could resolve with them if we have an opportunity to speak with them during a recess today. And then there are limited reservation of rights by both Wachovia and the committee, which are not formal objections but have certain requests in them. With respect to the incentive bonus plan, there are . . . that will go forward as proposed in the docket sheet; there's no resolution with respect to that. The status on the wages motion is as reported to the court yesterday, the debtor's are withdrawing that request. The emergency motion for relief from stay, when I'm finished I would ask that proposed conflicts counsel report on an update of that, and finally with respect to the application for administrative expense, I did reach out to counsel for ARJ this morning and believe that if I could, at some point during a recess today, speak with counsel, who I assume is present in the courtroom today, I'm hoping that we can have a consensual resolution of that matter.

JUDGE: Thank you very much, Ms. Robertson, do you want to report on the status of the relief from stay?

ROBERTSON: Thank you Your Honor . . .

JUDGE: And there's a button . . .

ROBERTSON: OK, I'll just stand on my tip toes . . .

JUDGE: No, that's fine, we have the button . . .

ROBERTSON: That's quite all right. Your Honor, Jean Robertson of McDowell Hopkins, proposed special counsel for the debtors with regard to this matter. I've had communications with counsel before this morning and we are working towards to trying to put the business people together to finally once and for all reconcile the amounts that are owned to the debtor

JUDGE: Ok, so I had spoken about putting this at the end of today's docket. It sounds like that still makes sense.

ROBERTSON: We understand that and we're still trying to work towards a resolution and we'll spend our time this morning doing that.

JUDGE: Ok, great, thank you very much. Okay, I'm now going to take appearances of counsel who may wish to be heard on any of these matters and as you enter your appearance, please indicate on which matters you wish to be heard, unless it's all of them . . . or you can say all of them, I guess. Mr. Wearsch . . .

WEARSCH: Thank you, Your Honor. Tom Wearsch and Joe Hutchison of Baker Hostettler on behalf of the debtors. We will be heard on matters except for the Ford matter.

JUDGE: I'm going to ask everybody to go to the podium because we rely on electronic recording.

RADOM: Thank you, Your Honor. Thomas Radom appearing on behalf of Delphi Motor Systems. I'm just here today to hopefully complete the submission of a DIP financing order.

Your Honor, Michael Hammer appearing on behalf of Visteon Corporation. With me is my partner, Kristie Katsma. We will be heard in connection with the financing order and potentially in connection with the sales procedure motion.

Good morning, Your Honor, Aaron Silver from Honigman Miller representing General Motors Corporation. I will be heard on the DIP financing order, and also Your Honor, I believe I have a motion to be admitted pro hac vice that remains unsigned at this point.

JUDGE: Ok, have you ever been subject to professional discipline?

SILVER: No, I have not, Your Honor.

JUDGE: The motion will be granted. Have you submitted a proposed order?

SILVER: Yes, it has been submitted. Thank you, Your Honor.

JUDGE: My law clerk is shaking her head, so you may want to . . . at recess confirm that it has been submitted as an E-Order.

Good morning, Your Honor. David Fusco of Schwartz Wald and McNair on behalf of the United Steelworkers. I intend to be heard on the motion to approve the management bonus program.

Good morning, Your Honor, David Newman from Menders Freelander Copeland and Aronoff on behalf of Wachovia Capital Finance Corporation Central. Also for Wachovia is Alan Solow and Jeremy Downs and we're here on all matters, Your Honor.

JUDGE: Thank you.

Good morning, Your Honor, I am Mark Freedlander of McGuireWoods appearing on behalf of the official committee of unsecured creditors. It remains to be seen how many matters I will speak about, but will certainly enter our appearance. Thank you, Your Honor.

Good morning, Your Honor, Maria Ganiarakis on behalf of the United States Trustee. We are here today on the . . . we may have comments on other motions . . . but on the management incentive plan.

Good morning, Your Honor. Richard Farrell of Tasis and Hollister for ARJ Manufacturing and hopefully you won't have to hear from me today at all.

JUDGE: Anyone else wishing to enter an appearance?

Your Honor, on the telephone . . . Robert . . .

JUDGE: Just a second sir, I'm still taking people in the courtroom. I'll get to the people on the telephone.

Good morning Your Honor. Jeff Tewll, Buckley King on behalf of Chase Equipment Leasing. We'll be heard with respect to the financing order and potentially the sale procedures order as well.

