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7 **IN THE UNITED STATES BANKRUPTCY COURT**

8 **IN AND FOR THE DISTRICT OF ARIZONA**

9 In re:

10 CAT CONNECTION LLC

11 Debtor

Chapter 11 Proceeding

Case No. 2:15-bk-15217-BKM

12 **DISCLOSURE STATEMENT OF**  
13 **DEBTOR**

14  
15 The following Disclosure Statement of Cat Connection LLC (“Debtor”) is  
16 submitted in Debtor’ Chapter 11 Bankruptcy Reorganization case filed November 30,  
17 2015 under the provisions of the Bankruptcy Code of 1978, as amended. The Plan  
18 (“Plan”) is attached hereto as **Exhibit "A"** for your careful review. The Plan is intended  
19 to resolve, compromise and settle all claims, disputes and causes of action between and  
20 among all participants and as to all matters relating to these proceedings, except as  
21 expressly provided in the Plan. Therefore, approval of the Plan shall affect the discharge  
22 and release of the Debtor, settle all claims of creditors, and resolve all claims, except as  
23 expressly provided for in the Plan.

24 You should not construe the contents of this Disclosure Statement as legal,  
25 business, or tax advice. Each party in interest should consult his or her own attorney,  
26 business advisor, and tax advisor concerning the legal, business, tax, and related aspects  
27 under Debtor’s proposed Reorganization Plan.

28 **INTRODUCTION**

1 This Disclosure Statement is intended to summarize and analyze the Plan of  
2 Reorganization of Debtor. The Disclosure Statement attempts to make factual disclosures  
3 relevant to your decision to accept or reject the Plan. To the extent any statement made in  
4 this Disclosure Statement is inconsistent with any provision in the actual Plan, the terms  
5 and provisions of the Plan control. In particular, the definitions of the Plan are  
6 incorporated herein.

7 Any representations or inducements made to secure acceptance of the Plan other  
8 than those made or referred to in this Disclosure Statement should not be relied on by any  
9 party in interest. Although every effort has been made by the Debtor to be accurate in its  
10 statements included in this Disclosure Statement, the Debtor's records have not been  
11 audited, and are not warranted to be without inaccuracies.

12 NO REPRESENTATIONS CONCERNING THE BANKRUPTCY ESTATE,  
13 THE DEBTOR, OR THE PLAN ARE AUTHORIZED OTHER THAN AS SET FORTH  
14 IN THIS DISCLOSURE STATEMENT. YOU SHOULD NOT RELY ON ANY  
15 REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR  
16 ACCEPTANCE OF THE PLAN OTHER THAN THOSE CONTAINED IN THIS  
17 DISCLOSURE STATEMENT AS APPROVED BY THE BANKRUPTCY COURT.

18 MOREOVER, THE COURT HAS NOT VERIFIED THE ACCURACY OF THE  
19 INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. THE  
20 COURT'S APPROVAL ONLY SIGNIFIES THAT IF THE INFORMATION  
21 CONTAINED HEREIN IS ACCURATE THEN IT IS SUFFICIENT TO PROVIDE  
22 CREDITORS AND INTERESTED PARTIES AN ADEQUATE BASIS TO DECIDE  
23 WHETHER TO ACCEPT OR REJECT THE PLAN. COURT APPROVAL IS NOT A  
24 JUDICIAL ENDORSEMENT OF THE PLAN.

### 25 **PLAN APPROVAL PROCESS**

26 The Disclosure Statement and Plan classify all creditors' claims into Classes and  
27 set forth the treatment of each Class of claims. You should examine the treatment of the  
28

1 Class under which your particular claim(s) may fall. The Debtor believes that treatment  
2 of each Class of Claims complies with the requirements under Bankruptcy Code § 1129.  
3 After the Bankruptcy Court approves the Disclosure Statement, holders of Allowed  
4 Claims may vote to accept or reject the Plan. After notice and hearing, the Bankruptcy  
5 Court may approve or confirm the Plan upon the affirmative vote of the necessary Classes  
6 of claims and interests. Holders of allowed claims and interests may vote to accept or  
7 reject the accompanying Plan. A class of creditors will be deemed to have accepted the  
8 Plan if a majority of such creditors holding at least two-thirds in amount and more than  
9 one-half in number of allowed claims of that class voting accept the Plan. A class of  
10 interest holders will be deemed to have accepted the Plan if the holders of two-thirds of  
11 the amount of allowed interests voting accept the Plan. **Thus, if you do not vote on the**  
12 **Plan, the wishes of other creditors or interested parties may govern the treatment of**  
13 **your Claims or interests. In other words, failing to participate in the confirmation**  
14 **process, including the timely casting of ballots and appearing at any and all applicable**  
15 **hearings, may result in having your particular claim treatment controlled by the votes**  
16 **and participation of others. Accordingly, the Debtor highly recommends that you**  
17 **participate in the voting process by timely providing the Debtor with your ballot**  
18 **accepting or rejecting the Plan as set forth herein.**

19 Confirmation Despite Rejection (Cramdown).-Pursuant to § 1129 of the Bankruptcy  
20 Code, the Court is hereby requested to confirm the Plan as to any class of claims or interests  
21 that does not vote to accept it. To do so, the Court must find that the Plan: (1) is fair and  
22 equitable with respect to each class of claims or interests that is impaired and has not  
23 accepted the Plan; and (2) that each holder of a claim or interest shall receive property of a  
24 value, as of the Effective Date of the Plan, that is not less than the amount that would be  
25 received or retained if the Debtor's property were liquidated under Chapter 7 of the  
26 Bankruptcy Code.  
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***PLEASE READ THIS DISCLOSURE STATEMENT CAREFULLY.*** It is designed to assist you in ultimately voting on the Plan. Before you can vote on the Plan, however, the Court must approve this Disclosure Statement as being in compliance with the mandates of the Bankruptcy Code. Once the Court approves this Disclosure Statement, the Debtor may commence solicitation of votes from creditors and interested parties. Accordingly, you should rely upon this Disclosure Statement for your decision to accept or reject the accompanying Plan only after it has been approved by the Court.

## DEFINITIONS

Unless otherwise defined herein, terms defined in the Plan shall have the same meaning when used in this Disclosure Statement. In addition, unless otherwise defined herein or in the Plan, terms used in this Disclosure Statement shall have the same meaning as in the Bankruptcy Code (the “Code”) or the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”). In reviewing this Disclosure Statement the following definitions will be used:

1. "*Code*" shall mean Title 11 of the United States Code as amended.
2. "*Court*" shall mean the United States Bankruptcy Court for the District of Arizona in which this case is pending.
3. "*Creditors*" shall mean all creditors of the Debtor holding claims for debts, liabilities, demands or claims of any character whatsoever.
4. "*Confirmation of the Plan*" shall mean the entry by the Court of an Order confirming the Plan in accordance with Chapter 11.
5. "*Consummation of the Plan*" shall mean the accomplishment of all things contained or provided for in the Plan, and the entry of an Order finally dismissing this case.
6. "*Debtor*" shall mean Cat Connection LLC, as listed in the caption of the Disclosure Statement and Plan.

- 1 8. "*Department of Revenue*" or "*ADOR*" is the Arizona taxing authority  
2 empowered to assess and collect income taxes, employment, sales and other  
3 taxes imposed by law.
- 4 9. "*Disbursing Agent*" shall mean the person or entity that will be responsible for  
5 making the payments to creditors called for in the Plan.
- 6 10. "*Effective Date*" shall mean 30 days after the date on which the Order  
7 confirming this Plan of Reorganization becomes final and non-appealable.
- 8 11. "*General Unsecured Claims*" shall mean all claims held by creditors of the  
9 Debtor, other than Secured Claims and shall include claims of secured  
10 creditors to the extent that the same are unsecured in part and claims arising  
11 out of the rejection of executory contracts or unexpired leases.
- 12 12. "*Government Units*" shall mean the Internal Revenue Service, Arizona  
13 Department of Revenue and various municipal taxing authorities.
- 14 13. "*Insider*" shall mean (a) director of the debtor; (b) officer of the debtor; (c)  
15 person in control of the debtor; (d) partnership in which the debtor is a general  
16 partner; (e) general partner of the debtor; or (f) relative of a general partner,  
17 director, officer, or person in control of the debtor.
- 18 14. "*IRS*" shall mean the Internal Revenue Service.
- 19 15. "Robert Baker, Jr." or "Robert Baker" or "Mr. Baker" shall mean Robert  
20 Baker, Jr., the sole owner and manager of Cat Connection LLC.
- 21 16. "*Lien*" shall mean a mortgage, pledge, judgment lien, security interest,  
22 charging order, or other charge or encumbrance on the Debtor's property  
23 effective under applicable law as of the date of the Debtor's petition for  
24 reorganization.
- 25 17. "*Periodic Payment*" shall mean the monthly or quarterly payments to be  
26 made by Debtor after the effective date to fund its Plan.  
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1 18. "*Plan*" shall mean the Plan of Reorganization in its present form or as it may  
2 be amended or supplemented.

3 19. "*Priority Claim*" shall mean the claim of any creditor entitled to priority under  
4 Section 507 of the Code.

5 20. "*Secured Claim*" shall mean all claims secured by liens on the property of the  
6 Debtor, which liens are valid, perfected, and enforceable under applicable law,  
7 are not subject to avoidance under the Bankruptcy Code or other applicable  
8 non-bankruptcy law, and are duly established in this case.  
9

10 **PART I**  
11 **STATEMENT OF THE CASE**

12 **I. BACKGROUND OF THE DEBTOR AND EVENTS UNDERLYING THE**  
13 **FILING OF THE CASE**

14 The business described herein was founded by Robert G. Baker, Jr. In 2008 as a sole  
15 proprietorship. The business grew in great strides and was incorporation as Cat Connection,  
16 LLC. on May 7, 2010 in the state of Arizona. The new entity began with one employee  
17 working on direct sales to the end user. The business continued to grow and the company  
18 started to add resellers (Amazon and Overstock.com). Company staff worked these accounts  
19 and they grew. A company web site and pages were developed and launched in order to sell  
20 directly to end user customers. In 2013 the company added many new reseller customers  
21 and became a branded, sought-after supplier of cat condos. At that point in time the  
22 company had three employees and all were kept busy.

23 Company leadership (sole owner Robert G. Baker, Jr.) Considered the status of the  
24 company and came to the conclusion that it was time to grow the business further, adding  
25 customers and employees. As things continued to expand, the company obtained its first  
26 shop to work out of, a shared facility. It continued to grow and add customers (about fifteen  
27 resellers). It was necessary to add employees and the number of full time employees  
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1 working for the company rose to eight.

2 In may of 2014 the company ceased to work out of a shared facility and obtained its  
3 own shop. It increased its customer base and its employee base as each month passed. Full  
4 time employees were increased to 18, and they were all kept busy forty hours per week.

5 The year 2015 started off well, however there was heavy competition by resellers of  
6 the company's products. The resellers (company customers) all started asking for special  
7 concessions to the product prices and promised increased sales and much more business.  
8 The company conceded to price reduction requests and the business did grow as a result. By  
9 mid-May the company was on track to reach 1.5 million dollars in sales and had a cadre of  
10 thirty-six full time employees.

11 At that time all appeared to be going well. However, management was not carefully  
12 and closely monitoring profit margins. Unbenownst to management, the company was not  
13 profiting with the new price concessions to resellers. The company was operating off of  
14 cash flow and each and every month it fell a little further behind in profits. In the middle of  
15 2015 the business began to show signs of trouble with mounting debt with suppliers and a  
16 high payroll. Management and employees continued to be extremely busy. Management  
17 saw that cash flow was coming in, but knew that some changes had to be made in order to  
18 keep the business profitable. Decisions were made to keep the business cash flow up and the  
19 business operating smoothly, until changes could be made. This is where poor decisions  
20 came in to play and negatively effected company operations.

21 Management began receiving calls from third party, high interest lenders offering to  
22 give the business cash, quickly, and with very little qualification factors. The company took  
23 on its first loan with an influx of \$ 50,000.00 which relieved some of the cash flow  
24 pressures. About three months later more calls came in from the high pressure  
25 representatives of the cash lenders and the company found itself taking on two more loans  
26 for cash infusions. This continued until there were five outstanding high interest loans with  
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1 daily paybacks of nearly \$ 3,000.00. There were draw-backs with the high interest lenders.  
2 These loans had to be paid back daily with EBT draws from the business account. The loan  
3 terms were typically three to six months for complete pay back of the loans.

4 When management finally came to the realization that these loans were only a  
5 temporary fix, it realized that the company was now trapped. The daily pay-back was more  
6 than the business could support. Management concluded that it had made some critical  
7 negative decisions in taking on these high interest rate loans and realized that it needed to  
8 take swift action or the business would be forced to close. That swift action resulted in the  
9 filing of the instant chapter 11 case.

10 In hindsight, management has been able to analyze what mistakes were made, and  
11 learn from them. The conclusion of what went wrong is as follows: 1. The business was  
12 allowed to grow too quickly without appropriate financial analysis and management., 2.  
13 Management was too aggressive with its pricing structure of company products, resulting in  
14 prices been set lower than was realistic., and 3. Management fell into the quick fix trap of  
15 easy, high interest loans.

16 As a result of the high interest rate loans, and the high auto-deduct payments from  
17 debtor's account/s, debtor had not choice but to go out of business or to file a chapter 11  
18 bankruptcy. The instant case ensued.

## 19 **II. ACTIONS AFTER FILING THE CHAPTER 11 CASE.**

### 20 **A. Preamble.**

21 While more detailed information related to the events in the Bankruptcy Case can be  
22 obtained by accessing the Bankruptcy Court's CM/ECF filing system and reviewing the  
23 pleadings filed in Administrative Case No. 2:15-bk-15217-BKM Adversary Case No. 2:15-ap-  
24 10-00026-BKM, the following is a summary of certain key bankruptcy-related proceedings  
25 and events associated with this bankruptcy case. This bankruptcy case was filed on  
26 November 30, 2015. Since the bankruptcy filing, Debtor has continued to operate in the  
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1 ordinary course of business. Debtor has substantially abided by the operating guidelines  
2 administered by the United States Trustee, including the filing of requested documents,  
3 interim operating reports and payment of post petition operating expenses as they become  
4 due.

5 The primary and most substantial creditors in this case, as of the filing of the case  
6 were five hard money lenders: Advanced Merchant Services; Fast Business Funding  
7 (EBF); Fox Capital Group; IOU Central, Inc.; and Kabbage. Initially the paperwork relating  
8 to these creditors was unclear as to whether they had a security interest or not, and whether  
9 each of them was a lender or a purchaser of accounts receivable. Between these five  
10 creditors, their alleged security interests amounted to more than the value of all of debtor's  
11 assets. When it became clear to debtor that debtor could no longer make the required  
12 payments (in some cases daily payments) on these obligations and still meet payroll and  
13 other basic expenses, attempts were made to restructure without the need of a bankruptcy.  
14 When these attempts failed, the bankruptcy case was filed.

15  
16 **B. Cash Collateral (security interest) issues.**

17 Because Cat Connection entered into agreements with Advanced Merchant Services;  
18 Fast Business Funding (EBF); Fox Capital Group; IOU Central, Inc.; and Kabbage.  
19 and signed security documents pledging its assets to those creditors (in some cases)  
20 (including cash and bank accounts), it was necessary for the debtor to seek and obtain court  
21 permission to pay its bills.

22 Debtor filed its Motion for Order Establishing Existence and Priority of Cash  
23 Collateral Creditors and Authorizing the Use of Case Collateral (If Appropriate) on  
24 December 1, 2015 at Docket No 7. The Court entered an Order Granting Motion to  
25 Approve Use of Cash Collateral on December 20, 2015 at Docket No. 33. Debtor filed its  
26 Motion for Order Extending Cash Collateral Order on January 15, 2016 at Docket No. 47.  
27 The Court entered its Order Authorizing Continued Use of Cash Collateral on February 1,  
28

1 2016 at Docket No. 66. Debtor filed its Application for Order Continuing the Authorized  
2 Use of Cash Collateral on April 14, 2016 at Docket No. 73. The Court entered its Order  
3 Authorizing the Continued Use of Cash Collateral on May 2, 2016 at Docket No. 78. The  
4 Debtor filed its Application for Order Continuing the Authorized Use of Cash Collateral on  
5 August 10, 2016 at Docket No. 101. As of the date this Disclosure Statement is written, the  
6 Application is Pending on a Notice of Bar Date. It is anticipated that there will be no  
7 objections and that the Application will be approved.

8 Because there was some confusion concerning lien priorities, the debtor filed an  
9 Adversary Proceeding against the five creditors mentioned in this section. The purpose of  
10 the adversary was to delineate which creditors had valid, perfected security interests and  
11 which of those interests were superior in time to the other interests. The Adversary  
12 Proceeding was opened on January 19, 2016 under Adversary Proceeding No. 2:16-ap-  
13 00026. The Summons [AP Docket No. 4] and Complaint [AP Docket No. 1] were served on  
14 the Defendants as evidenced by the Certificate of Mailing filed at AP Docket No. 6 filed on  
15 January 25, 2016. Although counsel for Debtor was in communication with various  
16 attorneys for various Defendants, the only Defendant to file an Answer was Fox Capital  
17 Group, Inc. [AP Docket No. 7]. Counsel for the Debtor granted other Defendants open  
18 extensions of time to answer while the matters set forth in the Complaint were explored.

19 As a result of various communications with Defendants, and further research of the  
20 public records, the validity and priority of the liens has been established. Debtor has been  
21 able to determine that IOU Central, Inc. has a claim for \$ 63,210.52 secured by a first  
22 position UCC-1 as filed with the Arizona Secretary of State on April 9, 2015. Fox Capital  
23 Group has a claim in the amount of \$ 72,322.00 secured by a second position UCC-1 as filed  
24 with the Arizona Secretary of State on October 8, 2015. Fast Business Funding LLC has a  
25 claim in the amount of \$ 63,363.00 secured by a third position UCC-1 as filed with the  
26 Arizona Secretary of State on October 9, 2015.

27 On February 1, 2016 the Debtor filed its Notice of Bar Date for the Filing of Proofs  
28

1 of Claim [Docket No. 64]. On February 1, 2016 Debtor's counsel filed its Certificate of  
2 Mailing [Docket No. 65] indicating that the documents set forth at Docket No. 64 and No 65.  
3 were mailed to all parties in interest as set forth in the mailing list attached to the Certificate  
4 of Mailing at Docket No. 65. Advanced Merchant Services LLC and Kabbage were among  
5 the parties so served. Advanced Merchant Services LLC and Kabbage were listed on  
6 schedule F of the debtor's schedules as DISPUTED. The bar date to file proofs of claims  
7 was April 1, 2016. The bar date notice made it clear that "All required entities required to  
8 file a proof of claim on or before the bar date that fail to file a proof of claim shall be forever  
9 barred, estopped and enjoined from (a) asserting claims that such entity possesses against the  
10 debtor and (b) voting upon, or receiving distributions under any plan of reorganization of  
11 Debtor except as otherwise ordered by this Court." Neither Advanced Merchant Services  
12 LLC, nor Kabbage, filed a proof of claim by the April 1, 2016 deadline. As such, Advanced  
13 Merchant Services LLC and Kabbage shall not be entitled to vote, shall not receive any  
14 distribution through the plan and their claims will be discharged by the Discharge Debtor  
15 receives in this case. These creditors shall not be entitled to vote on the plan.

16 Having resolved the issues set forth in the Adversary Complaint, the Debtor filed its  
17 Motion to Dismiss Adversary Proceeding [AP Docket No. 15] on July 20, 2016. An  
18 Amended Notice of Bar Date to Object to Motion to Dismiss Adversary Proceeding was  
19 filed on July 20, 2016 at Adversary Docket No. 19. Copies of AP Docket No. 15 and No. 19  
20 were mailed to all parties in interest on July 21, 2016 as indicated in the Certificate of  
21 Mailing set forth at AP Docket No. 20 filed on July 21, 2016. Parties were given twenty-  
22 one days to object to the dismissal of the Adversary Proceeding. The twenty first day falls  
23 on August 11, 2016. An Order Dismissing said Adversary Proceeding was signed and  
24 entered on the Adversary Docket on August 15, 2016 as Docket No. 24.

### 25 **C. Employment of Professionals.**

26 The Bankruptcy Code requires that professionals (such as attorneys, accountants, and  
27 the like) who intend to be paid from monies from the estate post-petition, from post-petition  
28

1 work, must be approved to represent the debtor. Certain papers, including statements of  
2 disinterestedness, must be presented to the Court before professionals can be approved and  
3 certain fee applications must be filed with the court prior to the consideration and approval  
4 of any professional fees. Campbell & Coombs, P.C. filed its Application to Employ  
5 attorneys for the Debtor at Docket No. 4 on December 1, 2015. Further related documents  
6 were filed the same date at Docket Nos. 10., 15., 16., 20., and 21. The Court entered its  
7 Order Granting Application to Employ Counsel at Docket No. 22 on December 3, 2015. No  
8 other professionals have been employed by the Debtor. No fee applications have yet been  
9 filed in this case, but it is anticipated that the first fee application will be filed in the near  
10 future.

#### 11 **D. Payment of Pre-Petition Wages to Critical Employees.**

12 On December 1, 2015, at Docket No. 5, the Debtor filed a Motion to Authorize the  
13 payment of Pre-Petition Wages and Salaries for Critical Employees. (This essentially meant  
14 all employees.) A hearing on the motion was held on December 8, 2015. On December 10,  
15 2016, at Docket No. 32, the Court entered its Interim Order Authorizing Debtor to Pay Pre-  
16 Petition Wages and Salaries for Critical Employees. On December 11, 2015, at Docket No.  
17 37, the Court entered its Amended Interim Order Authorizing Debtor to Pay Pre-Petition  
18 Wages and Salaries for Critical Employees. These wages and salaries amounted to a total  
19 not to exceed \$ 28,367.25 and were paid to the employees, by the Debtor, shortly after the  
20 entry of the order. The Order was sent out with a Notice of Bar Date for Objections Thereto.  
21 There have been no objections and, by operation of law, the Order became a Final Order.

#### 22 **E. Committees.**

23 On January 14 2016, at Docket No. 42, the United States Trustee filed its  
24 Appointment of Official Committee of Unsecured Creditors. This document appointed a  
25 committee of three unsecured creditor. To Whit: Silvaris Corporation dba Low Grade  
26 Lumber, Dream Weaver Carpet (Engineered Floors LLC), and Arizona Box and Container  
27 Inc. To date the the Official Committee of Unsecured Creditors has taken no position in this  
28

1 case. No documents have been filed by the Committee and the Committee has not served as  
2 an impediment to the ongoing operations of the Debtor. This is a positive occurrence for the  
3 debtor and unsecured creditors as the appointment of such a committee could have been  
4 unnecessarily costly to the debtor, and hence to other unsecured creditors.

#### 5 **F. Monthly Operating Reports.**

6 Debtor has filed its post-petition operating reports on a regular basis since the filing  
7 of the case and has remained current on its quarterly fees to the Office of the United States  
8 Trustee. Monthly reports were filed on January 12, 2016 at Docket No 41 (Report for  
9 November 30, 2015 to December 31, 2015); on April 1, 2016 at Docket No 69 (Report for  
10 January, 2016); on April 1, 2016 at Docket No. 70 (Report for February, 2016); on June 20,  
11 2016 at Docket No. 93 (Report for March, 2016); on June 20, 2016 at Docket No. 95 (Report  
12 for April, 2016); on June 20, 2016 at Docket No. 96 (Report for May, 2016); on July 21,  
13 2016 at Docket No. 99 (Report for June, 2016); and on August 17, 2016 at Docket No. 104  
14 (Report for July, 2016). A copy of Debtor's report for July, 2016 is attached hereto as  
15 **Exhibit "B"**. The report includes information about debtor's income and expenses for the  
16 month, as well as debtor's cash in bank assets, illustrating that the Debtor has the  
17 wherewithal which will allow it to successfully complete the plan or reorganization.

### 18 19 **III. DEBTOR'S ASSETS AND LIABILITIES.**

#### 20 21 **A. Assets**

22 The precise valuation of Debtor's assets is a difficult and time-consuming endeavor.  
23 **Valuation is a flexible concept which varies with market changes and the purposes for**  
24 **which the valuation is requested. Different valuation methods may be appropriate**  
25 **depending on the nature of the asset. Valuation of such complex and varied assets**  
26 **raises difficult issues upon which reasonable minds can differ.**

27 The values described for Debtor's assets in this Disclosure Statement were derived  
28 from information prepared and/or compiled by Debtor. To the extent that Debtor had in their

1 possession current third party appraisals for the various assets, such valuations were utilized.  
2 To the extent third party appraisals were not available, Debtor utilized information gathered  
3 from market data, industry trends, management personnel, current financial information, and  
4 a variety of other sources to arrive at figures which Debtor believes represents the closest  
5 approximation to current market values available. Equipment and furniture are valued at an  
6 estimation of bankruptcy liquidation (forced sale auction) value.

7 Debtor makes no representations or assurances that the values described for assets  
8 within this Disclosure Statement are correct or can be achieved. Specifically, it is entirely  
9 possible that the values actually obtained from liquidation and sale of the assets may be  
10 higher or lower than the values described herein.

11 Attached hereto as **Exhibit "C"** is a copy of debtor's Schedules A and B which set  
12 forth the value of all of debtor's assets as of the date of the filing of the petition herein. The  
13 total value of all scheduled assets as of the date of filing of this case is: \$ 153,903.90. The  
14 financial obligations of the debtor, as described in the Liabilities section below, include a  
15 total of \$ 198,895.52. In other words, the debtor's assets are fully secured, leaving no  
16 reconciliation requirement for payments to general unsecured creditors. Nonetheless, debtor  
17 proposes payment of 5% of the allowed claim amount to be paid to general unsecured  
18 creditors.

19 **B. Liabilities.**

20 Debtor's liabilities, as set forth in schedules D, E, & F, as attached hereto as **Exhibit**  
21 **"D-1"**, amount to the total sum of \$ 557,522.73, all listed as unsecured obligations. Debtor  
22 provides that some of the of these obligations have been satisfied or eliminated, or  
23 reclassified to Secured Status.

24 Attached as **Exhibit "D-2"** is the claims register filed in this case, the bar date for  
25 filing claims having passed on April 1, 2016. The total claims set forth in the claims register  
26 amount to \$ 344,490.58. Of that amount \$ 198,895.52 is described as "secured"; and  
27 \$ 145,595.06 is described as "unsecured".  
28

Attached as **Exhibit "D-3"** is a copy of the Order allowing debtor to pay pre-petition wages to employees. This Order allowed payment of pre-petition wages, and the elimination of all schedule E. Obligations.

The Notice of Bar Date to File Proof of Claims [Docket No. 64] is attached hereto as **Exhibit "D-4"**. Said document makes it clear that all creditors who are listed in the statements as "Disputed" must file a proof of claim in order to take under the chapter 11 plan. Other creditors who are listed in the schedules need not file Proofs of Claim to be paid under the Plan. The net result of the expiration of the claims bar date, and the claims filed is set forth below.

Taking into consideration the schedules, the payment of pre-petition wages, the claims bar date notice, and the claims register, we can ascertain that there are \$ 198,895.52 in secured claims which attach to the assets of the debtor, and a remaining \$ 208,505.91 in general unsecured claims. (See the Attached **Exhibit "D-5"**). Unsecured claimants are being paid 5% of the allowed claim amount, pro rata, or \$ 10,293.00 in total within 365 days of confirmation of the chapter 11 Plan.

#### **IV. CURRENT FINANCIAL INFORMATION STATUS OF DEBTOR WITH FUTURE PROJECTIONS.**

Attached hereto as **Exhibit "B"** is Debtor's July operating statement as filed with the Court. **Exhibit "E"** contains income and expense projections for the Debtor for the next 7 years. The projections set forth in Exhibit E were prepared by the debtor's staff. They are based upon the information available to staff at this point in time. The further into the future we go the more unreliable estimates of this nature are, as a result of the numerous factors that can change over time. At best, these figures should be considered to be staff's best educated estimate at this time. The actual numbers could be substantially higher, or substantially lower. The expenses being more or less set, the primary factor which could affect the projections is the expansion of debtor's sales. The debtor intends to continually expand its business, and thus its income and related expenses.

#### **V. PREPARATION OF DISCLOSURE STATEMENT.**

1 The information contained in this Disclosure Statement has been prepared by  
2 Campbell & Coombs, P.C., counsel to Debtor in this proceeding, based upon information  
3 provided primarily by the Debtor. No warranty is made as to the accuracy of such  
4 information.

## 5 VI. VALUATION ISSUES AND FEASIBILITY.

6 Correct valuation of Debtor's assets is crucial to the Plan confirmation process.  
7 Valuation is a flexible concept, which varies both as the market changes and as the purpose  
8 of the valuation changes, as provided in 11 U.S.C. Section 506(a). Different valuation  
9 methods may be appropriate depending upon the time and reason for valuing interests.  
10 Valuation in a complex case such as this is quite difficult and raises issues upon which  
11 reasonable minds can differ.

12 Valuation of assets is necessary to determine whether a cramdown plan meets the  
13 "fair and equitable" test and to determine whether the Plan meets the "best interests of  
14 creditors" test embodied in Section 1129(a)(7). The valuation of the Property comes from  
15 debtor's records at the time of filing and is believed to be accurate. Certainly the value of  
16 the secured claims exceed the value of debtor's assets on the date of filing.

17 Feasibility refers to Debtor's ability to meet its operating expenditures and plan  
18 payments over the life of the Plan. Attached hereto as **Exhibit E** are Debtors' income and  
19 expense projections for the next 7 years, showing that Debtor's Plan is feasible.

## 20 VII. LIQUIDATION ANALYSIS.

21 Section 1129(a)(7) of the Bankruptcy Code requires that as to each impaired class of  
22 claims or interests each non-accepting holder or class must receive or retain under the plan  
23 property of value not less than the amount that such holder would receive or retain if the  
24 Debtor was liquidated under Chapter 7 on the effective date of the reorganization plan. This  
25 is commonly known as the liquidation test.

26 An alternative to confirmation of Debtor's Plan would be a distress liquidation. In a  
27 Chapter 7 liquidation Debtor's assets would be sold for cash, most likely at an auction sale.  
28



1 Alternatively, they would be foreclosed upon and sold by debtor's secured creditors. As a  
2 result, the liquidation analysis is extremely straightforward. Whether secured creditors were  
3 to foreclose, or whether a chapter 7 trustee were to liquidate, there would be no monies  
4 available for general unsecured creditors. As a result, the 5% that debtor is paying to general  
5 unsecured creditors meets the test and is rather generous under the circumstances. Thus,  
6 unsecured creditors of the Estate will receive an equal or higher return under Debtor's  
7 Chapter 11 Plan then they would if the bankruptcy was converted to a Chapter 7.

## 8 **PART II**

### 9 **DESCRIPTION OF THE PLAN**

10 The Plan shall deal with properly filed proofs of claim and those creditors listed in the  
11 schedules as not being disputed. Those creditors that did not timely file proofs of claim  
12 where their claim was listed as disputed in the schedules, in accordance with the applicable  
13 Bar Date Notice will not participate in the Plan and shall have no further claim against  
14 Debtor (i.e. their claim will be discharged). See the attached Exhibit "A" for the full and  
15 complete chapter 11 plan. Claims are classified as follows:

#### 16 **Class 1: Costs of Administration of this Case**

##### 17 **a. Nature of Claim:**

18 These claims consist of attorney's fees owed to Campbell & Coombs, PC estimated at  
19 time of confirmation to be no more than \$40,000 All fees due to Campbell & Coombs, PC  
20 will be paid pursuant to an Application for Attorney's Fees and Costs that will be submitted  
21 to the Court. No fee applications have yet been submitted to the court. A total of \$  
22 19,792.50 remains in Trust. Any fees owed to the United States Trustee are also in this  
23 class. These claims are priority claims under 11 U.S.C. 507 (a)(1).

#### 24 **Class 2: IOU Central, Inc.**

##### 25 **a. Nature of Claim:**

26 This creditor holds promissory note obligations in the amount of \$63,210.52, secured  
27 by all assets as evidenced by a UCC-1 filed with the Arizona Secretary of State on April 9,  
28

1 2015. As such, this creditor is the first in time, first in line, secured creditor of the debtor.  
2 The value of debtor's assets exceed the value the IOU Central, Inc. claim. IOU Central, Inc.  
3 filed a single proof of claim (See proof of claim no. 5-1 filed on the claims register on March  
4 20, 2016) for all monies owed to it under the promissory note obligations. The claim amount  
5 set forth therein totals \$ 63,210.52 with secured interest at the rate of 14.99% APR per  
6 annum.

7 **b. Treatment of Class 2 - Impaired**- IOU Central, Inc. will be paid its Allowed Claim  
8 as set forth in Claim 5. It will receive principal and interest payments on its claim at the rate  
9 of 5.25% per annum for five years (sixty-months). Payments will begin thirty days after the  
10 effective date of the plan in the amount of \$ 1,200.10 per month. Assuming payment are  
11 made timely and regularly and start December 1, 2016, payments will be in accordance with  
12 the attached amortization table [See attached Exhibit "A"].

13 **Class 3: Fox Capital Group.**

14 **a. Nature of Claim:**

15 This creditor holds promissory note obligations in the amount of \$72,322.00, secured  
16 by all assets as evidenced by a UCC-1 filed with the Arizona Secretary of State on October  
17 8, 2015. As such, this creditor is the second in time, second in line, secured creditor of the  
18 debtor. The value of debtor's assets exceed the value the IOU Central, Inc. claim and the  
19 Fox Capital Group claim combined. Fox Capital Group filed a single proof of claim (See  
20 proof of claim no. 4-1 filed on the claims register on March 8, 2016) for all monies owed to  
21 it under the promissory note obligations. The claim amount set forth therein totals \$  
22 72,322.00 with secured interest at the rate of 15.00% APR per annum.

23 **b. Treatment of Class 3 - Impaired**- Fox Capital Group will be paid its Allowed  
24 Claim as set forth in Claim 4. It will receive principal and interest payments on its claim at  
25 the rate of 5.25% per annum for five years (sixty-months). Payments will begin thirty days  
26 after the effective date of the plan in the amount of \$ 1,373.10 per month. Assuming  
27 payment are made timely and regularly and start December 1, 2016, payments will be in  
28 accordance with the attached amortization table [See attached Exhibit "B"].

1 **Class 4: Fast Business Funding LLC.**

2 **a. Nature of Claim:**

3 This creditor holds promissory note obligations in the amount of \$ 63,363.00,  
4 secured by all assets as evidenced by a UCC-1 filed with the Arizona Secretary of State on  
5 October 9, 2015. As such, this creditor is the third in time, third in line, secured creditor of  
6 the debtor. The value of debtor's assets exceed the value the IOU Central, Inc. claim, the  
7 Fox Capital Group claim, and the Fast Business Funding LLC claim. The Fast Business  
8 Funding claim was identified in schedule F as EBF. Fast Business Funding LLC filed a  
9 single proof of claim (See proof of claim no. 3-1 filed on the claims register on January 22,  
10 2016) for all monies owed to it under the promissory note obligations. The claim amount set  
11 forth therein totals \$ 63,363.00 with secured interest at the rate of 1.459% APR per annum.

12 **b. Treatment of Class 4 - Impaired-** Fast Business Funding LLC will be paid its  
13 Allowed Claim as set forth in Claim 3. It will receive principal and interest payments on its  
14 claim at the rate of 1.459% per annum for five years (sixty-months). Payments will begin  
15 thirty days after the effective date of the plan in the amount of \$ 1,095.68 per month.  
16 Assuming payment are made timely and regularly and start December 1, 2016, payments  
17 will be in accordance with the attached amortization table [See attached Exhibit "C"].

18 **Class 5: General Unsecured Claims:**

19 **a. Nature of Claim:**

20 This class consists of all undisputed unsecured debt listed on Debtor' Schedule F.  
21 These claims total \$ 205,855.99.

22 **b. Treatment of Class 5 - Impaired:**

23 These claims will be paid 5% of their allowed claim amount, pro-rata, with no  
24 interest, in a lump sum payment 365 days after the effective date of the plan. The total of this  
25 payment will be \$10,293.00. Creditors in this class will be paid the amount listed in **Exhibit**  
26 **A** attached to the Chapter 11 Plan.

1 **Class 6: CIT Finance LLC**

2 **a. Nature of Claim:**

3 This claim relates to the lease of a 2015 Taillift 5G25C. The total claim at the time  
4 of filing the case was \$ 24,360.10.

5 **b. Treatment of Class 6 - Impaired:**

6 Debtor will continue to make all regularly scheduled payments (\$ 385.59) on this  
7 contract through the duration of the contract. Any delinquent payments shall be tacked onto  
8 the end of the contract which is up July 27, 2020.

9 **Class 7: Columbia AZ 11<sup>th</sup> Industrial, LLC**

10 **a. