

Tulving Company Inc. - Trustee Report #5

January 26, 2015

R. Todd Neilson, the duly appointed chapter 11 trustee (“Trustee”) in the Tulving Company Inc. (“Tulving”) bankruptcy, provides this Fifth Trustee Report (Trustee Report #5).

Within the past few months there has been a great deal of activity, even during the holiday season. My lawyers, financial advisors and I have been able to resolve a number of issues while other matters remain in a state of flux. The following are some of the areas of special importance:

Discussions with Hannes Tulving

Pursuant to previous directions from Hannes Tulving’s criminal counsel, I had refrained from directly contacting Mr. Tulving. However, I subsequently had the opportunity to speak with Mr. Tulving under certain conditions. The conditions were that his attorney, and in some cases his investigator, would be on the phone during the interview and that the interview would last no longer than two hours due to Mr. Tulving’s physical condition. I agreed to those conditions and on December 8th, along with one of my financial advisors, I met with Hannes Tulving in Orange County, California. I conducted an open interview during which Mr. Tulving verbalized his desire to cooperate and assist me in my duties as Trustee. The discussion continued beyond the two hour time frame with the permission of everyone involved, and Mr. Tulving and his criminal counsel even offered to have subsequent interview sessions at my request.

As most of you are aware, Mr. Tulving is being investigated by various federal authorities and, at the request of his legal counsel, I purposely did not delve into those areas. I am sure many of you would have some very direct and painful questions for Mr. Tulving. However, I chose to spend the bulk of my limited time with him discussing the business practices of the Tulving Company and the reasons for its demise. The operational elements of the business encompassed a significant amount of our discussion, as we had reviewed the records but did not have a great deal of background regarding the company’s procedures.

Mr. Tulving also spent a considerable amount of time giving us t his opinion of the value of various assets as well as possible additional sources of payment for the creditors. Overall he was cooperative and I believe we may be able to have further discussions with him in the future.

Assets of the Estate

Many of the assets of the estate have changed substantially since my report last month.

- The coins which were seized are still in the possession of the Department of Justice (“DOJ”) and the Secret Service, and it is their stated intention to have those coins liquidated in the future to pay the creditors/victims. After seizure, the DOJ obtained an independent valuation from a professional appraiser which listed the value of the coins at approximately \$3 million. In November 2014, subsequent to this DOJ valuation, a different expert engaged by Mr. Tulving’s legal counsel offered a valuation of \$11,384,000, well in excess of the previously stated \$3 million valuation. The difference between the two valuations is due to the incorrect valuation of Presidential Error Coins which were included in the coins seized by the government. While this is possibly good news, and I hope it is, I have spoken with a number of experts in this area. Based on those discussions we should not be eager to fully embrace any of the valuations which over the period of the bankruptcy have ranged from ‘virtually worthless’ to \$20,000,000. Regardless of which valuation may be correct, it will take a considerable period of time to fully realize the value of the coins. Whoever liquidates those coins should do so in a very measured manner over a period of time which may extend to several years. I have been able to have a number of discussions with the DOJ, and it’s my understanding that a decision has not been made yet as to the timing and manner of the liquidation of the coins. I believe the DOJ desires to conduct any such sale in a manner which will provide the best outcome for the Creditors.
- We have also been informed by Mr. Tulving’s legal counsel of a number of additional coins that were not seized by the government and may ultimately belong to this estate. We are investigating that possibility and I hope to be able to report on our findings in my next report.

- Accounts Receivables - I have previously discussed the existence of a \$600,000 receivable from a trade creditor. I was able to discuss the reason for such a large amount owing from one single creditor with Hannes Tulving. He informed me that the large receivable resulted from a creditor paying approximately \$300,000 for outstanding bills and concurrently ordering another \$300,000 of inventory. Unfortunately, according to Mr. Tulving, the \$300,000 check was not honored and the merchandise had already been delivered, thus creating a \$600,000 receivable.
- Regardless of the underlying reasons for such a large sum, we were faced with the critical decision of balancing the costs of collection with the very possible outcome of not being able to collect anything from a company forced into bankruptcy. To that end, my legal counsel did an excellent job of balancing those two outcomes by preparing the outlines of a written agreement without having to file a lawsuit yet. The agreement, when fully signed, will validate the debt of \$600,000 and allow for the payments to extend over a five-year period. As a result of this agreement, we have already received \$18,000 in payments, and are cautiously optimistic as to collection of further amounts. If the agreement is not signed, we will likely have to file a lawsuit to collect the amounts owing.
- Customer Lists, URL Websites and Other Intellectual Property (“IP Property”)
 - We closed the sale of the IP Property on January 12, 2015 in a rather tortuous process. As detailed in prior reports, we were delayed by concerns for maintaining the privacy of those included on the customer lists.
 - The Court appointed an Ombudsman, at the cost of approximately \$11,500, to provide an independent report outlining the suggested procedures for protecting the privacy of interested parties. The report was issued and the decision of the Ombudsman was that the IP Property could be sold, but the acquiring party was required to provide a privacy policy at least equal to the policy of Tulving at the time of its operations.
 - Great Collections, who was the initial bidder, agreed to be so bound and the sale closed recently. The money has been transferred and Great Collections is in the process of receiving the IP Property.