Good morning, Your Honor, Drew Parabek on behalf of Carlisle Engineered Products. I'd like to be heard on the sale procedures motion and possibly the financing motion.

Good morning, Your Honor. Darrel Clay from Walter Hammerfield on behalf of the independent contractors, Fabnet Associates, Norris Sales Associates and CH Ratchets. We're here to be heard on the bonus plan and the motion to pay the independent contractors of the debtors an indicate an intent to withdraw.

Good morning, Your Honor. Andy Tursak of Thomson Hine on behalf of Ford Motor Company. Also with me is Jennifer Fleming of Thomson Hine and we're here to be heard with respect to the Ford motion.

JUDGE: Anyone else in the courtroom wishing to enter an appearance? Participating as auditors telephonically . . . I'll take everybody who is participating telephonically now.

Your Honor, Robert Sudman and Brenda Bowers of Maury Sater in Columbus appearing on behalf of Honda.

Your Honor, Michael Parker with Fulbright and Jaworski appearing on behalf of NL Ventures IV, Carlisle, LP. We are the Tuscaloosa landlord and the landlord for the Canton and Belleville facilities.

Your Honor, Kimberly Coleman with Leech Tichman Fuscaldo and Lampl in Pittsburgh appearing on behalf of Washington Penn Plastics Company.

JUDGE: And are they a creditor of . . . what is . . . how does your client relate to the debtor-in-possession?

COLEMAN: Washington Penn is a general unsecured creditor.

JUDGE: Thank you. Anyone else participating telephonically? All right, with respect to people who are auditing the call, I would ask that if you have your phone on speaker, please mute it. If you don't mute it, we get all sorts of extraneous noise in the courtroom and that really gets on people's nerves. Thank you.

JUDGE: Okay. With respect to the motion to use cash collateral, there's been a suggestion that there are ongoing discussions. Does it make sense to postpone . . . taking up that matter and giving people one more recess to see whether the issues can at least be narrowed?

HUTCHINSON: It does, Your Honor. Joe Hutchison, Baker Hostettler for the debtors. I believe it does Your Honor. An agreement was reached yesterday afternoon on basic terms and then documents have been flying back and forth, so I need to have some time, Your Honor, if we could.

JUDGE: With respect to the sale motion, are there ongoing discussions, again to narrow some of the issues?

HUTCHINSON: Yes there are, Your Honor. I think if we proceed, I think it would be just on the sale facility part of it.

JUDGE: Then in terms of using the time most efficiently, should we move to the matter on which you indicated on yesterday's call you would be calling a witness, the motion with respect to the performance plan?

HUTCHINSON: I believe that that would probably make the most sense, Your Honor. Mr. Wearsch would be handling that.

JUDGE: My understanding is that the creditors committee, United Steelworkers, the independent contractors and the US Trustee wish to be heard in response, perhaps in opposition to that motion.

FREEDLANDER: If I just may, Your Honor. Again for the record, I am Mark Freedlander on behalf of the official committee. Your Honor, the committee has filed an objection of record and the committee will simply rest upon that objection.

JUDGE: Thank you. I will take one minute opening statements from the debtor and the three objecting parties and then let's get to the development of the evidentiary record. By the way, if there are people. . . to the extent people are not hugely interested in this particular motion and

wish to go into the witness rooms to continue to make progress on other matters that would be before the Court today, please feel free to do so. Mr. Wearsch.

WEARCH: Thank you, Your Honor. Tom Wearsch of Baker Hostettler on behalf of the debtors. Your Honor, the professionals in this courtroom don't live in the real world, like Mr. Males who is prepared to testify about the incentive plan does live in the real world. We have the luxury of negotiating endlessly over language that results in one hundred page documents . . .

Mr. Wearsch, don't be too sure that you have that luxury in the context of this case. Negotiating endlessly . . . I thought I made it pretty clear that the professionals in this case need to get to closure and that's why we're going forward on some of these issues today . . . I don't mean to argue with you, but those words . . . you may want to rethink those words because negotiating endlessly will not be the style in this case.

