

**IN THE UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION**

IN RE: § CASE NO. 07-51756
§
U.S. MORTGAGE REDUCTION, INC. §
§
DEBTOR § CHAPTER 7 PROCEEDING

**CASE STATUS REPORT II
SUBMITTED BY CHAPTER 7 TRUSTEE**

NOW COMES JOSE C. RODRIGUEZ, (“Trustee”), the Chapter 7 Trustee of the bankruptcy estate of U.S. MORTGAGE REDUCTION, INC., debtor in the above-entitled and numbered proceeding, and files this Case Status Report and would show unto the Court the following:

1. On 07/16/07, the debtor filed the above numbered case under Chapter 7 of the United States Bankruptcy Code. Jose C. Rodriguez was appointed Chapter 7 Trustee of the Debtor’s bankruptcy estate and continues to act in that capacity.
2. Trustee previously filed a Case Status Report on August 31, 2007.

A. Property Administration Status

I. Claims

1. The Claims bar date set for October 29, 2007 has expired. As of date, 1101 claims have been filed in this case.
2. All creditor claims will be reclassified as general unsecured claims and will accordingly receive a pro-rate distribution.
3. An Objection to Claim of Proof of Claims Based on Incompatibility of Claim Amounts with Corporate Records was filed on October 16, 2007.
4. A Second Amended Objection to Claim of Claims Originally Filed as Zero Amount Claims be Allowed as General Unsecured Claims in the Amounts that are Compatible with Corporate Records was filed on October 19, 2007.
5. The claims review process is continuing. Additional objections to claims will be filed as deemed necessary.

II. Value of Estate Assets

1. The current value of the liquidated assets of the bankruptcy estate is \$808,679.01.
2. Recent developments in the administration of assets are as follows:

- a. All Bank Accounts have been closed and the proceeds turned over to the bankruptcy estate;
- b. On September 13, 2007, the Court approved and entered an Order Granting the Motion to all Sell Personal Property of Debtor located at 5626 Randolph Blvd., #2, San Antonio, TX, Free and Clear of All Liens. The public auction was held on October 11, 2007. The gross sales proceeds were \$66,945.00.
- c. On October 3, 2007 an Agreed Order was entered in which the Compass Bank agreed to turnover the amount of \$64,783.36 in return for an agreement to authorize a setoff against the funds in the Debtor's Account. The Bank retained a continuing right of setoff without prejudice to the rights of the trustee to object to any further setoff. The bankruptcy estate received \$64,783.36 pursuant to the terms of the Agreed Order.
- d. On October 9, 2007, Trustee filed an Amended Notice of Intent to Abandon Debtor's Property. The property to be abandoned was personal property remaining at the offices of U.S. Mortgage Auditing, 7419 E. 22nd St., Tucson, AZ 85712.
- e. Trustee intends to file a Notice of Abandonment of Debtor's Property Pursuant To Bankruptcy Rule 6007(a). The property of the estate the subject of the proposed Notice of Abandonment is described as follows:
 - i. two boats - one wooden boat the other a composition hull,
 - ii. some boxes,
 - iii. some gasoline cans,
 - iv. small air compressor
 - v. bird stand for parrot
 - vi. miscellaneous clothes and personal effects,
 - vii. 80 hp motor, and
 - viii. 25 hp Johnson boat motor,

all of which have no value. The property is located at Boerne Stage Airfield where items were placed in storage by the debtor.
- f. On October 11, 2007, Trustee filed a Motion to Compel Richard L. Fuqua to Turnover Pre-Petition Time and Expenses to the Bankruptcy Estate. Richard Fuqua filed a response on October 22, 2007. A hearing is set for December 4, 2007.

III. Appointment of Professionals

1. Mel Davis was appointed as Liquidating Agent for the bankruptcy estate on August 22, 2007.
2. Randolph N. Osherow has been appointed as Special Counsel for the bankruptcy estate by order entered on September 13, 2007

3. On October 1, 2007, Trustee filed Application to Employ Accountant, Janet Rakowitz of WYSI WYG Consulting.
4. Scott MacDonald, of Aircraft Sales, Inc has been appointed as broker for the bankruptcy estate by Order entered October 24, 2007 for the purpose of assisting the Trustee to sell a Cessna Airplane.
5. On October 19, 2007, Trustee filed an Application to Employ Realtor Joe Daniels of Beach Front Mann Realty to sell real estate located in Florida.

IV. Leasehold Obligations

1. On October 9, 2007, Trustee filed an Amended Notice of Intent to Reject Unexpired Leases of Non-Residential Real Property (7419 E. 22nd St., Tucson, AZ and 5626 Randolph Blvd., #2, San Antonio, TX) to correct the address of the Tucson AZ property from 7919 E. 22nd St. to 7419 E. 22nd St., Tucson, AZ 85712.
2. On September 20, 2007, Trustee filed Motion to Pay Randolph Business Park 1, LP as an Administrative Expense for Storage Services from Funds of the Estate. On October 19, 2007 an Order was entered authorizing Trustee to pay Randolph Business Park 1, LP \$12,965.05 for storage of Debtor's personal property through October 15, 2007.

