

UNITED STATES BANKRUPTCY COURT

Eastern District of California

Honorable Michael S. McManus
Chief Bankruptcy Judge
Sacramento, California

August 4, 2008 at 10:30 a.m.

1. 08-28487-A-11 ROOM SOURCE LLC,
SS #6

HEARING - MOTION FOR
ORDER AUTHORIZING DEBTOR TO HONOR
PRE-PETITION CUSTOMER DEPOSITS AND
TO SERVICE PRE-PETITION
MANUFACTURERS' WARRANTY CLAIMS
7-23-08 [79] O.S.T.

Tentative Ruling: The motion will be granted.

The debtor in possession moves the court for an order authorizing the debtor to: (1) honor pre-petition deposits by customers; and (2) advance up to \$20,000 to service manufacturers' warranty claims. The pre-petition deposits average approximately 40% of the total retail price. The deposits do not exceed \$2,425, the maximum amount entitled to priority under 11 U.S.C. § 507(a)(7).

"Allowed unsecured claims of individuals, to the extent of \$2,425 for each such individual, arising from the deposit ... of money in connection with the purchase ... of property ... for the personal, family, or household use of such individuals, that were not delivered or provided" have priority under section 507(a)(7).

Given that each of the deposits does not exceed the statutory maximum under section 507(a)(7), holders of nonpriority unsecured claims will not be prejudiced if the debtor honors the deposits. Moreover, honoring the deposits will secure and maintain customer faith and satisfaction in the debtor and its current operations. It also means that the debtor will collect the balance of the purchase price on each deposit, bringing more cash into the estate. The court will authorize the debtor to honor the pre-petition deposits.

The court concludes that servicing warranty claims, up to \$20,000 will protect the debtor's current operations by preserving customer faith and satisfaction in its ability to warrant the products it is selling. This is especially true of repeat customers. Not servicing warranty claims may drastically jeopardize current reorganization efforts by turning both prospective and repeat customers away. The court will authorize the debtor to utilize up to \$20,000 to service the warranty claims. The motion will be granted.