WEARSCH: What I meant to say, Your Honor, is historically speaking pre-petition, the lawyers, and I can speak from experience, painfully negotiated endlessly over the terms of this 100 page document. While we have that luxury to insert provisos to provided however clauses to caveats, Mr. Mallack and his team were charged with the unenviable task of actually putting these words into something that works in the real world, and Mr. Males and his team in their discretion determined that the best matter in which he could incentivize his employees to have the debtor comply with the terms of this order and the agreement which the court acknowledged on an interim basis the debtors the participating customer and Wachovia were bound to was to formulate an appropriate incentive plan that would maximize two goals in the case. The first goal being that management realized that this was going to be a liquidating chapter 11, therefore, maximizing the value of the debtor's assets was key. The second goal was related to the first is that in order to maximize value, the best way to do that is to finish a build-out of current assets for the participating customers, aid them in resourcing at the same time, which in turn maximizes the value of those current assets, accounts receivable, inventory, and the inventive plan that's been proposed in this case is really the result of real world thinking on what is required.

JUDGE: Let me ask you one question, and again, this may be something that you intend to develop through evidence, but I'm looking to see whether we can possibly get a stipulation one way or the other with respect to this particular issue. Who bears the cost of the program that is proposed here? Is it appropriate to view it as being borne by the bankruptcy estate or is there a legitimate case to be made that the cost is not coming out of the bankruptcy estate.

WEARSCH: It's a mix Your Honor. I would hope that the parties would stipulate, and actually I think if you parse the objections, you'll realize that there is an acknowledgement that the vast majority of the funding that is coming here is coming by way of cash infusions. Other than . . . as of right now, it is fully funded \$1.27 million through cash infusions, no payment will be owed back to the customers on those payments. There's a \$50,000 portion that Wachovia agreed to step in and fund based on certain sales being receipt for the Vandalia equipment. A separate motion has been filed with respect to that and it will be heard on November 7th. There is a possibility under the agreement that's been reached by the parties here that a small portion of those cash infusions with respect to Tuscaloosa could convert over to debt based on certain milestones being reached, so there is a small portion there, but the vast majority, probably 90% of the funding for this program is coming by way of cash infusion from the participating customers. It was negotiated with Wachovia and the participating customers. They are essentially deciding how their gifts, their price increases, will be used. They've determined that this is the best way to have their parts built is to incentivize these employees. They've made

that decision, there willing to fund it and not be repaid on those amounts, not force it upon the estate and therefore, I think there's an argument to be made that what we're doing here with respect to at least that portion is more so out of an abundance of caution because it's not really property of the estate, because to the extent it's not paid to these employees because either the program does not get approved by this Court or the employees do not meet their incentive milestones, the money is directly returned to these customers. It is not available to pay other creditors of the estates.

JUDGE: Thank you . . . Mr. Fusco.

FUSCO: Two points Your Honor. David Fusco on behalf of the United Steelworkers. I may sit in an ivory tower, but my clients and the people that they represent surely don't and my clients are very appreciative of the role that Mr. Males has and the difficulties of seeing this situation to the end; however, Congress has written on the subject of management bonuses and has imposed very recently new restrictions in the form of Section 503(c)(3) of the Code. It's our view that despite Mr. Mallack and debtor's good faith, this program is a disguised management retention program, does not satisfy Section 503(c)(1) and that the Court should not approve it. Second, with regard to the Court's question to Mr. Wearcsh about whether or not the funds are part of the estate, and based on the facts as laid out in the motions and what Mr. Hutchinson and Mr. Wearsch have explained to me, I believe that these funds are assets of the estate.

JUDGE: Just for everybody to know, part of my analysis on this is going to turn on Section 541; I'm letting everybody know that up front.

FUSCO: I . . . this money is coming into the debtors' bank accounts. It's going to be co-mingled with those funds. If the program is approved, payments will be made from debtors' checking account. This money will be compensation from the debtor to these employees and will show up and should show up on their W-2's next January. As a result, it leads me to one conclusion, that these are assets of the estate. Thank you and I will make further argument at closing.

Good morning, Your Honor, Maria Giannirakis on behalf of the United States Trustee

JUDGE: And you can find the little button and bring it down some if you like.

GIANNIRAKIS: I'll be brief so that I'll leave it for Mr. Wearsch. The United States Trustee shares some of the same concerns that were stated by the Union. We think that the Debtor has not yet shown us that this plan complies with Section 503 of the Code as is necessary as established by Congress and the case law. We're not as much concerned with when you parce out the motion and parce out the payments, we're not as much concerned with some of the lower-tiered managers and we have some of their payments and the performance bonuses have been explained to us and I think will be explained in greater detail, but we are concerned with some of the upper level employees and if in fact this does . . . their payments under this plan do comply with 503 and we are not satisfied yet that that has happened. And that's where we are at this point, Your Honor.

