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Honorable Christopher M. Alston
Chapter 11
Hearing Location: Seattle, Rm. 7206
Hearing Date: Friday, October 6, 2017
Hearing Time: 9:30 a.m.
Response Date: September 29, 2017

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8 UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

9 In re:
10 NORTHWEST TERRITORIAL MINT, LLC,
11 Debtor.

Case No. 16-11767-CMA
APPLICATION FOR COMPENSATION
OF CASCADE CAPITAL GROUP LLC,
AS ACCOUNTANTS FOR THE
CHAPTER 11 TRUSTEE

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13
14 **INTRODUCTION**

15 Cascade Capital Group, LLC (“Cascade”) Accountants for Mark Calvert, the duly appointed
16 Chapter 11 Trustee for Northwest Territorial Mint, LLC (the “Trustee”), hereby submits this
17 Application for Compensation of Cascade Capital Group LLC (the “Cascade Application”). Cascade
18 submits this Application in compliance with the Court’s direction that the Trustee, his counsel, and
19 Cascade Capital Group LLC (“Cascade”) file fee applications and set them for hearing on October 6,
20 2017. This Application is supported by the Declaration of Mark Calvert, filed contemporaneously
21 herewith.

22 This Application provides the Court and creditors with information regarding Cascade’s
23 efforts during this case and the amount of fees and costs incurred as a result. The Trustee’s efforts in
24 this case on behalf of creditors have been singularly focused on preserving and realizing on the
25 going concern value of the business of the bankruptcy estate for the benefit of creditors. A summary

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1 of the Trustee’s activities and efforts on behalf of creditors is contained in the Trustee’s Application
2 for Compensation for the period April, 2016 through July 31, 2017 which summary is incorporated
3 by reference. Cascade’s services have been provided in support of the Trustee’s efforts to preserve
4 enterprise value and bring a return to creditors in the case. Since the very inception of the bankruptcy
5 case, absent preservation of the enterprise value of the business of the estate, there would be little, if
6 any, return to creditors in this case. The Trustee continues to believe that if the enterprise value of
7 the business can be preserved, there can be a significant return to the estate’s roughly 3,000
8 creditors. It is premature at this point of the case to determine to what extent the estate will succeed
9 in realizing on that the enterprise value of the company. Accordingly, Cascade does not presently
10 seek approval or authority to pay his fees and costs incurred through the end of July 2017. Cascade
11 anticipates requesting approval of his fees and costs at such time as the reorganized value of the
12 business of the Debtor can be determined or a buyer has made an acceptable offer for the business.

13 CASE OVERVIEW

14 **A. Appointment of the Trustee**

15 The Debtor, Northwest Territorial Mint, LLC (“NWTM” or the “Debtor”), is a Washington
16 limited liability company that was formed in 2002 by Ross Hansen, who is the Debtor’s sole 100%
17 member. Hansen at all times prior to the appointment of the Trustee exercised complete and total
18 operational control over the Debtor. The Debtor sold medals and gold coins, manufactured
19 commemorative medals and ribbons, purchased and sold precious metals, including gold and silver
20 bullion, and stored precious metals in vaults maintained in Federal Way, Washington, and Dayton,
21 Nevada.

22 On April 1, 2016, the Debtor filed a voluntary petition for relief under chapter 11 of the
23 Bankruptcy Code in the Bankruptcy Court. The Trustee was appointed over the bankruptcy estate of
24 Northwest Territorial Mint, LLC on April 11, 2016. The Trustee quickly discovered that the
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1 Debtor's business was in a state of duress and incurring losses on a daily basis. The Debtor had a
2 severe cash shortfall and was at risk of not being able to make the next payroll or fund current
3 operating expenses. The Trustee learned that the bullion operations had accumulated approximately
4 \$25 million in unfulfilled customer orders and that the company was without the precious metal
5 inventory or cash resources to fulfill those orders. The Trustee's initial investigation of the Debtor's
6 financial affairs revealed that the many of the Debtor's financial records were missing or never kept
7 and that there was a severe lack of internal controls, including an absence of appropriate segregation
8 of duties for gold and silver bullion operations. The Debtor had not filed tax returns or prepared
9 financial statements for at least five years. The Trustee and his counsel received hundreds of calls,
10 letters, and emails from some of the over 3,000 creditors of the Debtor regarding unfulfilled orders
11 and missing stored inventory.