V. Administrative Expenses

1. On September 20, 2007, Trustee filed Motion to Pay Airplane Expenses as an Administrative Expense from Funds of the Estate. An Order was entered October 03, 2007 allowing Trustee to pay Airplane Expenses.
2. On September 24, 2007, Trustee filed Motion to Pay Key Equipment Finance as an Administrative Expense for Computer Lease from Funds of the Estate. An Order was entered October 24, 2007 allowing Trustee to pay Key Equipment.
3. On September 25, 2007, Trustee filed Motion to Pay Mel Davis, dba Peregrine Asset Services \$7,680.21 as an Administrative Expense from Funds of the Estate.
4. On September 27, 2007, Trustee filed Application for Interim Allowance of Legal Fees (Less 25% Hold Back) and Reimbursement of Expenses by Attorney for Trustee. An Order was entered October 24, 2007 allowing Trustee to Pay Osherow.
5. On October 9, 2007, Trustee filed Motion to Pay Romano Real Estate as an Administrative Expense for Storage Services from Funds of the Estate.
6. On October 24, 2007, Trustee received invoice from Galaxy Aviation of Stuart for November parking of airplane that is being marketed for sale.
7. Trustee intends to file a Motion to Amend Order to Pay Airplane Expenses as an Administrative Expense from Funds of the Estate. The Order had monthly storage fee of \$80.00. The Motion to be filed will request an amendment to the prior Order to include the monthly storage fee of \$80.00 per month plus tax for a total of \$84.44 per month.

B. Status of Pending Adversary Actions

1. On August 27, Trustee filed a Complaint against the following named defendants (Adversary Proceeding #07-05095) requesting the court to declare that certain assets in the names of the various defendants were property of the bankruptcy estate and thus eligible for liquidation:

Jennifer K. Gauntt , Registered Agent – Default Judgment entered
10/26/07

U.S. Mortgage Lenders, Inc.
c/o Ronald J. Johnson
111 Soledad St Ste 1350
San Antonio, TX 78205-2276

Robert J. Martin, Registered Agent – Default Judgment entered 10/26/07
U.S. Mortgage Lenders of California, Inc.
1600 E Florida Ave, Suite 124
Hemet, CA 92544

Dorothea K Hendryx, Registered Agent – Default Judgment entered
10/26/07

U.S. Mortgage Auditing, Inc.
7419 E 22nd St
Tucson, AZ 85710

Jennifer K. Gauntt, Registered Agent – Default Judgment entered
10/26/07

U.S. Business Services, Inc.
c/o Ronald J. Johnson
111 Soledad St Ste 1350
San Antonio, TX 78205-2276

Jennifer Gauntt – Negotiating Agreed Order
c/o Ronald J. Johnson
111 Soledad St Ste 1350
San Antonio, TX 78205-2276

2. On October 3, 2007, Answer to Complaint filed by Jennifer Gauntt in Limited Capacity as Custodian of Assets Titled in the Name of Steven Gauntt, was filed by Ronald Johnson.
3. On October 22, 2007, Trustee filed Motion for Default Judgment against U.S. Mortgage Lenders, Inc., U.S. Mortgage Lenders of California, Inc., U.S. Mortgage Auditing, Inc. and U.S. Business Services, Inc. On October 25, 2007, Clerk entered Default against U.S. Mortgage Lenders, Inc., U.S. Mortgage

Lenders of California, Inc., U.S. Mortgage Auditing Inc. and U.S. Business Services, Inc.

WHEREFORE, PREMISES CONSIDERED, Trustee prays that this Status Report be duly filed and made available to interested parties. Trustee prays for general relief.

Respectfully submitted this November 3, 2007.

//s// JOSE C. RODRIGUEZ
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San Antonio, Texas 78212
(210) 738-8881 TEL
(210) 738-8882 FAX

CHAPTER 7 TRUSTEE

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the Case Status Report was mailed to the below-named persons by U.S. first class mail, postage prepaid, or electronically mailed or faxed, this November 3, 2007.

U.S. Mortgage Reduction, Inc.
5626 Randolph Blvd., #2
San Antonio, TX 78233

Richard L. Fuqua
Fuqua & Keim, LLP
2777 Allen Parkway, Ste. 480
Houston, TX 77019

Debtor

Counsel for Debtor

Ron Johnson
111 Soledad St Ste 1350
San Antonio, TX, 78205

U.S. Trustee
P.O. Box 1539
San Antonio, TX 78295-1539

Attorney for Jennifer K. Gauntt

/s// JOSE C. RODRIGUEZ