Your Honor, I'm Mike Hammer on behalf of Visteon Corporation, I guess from the participating customer's perspective, I just wanted to clarify how the funding worked for the fund and we funded the money for the incentive plan up front, but it's held kind of in escrow and set aside to be used for the incentive plan purposes. If the Court then were to reduce the incentive plan, it would be our position that money would not be released and would go back to the participating

customers so I don't know if that helps or not, but that's at least our view of how the funding would work for us.

JUDGE: OK and on several occasions, I believe I have expressed a strong preference for factual matters that can be addressed through stipulation to do that, you know to have that process work, and with respect to this matter, would it be useful for me to take a five to ten minute recess to allow discussion of the processing of these funds, so that for instance, is there a dedicated account into which these funds have gone, etc.? I'm not sure that that's the total determinate with respect to this Motion, but I would prefer to have that kind of factual matter addressed through stipulation if it's possible and it may not be, I mean it may be that there's simply disputes about those issues, but how the money has come to be wherever the money is and what characteristics those accounts have perhaps is capable of stipulation.

HAMMER: I would leave that to Mr. Wearsch because we have agreed to fund the full amount and we're not taking a position in this motion. I just wanted to kind of clarify that point.

WEARSCH: I do believe that a five minute recess would be efficient and if I could just make one point which I think would hopefully help and we will show Mr. Fusco and Ms. Giannriakis the provisions in the DIP order which show that these funds are actually . . . there is no account for these funds, they are actually held by BBK, the participating customers financial advisor, and will only be released to the debtor's estates after approval of the program and on the payment date, which would be proposed to be November 15, so they are not sitting in the debtor's accounts right now. We have no ability to reach out and grab them

JUDGE: OK and again, if it's, if these issues can be addressed through stipulation, that would certainly be helpful, if not, we'll get going and they're may be other matters, I expect there are other matters on which you wish to elicit testimony and on which cross-examination may occur. Mr. Fusco . . .

NEWMAN: Your Honor, just a clarification with respects to Wachovia, after the recess I'll have the Debtor if necessary just clarify the \$50,000 contribution from Wachovia is a little bit more complicated than as explained. It just has certain triggers and it's dealt with in a certain way so just as a clarification that will be provided to the court.

JUDGE: Thank you very much Mr. Newman. Ok, it's now 10:02 a.m. and I'll be back in the courtroom at 10:10 a.m. You can either reference allegations and motions and say that there's a stipulation reached to that or you can use the white board. Thanks.

* * *

ALL RISE

JUDGE: Please be seated. Mr. Wearsch, do we have a stipulation or stipulations?

WEARSCH: Yes Your Honor, I'm pleased to say that we do, I'm just writing as furiously as I can to come up with a clean copy for Your Honor and was about three sentences away.

JUDGE: Ok, then, how quickly do you write, two minutes, three minutes?

WEARSCH: Two minutes would be more than enough.

? : Your Honor, we talked before Mr. Wearsch took up his pen that I would like to have a meeting to look over.

JUDGE: Ok, uh, five minutes.

Thank you, Your Honor

JUDGE: But it will be a real five minutes this time.

* * *

JUDGE: Please be seated. Ok, I'm going to read this into the record to show that I've read it and to, ok, now there are initials on this, Mr. Wearsch, Mr. Fusco and Ms. Giannirakis, these are your initials?

GIANNIRAKIS: Yes, Your Honor.

JUDGE: The . . . ah. . . independent contractors. You had had an objection. Have you reviewed the stipulation or do you care to review the stipulation?

Your Honor, Gerald Clay, for the independent contractors, we've reviewed the stipulation and have no objection.