- I negotiated the initial bid offer of \$150,000 from Great Collections and during the weeks leading up to the sales hearing I personally contacted numerous other parties who indicated a possible interest in the IP Property. Notwithstanding those attempts I was unsuccessful in obtaining any other interest bidders, which is often the case in bankruptcy sales such as this.
- Other actions to Recover Assets for the Benefit of Creditors.
 - Approximately \$1.2 billion flowed in and out of the Tulving Company over the three years prior to bankruptcy. The nature of those transactions was often very convoluted and represented complex relationships with significant parties over an extended period of time.
 - One of those parties with whom Tulving had an extensive financial relationship was A-Mark Precious Metals (“A-Mark”). Pursuant to our desire to understand that relationship we conducted a Rule 2004 exam of A-Mark (similar to a subpoena). Following consultations with the attorneys representing A-Mark we received a significant amount of accounting records on December 30, 2014.
 - We have significant skill in this area and hope to provide information as to the relationship between A-Mark and Tulving. We are also looking at other financial relationships between various other parties and Tulving. The costs to untangle this mess may be very substantial and if we are not careful and judicious in our use of resources, we run the risk of consuming all of the assets which would be used to satisfy the creditor claims in answering these questions. It is our intention to balance those understandable needs with the limited resources we have in the estate. I believe we can do so.

Claims in the Estate

We have substantially completed the rather arduous process of determining the claims in the estate, and although we may object to some claims for various reasons, such as duplicative and overstated, I believe this list is largely correct. Some of our general findings thus far are as follows:

- There were originally about 485 creditors listed in Tulving Company books and records. The total amount of possible claims was \$18,707,906.79. The total amount of claims filed in the amount of \$17,915,425, which includes duplicative, amended, overstated and non-customer amounts. This amount represents a large percentage of total Tulving Co. claims.
- As most of you know, through a number of mediums, including the Tulving Bankruptcy website, I encouraged all Creditors to file a proof of claim in the Bankruptcy Court. To further that goal, we sent out 250 individualized invitations to creditors suggesting that they file proofs of claim – 247 by e-mail and three by mail. Five e-mails were subsequently undeliverable so we followed up by sending each of those five creditors a notice by mail. Notwithstanding our efforts, there were still about 100 creditors who chose not to file a claim. However, the sum total of those claims was not large when compared to the total amount of filed claims.
- Tulving's records showed at least 17 trade creditors, only three of which filed proofs of claim in the total amount of \$37,402.17. The \$37,402.17 is included in the numbers listed above, but is a relatively insignificant sum when compared to the investor total. We will reach out to these trade creditors as some may not have received notice of the proceedings and/or the bar date because they were not included in the initial bankruptcy filing documents prepared by Tulving.
- Many of the Creditors had questions about the claim forms. Accordingly, we responded to over 25 individual requests either by phone or e-mail, and a number required multiple discussions.

I believe we did a very good job of informing the vast majority of claimants in this bankruptcy. I am proud of our efforts to date. . As an aside, the Tulving records were quite accurate when compared to the proofs of claim and, as such, we believe we captured almost all of the possible claims. We have routinely updated the claims schedule on the website. We encourage you to review the schedule to make certain you are accurately listed as a claimant.

Ongoing Administrative Costs

- I was appointed Trustee in March of 2013 and have been acting as Trustee for almost one year. In furtherance of those duties, my professionals and I have been involved in a number of matters to secure funds for the return to creditors. At every stage I have been cautious as to costs underlying those tasks. In order to keep all of the creditors aware of such costs I have obtained the date of March 12, 2015 for a hearing to present fee applications to the Bankruptcy Court. The Judge has previously indicated that she will review these requests very intently. It is unlikely that all of the fees will be paid, but I will discuss my intentions with the Judge, as well as the financial condition of the estate, at the March 12 hearing.

Thank you.

R. Todd Neilson

Chapter 7 Trustee