12 The Trustee, within days of his appointment, secured all the precious metal assets in all
13 locations of the estate. The Trustee changed building locks, vault combination codes, and limited
14 access rights to the storage vaults for the precious metals. In addition, the Trustee had physical
15 inventories taken and preserved photographic evidence of the metal inventory that was on hand at
16 the time of his appointment. The Trustee also captured a video record of all people that entered the
17 Dayton vault through the completion of the Trustee's physical inventory. That video was
18 subsequently provided to the FBI.

19 After considerable investigation and efforts to determine whether there was additional
20 inventory in the hands of third parties, the Trustee determined that there was approximately \$12.9 in
21 missing precious metal inventory as of the date of the Trustee's appointment. The missing inventory
22 included approximately \$5 million of missing precious metal storage inventory, approximately \$5.4
23 million of missing leased metal inventory, approximately \$1.1 million of missing inventory which
24 was the property of a custom minting customer, approximately \$540,000 of precious metal inventory
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1 provided by customers to complete custom orders, and approximately \$860,000 in missing gold sent
2 to the Debtor's Federal Way facility in October of 2015 to be sold on a consignment basis.

3 **B. Efforts to Stabilize the Value of the Debtor**

4 The Trustee was faced with significant operational pressures. He was compelled to close the
5 bullion trading operations, close the Debtor's Graco business, and layoff a number of employees in
6 order to manage the cash resources of NWTM and to stabilize the Debtor's business operations.
7 Given the dire condition of the Debtor's business, the Trustee was immediately faced with the
8 decision of whether to (a) cease the Debtor's operations and force an immediate liquidation of the
9 company, or (b) attempt to stabilize the business over the coming months in order to either
10 reorganize or sell the Debtor's business in an orderly fashion. The Trustee concluded that if the
11 Debtor's assets were to be immediately liquidated, creditors would receive little or no recovery. In
12 fact, the only creditors who would have received any distribution might have been priority
13 claimants—principally employees, landlords and other administrative creditors. The Trustee decided
14 to stabilize the business in order to give the creditors of the estate an opportunity to obtain a
15 meaningful recovery. The Trustee evaluated the enterprise value of the company and estimated that,
16 if the enterprise of the company could be preserved there could be in the range of \$15 million to \$17
17 million to return to creditors in this case which would achieve a meaningful return to the estate's
18 roughly three thousand creditors.

19 **CASE STATUS**

20 **A. Date of Approval of Cascade's Employment and Administrative Duties**

21 The Trustee was appointed as Chapter 11 Trustee on April 11, 2017. On June 7, 2016, the
22 Court entered the Final Order Authorizing Employment of Cascade Capital Group, LLC as
23 Accountants for Trustee (the "Employment Order"). The order is effective *nunc pro tunc* as of
24 April 11, 2016.

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1 **B. Statements of Prior Compensation and Itemized Time Records**

2 True and correct copies of Cascade’s billing statements are attached as **Exhibit A** to the
3 Declaration of Mark Calvert in Support of this Application, filed contemporaneously herewith. The
4 billing statements contain itemized time records which include the date the service was rendered, the
5 identity of the person providing the services, a detailed description of the services performed and the
6 total hours and amount of compensation requested. Cascade has not previously moved for approval
7 of fees or expenses by the Court in this case. Cascade received an interim payment of \$110,338.70 in
8 fees in December 2016, pursuant to authority in the Order Establishing Procedures for Interim
9 Payment of Fees and Costs of Professionals [Dkt. No. 394]. However, in 2017, Cascade at the
10 Trustee’s request, refunded \$100,000 of the interim advance to assist in addressing cash flow
11 pressures for the estate’s business and to help protect the potential enterprise value of the Debtor’s
12 business.

13 Cascade has agreed, pursuant to the Employment Order to discount its billing rates.
14 Cascade’s individual timekeepers who incurred time reflected in Cascade’s billing statements, along
15 with their titles and hourly rates are as follows: Mark Calvert, Principal (\$350/hour); Charles Green,
16 Senior (\$350/hour); Christine Unwin, Senior Staff (and licensed private investigator) (\$300/hour);
17 Tod McDonald, Senior Manager with 15 plus years of experience with Cascade (\$300/hour); Jody
18 Cannady, a 15 year Account with Cascade (\$120/hour); Marjorie Chappel, Staff (\$100/hour); and
19 Jessica Gilmore, Staff (\$100/hour). Travel for each employee is billed at half their normal hourly
20 rate.

21 Mark Calvert’s hourly rate described in this application is discounted from his rate of
22 \$400/hour for Trustee services in this case and his normal hourly rate of \$450 per hour for
23 accounting related services. Thus, Mr. Calvert’s hourly rate for the Cascade Application is
24 discounted by a total of approximately 22%. In addition, the hourly rate of Mr. McDonald for the
25

1 Cascade Application is \$300, which is discounted by 14.3% from his normal rate of \$350.

2 **SUMMARY OF PROFESSIONAL SERVICES BY PROJECT CATEGORY**

3 In support of this Application, the Trustee submits the following supporting documentation,
4 which is attached to the Declaration of Mark Calvert filed in support, and all of which is
5 incorporated herein by reference:

6 <u>EXHIBIT</u>	<u>DESCRIPTION</u>
7 Exhibit A	Itemized Billing Statements
8 Exhibit B	Summary Sheet of Monthly Fees by Project Category
9 Exhibit C	Summary Sheet of Monthly Hours by Project Category
10 Exhibit D	Summary Sheet of Monthly Expenses by Category

11 The exhibits submitted in connection with this Application demonstrate the amount of fees
12 Cascade incurred as accountant for Cascade from April 2016 through July 2017 (the “Application
13 Period”). The exhibits break down, by each month, the amount of hours worked by Cascade and the
14 amount of fees Cascade incurred. The exhibits further describe the number of fees and hours worked
15 by Cascade within particular project categories.

16 As the exhibits demonstrate, Cascade incurred a total of \$819,579.00 in fees during the
17 Application Period. Cascade’s fees were for the following categories of tasks, each of which are
18 described in more detail below: Accounting, Bank Database, Bankruptcy Admin, Bankruptcy
19 Schedules, Cash Flow Management, Claims, Committee, Court Hearing, Insolvency, Inventory,
20 Investigation – Fraud, Medallic, Monthly Operating Reports, Plan of Reorganization and Disclosure
21 Statement, Sale of Assets, Sale of Company, New System Implementation, Job Costing, and Travel.

22 Exhibit D is a chart showing the amount of costs the Cascade incurred in assisting the
23 Trustee during the Application Period. The chart breaks down the fees he has incurred on a monthly
24 basis and further describes the expenses using the following specific categories: Travel (Airfare),
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1 Travel (Meals), Travel (Ground), Travel (Lodging), Travel (Misc), Software (Quickbooks/Dropbox),
2 Supplies, Outside Data Entry (Columbia Research-Committee Report), Outside Data Entry (India
3 Data Entry), Outside Data Entry (PerfectAudit Data Entry), Outside Data Entry (PACER), Amicus
4 Law Group, and Shipping. Cascade incurred a total of \$28,220.41 in expenses during the
5 Application Period.

6 **NARRATIVE SUMMARY OF SERVICES**
7 **RENDERED ON A PROJECT SUMMARY BASIS**

8 All of the professional services rendered by Cascade during the Application are set forth in
9 detail on Exhibit A to the Trustee's Declaration and summarized in the exhibits attached thereto.
10 Brief descriptions of certain services deserving specific mention are highlighted below, by project
11 category:

12 Accounting (Total Hours: 325.13). This category consists of duties typically performed by a
13 controller, such as meetings with accounting staff giving direction and daily tasks, training of
14 accounting staff on procedures and financial data entry, review of financial reports, account
15 reconciliations, and closing of monthly financial statements. Cascade incurred a total of \$41,079.60
16 in fees in this category during the Application Period.

17 Bank Database (Total Hours: 529.40). This category represents fees incurred in connection
18 with data collection of all bank/cash data, categorizing all transactions, and analysis of data. The
19 database is a tool that allows the Trustee to explore, analyze, and identify financial trends, the flow
20 of funds, and the availability of funds.

21 The database has been used in all aspects of the case, including fraudulent transfer analysis,
22 analysis of distributions to owners and investigation of missing inventory. It is the tool that allowed
23 the estate to confirm storage and lease customer payments for inventory returned to them, and it
24 allowed the Trustee to track the source of funds used by Ross Hansen in the acquisition of the assets
25 owned by Medallic Art Company, Ltd. The database was also instrumental in the Trustee's

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1 determination of the Debtor's insolvency dating back to 2008, and his determination that the Debtor
2 used subsequent customer deposits to buy inventory to fulfill older customer orders. Using the
3 database, the Trustee has been able to distinguish the amount of missing cash and inventory from
4 amounts lost in the operations of the Debtor's business. The database will also be used by the
5 Trustee to complete tax returns for the Debtor for the past 6 years. Cascade incurred a total of
6 \$92,470 in fees in this category during the Application Period.

7 Bankruptcy Admin (Total Hours: 254.32). Among other services provided in this category
8 during the Application Period, Cascade assisted the Trustee with the following (i) duties related to
9 initial takeover of company as trustee; (ii) meetings with Ross Hansen; (iii) evaluation of the
10 Debtor's insurance; (iv) meetings with lawyers; (v) indexing of files; (vi) compilation and review of
11 documentation related Trustee's understanding the bankruptcy case; (vii) restriction of duties and
12 access of employees to precious metals. Cascade incurred a total of \$53,931.20 in fees in this
13 category during the Application Period.

14 Bankruptcy Schedules (Total Hours: 104.80). This category includes work associated with
15 the gathering of financial and operating data for the schedules filed with the Bankruptcy Court.
16 Cascade incurred a total of \$24,510.00 in fees was incurred in this category during the Application
17 Period.

18 Cash Flow Management (Total Hours: 68.55). Among other services provided in this
19 category, Cascade assisted the Trustee with his creation of a rolling daily cash flow with daily
20 cleared incoming and outgoing cash transactions. The Trustee's daily cash flow schedule includes
21 projections through the end of 2017 to help manage cash. Cash flow shortfalls have been an ongoing
22 and important issue faced by NWTM. The Trustee and Cascade also analyzed the need and timing of
23 DIP financing on a strategic basis several times in order to help the Debtor remain a going concern.
24 Cascade incurred a total of \$15,257.00 in fees in this category during the Application Period.

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1 Claims (Total Hours: 280.20). Among other services provided in this category, Cascade
2 assisted the Trustee in his analysis of missing asset claims, conducted analysis of storage customer
3 claims, verified ownership of stored inventory, conducted proof of claim reconciliations, and
4 reviewed and responded to customer inquiries. Cascade incurred a total of \$41,595.00 in fees in this
5 category.

6 Committee (Total Hours: 86.0). Among other services provided in this category during the
7 Application Period, Cascade assisted the Trustee in drafting reports for the Unsecured Creditors
8 Committee. In addition, Cascade has assisted the Trustee in his efforts to work with the Committee
9 to ensure that they have adequate information and help them understand the realities of this case and
10 the Trustee's efforts. Cascade incurred a total of \$21,810.00 in fees in this category during the
11 Application Period.