JUDGE: Ok, (1) \$1.273 million dollars of the funding of the incentive plan has been paid by the participating customers (defined term in this case) to a BBK trust account in the form of cash infusions. (2) The Debtors will only receive funds on account of the incentive plan from the BBK trust account, (i) if the plan is approved by the Court; and (ii) the incentives are met and by incentives, the conditions in the plan. (3) The funds will be dispersed from the BBK Trust account to the Debtor's estate on or about the Payment Date that being capitalized and the defined term is used I assume in the document. (4) To the extent that the plan is not approved by the Court or the funds are not earned by the covered employees, the funds will be returned to the participating customers by BBK. (5) A small portion of the cash infusions proposed to fund the plan related to Tuscaloosa may convert to debt in favor of Visteon if certain levels of sales proceeds are achieved for such plan. (6) The \$50,000 of funding from Wachovia is solely payable from the proceeds of certain equipment in Vidalia Plant if (i) The Debtor's receive proceeds from such sale in excess of \$1.65 million; (ii) An offer of \$1.85 million has been filed with the court. I'll return to that in just a minute. (7) If and when payments are made under the plan, they will be paid through the Debtor's normal payroll service as wages from the Debtor's, with all appropriate withholdings and reportings to taxing authorities. Um, now, going to (6)(ii), the second, an offer of \$8.5 million has been filed with the Court, is that a statement of fact or is that a condition?

WEARSCH: That is a statement of fact Your Honor, and if I could clarify one issue which Mr. Newman correctly pointed out that because Wachovia agreed to a carveout, (i) under 6 should actually say the sale proceeds in excess of 1.7, it has to be 1.65 and proceeds for Wachovia plus the \$50,000 so its \$1.7, and a sale motion on the Vandalia presses was filed and is set for hearing on the 7th of November.

JUDGE: Thank you.

?: Just to follow on the Court's comment, an editing comment for 6(ii), I don't think that that's appropriately (ii) because it's not a condition. So I think we should just take out the (ii)

JUDGE: Right, so it really should be treated as an eighth stipulation.

?: That's fine your Honor.

JUDGE: Ok, with that, please proceed Mr. Wearsch.

WEARSCH: If it pleases this Court, I would request that before putting Mr. Malleck on the stand I would be allowed a minute to explain the Debtor's view of the current state of the law. How 363 and 503 should be viewed by the Court, um, I think that's helpful to him referring to testimony.

JUDGE: I will allow you to amend your opening statement.

WEARSCH: Thank you Your Honor. The view of the Debtor is that an incentive plan, the authority to actually pay the plan does not come from Section 503(c), it comes from Section 363 of the Bankruptcy Code the ability to use a state property outside of the ordinary course. Section 503(c) rather is a limitation on that ability, is not in fact a separate grant of authority. That being said, when you look at those limitations, I believe a plan such as the incentive plan should be reviewed by the Court based on the testimony and evidence on the record as to under 503(c)(1), whether it's a retention plan. Under 503(c)(2), whether it's a severance plan and then finally if those are met, under 503(c)(3) whether it's in fact justified under the circumstances as hopefully Mr. Malleck will testify and in light of that proposed analysis, I would, and I have provided copies to Ms. Giannirakis and Mr. Fusco of Judge Walrath's opinion in the recent Novaks case, in which, and I do have a separate copy for the Court if I could hand that up as well, and a lot has been made of the recent Dana Corp. decision and the now famous duck footnote and I think that unlike the blatant plan in that case where, you know, it was merely a, if you're around when the plan gets confirmed, you get this many millions of dollars. I mean, here we have a true incentive plan and Mr. Malleck will testify that these are increased obligations on the employees under very difficult circumstances and in fact difficult to the point where 100% of the bonus has not been earned and will not be received by these employees. In that manner, I don't believe that the Dana opinion really weighs on this issue because the plans are just so different. Really, I would ask the Court look at the Novaks ruling by Judge Walrath in which she looked at the plan and it had true incentives in the plan, as our plan does, and she said this wasn't meant to be a mere retention plan. This actually has real incentives and its not a severance plan, therefore, Section 503(c)(1) and (2) aren't applicable and I'm going to prove this under Section 363 and you know, it's justified under 503(c)(3). We believe and we're prepared to put evidence on that that we'll meet that same burden the Court should analyze it in the same manner.

JUDGE: Please proceed with your witness.

WEARSCH: I call Mr. Joseph Malleck

JUDGE: Mr. Malleck, please come forward, that's fine. Mr. Malleck, you can stand right here. You have the right to swear or affirm, do you have a personal preference? Ok, please raise your right hand. Do you solemnly swear that the testimony you will give in this matter will be the truth, the whole truth and nothing but the truth? Please make yourself comfortable in the witness stand.

WEARSCH: Good morning Mr. Malleck, please state your full name for the record.

MALLECK: Joseph M. Michael Malleck

WEARSCH: And your current address?

MALLECK: 16420 Majestic Oaks Drive, Chagrin Falls, Ohio

WEARSCH: If you could provide us with your educational and work experience background?

MALLECK: I did my undergrad at St. John's University. I have an Accounting Degree from there. I did my MBA through the Ford Motor Company at night and my work experience began at Ford Motor Company, uh, I spent 5 1/2 years there and then I moved on to Mineral Mining Industry with _____ Corp and Central Aluminum, I had a stay with Textron and several different financial... senior financial jobs in a couple different divisions and prior to coming here I was a CFO for a New York Stock Exchange Company called Stone Ridge based out of Warren, Ohio.

WEARSCH: And what's your current position?

MALIK: I am President and CEO of CEP.

WEARSCH: Thank you, and for the record that's Creative Engineer Polymer Products. Thank you Mr. Males

JUDGE: One second, and for how long have you held that position?

MALIK: I have been there since the end of February this year.

WEARSCH: And that answers my next question. And you were brought in by the Debtors in February of this year. Why were you brought in?

MALIK: Uh, the company was experiencing difficulties uh, they had started having operational financial issues, there was several things going on in the environment. You had rising prices and resin prices, you had operational inefficiencies happening in the plant, the plants, you had Adelphi bankruptcy which significantly hurt the company and the company was experiencing a very tight and tough experience with cash at the time so they wanted somebody with a financial background but also an operational background to come in an try to restructure the company so that it could move forward.

WEARSCH: And to that effect, what efforts did you and your team undertake.

MALIK: Shortly after I came there along with the requested bank we brought in Glass & Associates which was a restructuring organization. I restructured the senior management team. We really weren't being efficient in the different things we were doing so I brought in the head of operations. I implemented Six Sigma Lean initiatives to start driving profitability through the

plant. We also started...we did a significant restructure where we did a rift and reduction in SP&A and we also tried to take out any kind of costs that we thought were going to legacy things that just didn't need to be going on at the time.

WEARSCH: And...excuse my ignorance...what is Lean Manufacturing and Six Sigma?

MALIK: Six Sigma...uh...I sort of have a background in Six Sigma, what it does is that you are trying to drive efficiencies through the plant a lot of times you know...people are doing these big batches and different things...your trying to flow things through the plant so you take less, more costs out of them so you can match up most of the other mortgage companies take a price down every year and if your not taking costs out every year as you afford your margins erode and then you compound that with higher resin prices and it becomes a very difficult situation.

WEARSCH: And why did the prices you receive decrease every year?

MALIK: It's standard in the industry. There are some companies that don't but the majority of them have, they expect you to be running the initiatives, expect you to be taking cost out of your product as you afford and it's just a standard in the industry.

WEARSCH: So if your not running leaner, your in trouble.

MALIK: Yeah, your going to have issues.

WEARSCH: And so you instituted these programs, did they have a positive effect.

MALIK: Yeah, they really did, uh, January and February of this year the upbring profits coming out of the plants were between 1% and 2%, by June we were north at 10% on the upbring profits on some of the volume coming out of the plants, and you know people really started to get excited about where we were taking the company. People were getting on board just changing the way they were doing stuff and their attitudes and we were hoping it was going to come through and work out.

WEARSCH: And so positive events were happening with respect to operations on the flip side with your balance sheet, what efforts did you undertake?

MALIK: Well you know the balance sheet was quite a mess when I got there. We had significant issues, it was highly levered it was in a situation where we were behind in some payables, shortly after arriving there we bounced almost \$3 million dollars in checks I think it was and we just, we realized we've got problems. We put everybody on hold, we started paying cash in advance so we didn't have any additional debt out to the secured creditors and we, you know, it was one of those situations where you just start moving as fast as you can trying to find a way out of the hole. The balance sheet itself was, it just became a difficult _____. We went to the customers. We entered into a 120 day forbearance agreement which helped us through because it gave us quick pay instead of getting and receiving payable in 45 to 60 days they were 7 to 14 days so that helped us out a lot and it also gave us an opportunity to put a plan together which we hoped to do in either out of court settlement or in court and then come back out but at the end of the day we realized this wasn't going to work and we had to move forward with what we were currently doing.