12 Court Hearing (Total Hours: 72.40). This category consists of time related to court hearings,
13 including meetings with the Trustee's counsel in preparation for the hearings. This category includes
14 time reviewing declarations and attending court when appropriate. Throughout the case, the Court
15 has had a number of questions concerning many of the motions filed by the Trustee. The Trustee,
16 with the help of Cascade, sought to provide the Court with adequate information to address all of its
17 concerns. Cascade incurred a total of \$11,060.00 in fees in this category during the Application
18 Period.

19 Insolvency (Total Hours: 425.43). This category consists of work the Cascade performed
20 relating to the collection and analysis of financial data related to NWTM and Medallic Art
21 Company. Cascade incurred a significant amount of time in this area preparing for the Medallic
22 litigation. Cascade's analysis regarding the Debtor's insolvency confirmed the nature and extent of
23 the insolvency of the Debtor dating back to 2008, the year before the acquisition of the assets owned
24 by Medallic Art Company, Ltd. In addition, the insolvency and the bank database confirmed the use
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1 of NWTM customer deposits to complete the acquisition of the Medallic assets. Cascade incurred a
2 total of \$79,101.60 in fees in this category during the Application Period.

3 Inventory (Total Hours: 558.20). This category consists of work performed by Cascade
4 taking physical inventory of precious metals in all vault locations, weighing metals, documenting
5 location of metals and documenting ownership of metals found. This category also includes time
6 associated with the return of customer owned inventory. Cascade incurred a total of \$102,228.00 in
7 fees in this category during the Application Period.

8 Investigation – Fraud (Total Hours: 618.49). Among other services provided in this category
9 during the Application Period, Cascade assisted the Trustee in his search for missing inventory,
10 collection and analysis of data related to the Debtor’s payment of the American Express card in
11 Diane Erdmann’s name, review of correspondence related to Ross Hansen and Diane Erdmann,
12 response to information requests from the FBI and Department of Justice, and participation in
13 depositions of Ross Hansen and Diane Erdmann. The Debtor’s lack of adequate records, internal
14 controls, segregation of duties by staff, and customer storage records all resulted in a significant
15 amount of work and effort by Cascade. Cascade incurred a total of \$119,904.80 in this category
16 during the Application Period.

17 Medallic (Total Hours: 288.27). Among other services provided in this category, Cascade
18 performed services related to the verification and identification of assets allegedly owned by
19 Medallic Art Company, LLC (“Medallic”); analysis of the extent to which assets were transferred to
20 Graco by Medallic; review and analysis of Medallic financial statements, and preparation of analysis
21 to be presented at trial. The Medallic litigation required a significant amount of time to confirm the
22 flow of funds, the Debtor’s insolvency, and fraudulent transfers. Additionally, the Medallic litigation
23 was critical to this bankruptcy estate, as the Trustee’s ownership of the Medallic-related assets is
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1 absolutely essential to running the Debtor's business and preserving its enterprise value. Cascade
2 incurred a total of \$60,701.40 in this category during the Application Period.

3 Monthly Operating Reports (Total Hours: 140.96). This category consists of efforts the
4 Cascade took to collect data from accounting staff for the required operating reports. Cascade
5 analyzed financial statement data for accuracy and drafted write-ups of significant monthly events.
6 Cascade incurred a total of \$17,455.20 in fees in this category during the Application Period.

7 Plan of Reorganization and Disclosure Statement (Total Hours: 350.33). Among other
8 services provided in this category, Cascade assisted the Trustee in one or more of the following
9 tasks: personnel review, company-wide lease reviews and negotiations, evaluation of the Debtor's
10 operations, formulation of a financial model for a reorganization plan, formulation of budget plan,
11 sales order process optimization, and evaluation of possible sale of company. Cascade incurred a
12 total of \$84,072.60 in fees in this category during the Application Period.

13 Sale of Assets (Total Hours: 21.45). This category consists of Cascade's efforts to assist the
14 Trustee in the creation of the Trustee's price model for the Trustee's sale of the Graco business in
15 Tomball, Texas, which was sold for approximately \$1 million and generated additional liquidity for
16 the business, and the sale of excess equipment and fixtures in Nevada. Cascade incurred a total of
17 \$5,110.00 in fees in this category during the Application Period.

18 Sale of Company (Total Hours: 27.92). This category consists of work performed by Cascade
19 in assisting the Trustee in evaluating the possible sale of the entire company, including creating a
20 buyers list, formulating price models, extensive correspondence with potential buyers, meeting with
21 potential buyers, creating and sending potential buyers requested information. Cascade incurred a
22 total of \$2,870.40 in fees in this category during the Application Period.

23 New System Implementation (Total Hours: 67.30). This category consists of work performed
24 by Cascade (i) researching products to optimize financial and operational reporting; (ii)
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1 implementing accounting reporting, accounts payable approval, payment software, human resource
2 onboarding and benefits software; and (iii) upgrading ADP payroll system and tax reporting
3 software. Cascade incurred a total of \$14,170.00 in fees in this category during the Application
4 Period.

5 Job Costing (Total Hours: 70.20). This category consists of work the Cascade performed
6 related to the gathering of production data, die cost analysis, and various categories of custom orders
7 cost to determine business profitability of the Debtor. Despite the fact that the Debtor is a
8 manufacturing company, it had no job costing at the time of the Trustee's appointment. That is, the
9 Debtor did not know the cost of individual products. Nor did the Debtor know which projects were
10 causing the company to make money vs. lose money. The implementation of a job costing system is
11 key to the Trustee's efforts to reorganize the estate. The job costing system has proven to be very
12 valuable, and has identified that the company has been losing money on smaller jobs and jobs with
13 more enamel colors. The job costing system also confirmed the cost associated with the estate's
14 quality assurance process which was at the end of the manufacturing process. The Debtor's prior
15 practices resulted in the Debtor having to manufacturing more coins than required by a particular
16 contract, to account for damaged coins to be pulled and eliminated from the process. The Debtor
17 now starts manufacturing at a lower number, and has modified contracts allowing the Debtor to
18 deliver a few more or a few less than the contracted number. This process has improved profitability
19 of the Debtor. Cascade incurred a total of \$11,805.00 in this category during the Application Period.

20 Travel (Total Hours: 330.18). This category consists of time spent by Cascade traveling to
21 local and out-of-state locations. Cascade has billed its travel time at half the normal hourly rate of
22 Cascade's timekeepers. Cascade incurred a total of \$20,447.20 in fees in this category during the
23 Application Period.

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CONCLUSION

Cascade submits the foregoing Application and reserves the right to request approval of the fees and costs described herein pursuant to 11 U.S.C. § 330 and LBR 2016-1 at a later date.

DATED this 15th day of September, 2017.

K&L GATES LLP

By /s/ Michael J. Gearin
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David C. Neu, WSBA #33143
Brian T. Peterson, WSBA #42088
Attorneys for Mark Calvert, Chapter 11 Trustee

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1 **CERTIFICATE OF SERVICE**

2 The undersigned declares as follows:

3 That she is a Paralegal in the law firm of K&L Gates LLP, and on September 15, 2017, she
4 caused the foregoing document to be filed electronically through the CM/ECF system which caused
5 Registered Participants to be served by electronic means, as fully reflected on the Notice of
6 Electronic Filing.

7 Also on September 15, 2017, she caused the foregoing document to be placed in the mail to
8 the Parties at the addresses listed below:

9 Northwest Territorial Mint LLC
10 c/o Ross Hansen, Member
11 P.O. Box 2148
12 Auburn, WA 98071-2148

13 I declare under penalty of perjury under the laws of the State of Washington and the United
14 States that the foregoing is true and correct.

15 Executed on the 15th day of September, 2017 at Seattle, Washington.

16 /s/ Denise A. Lentz
17 Denise A. Lentz

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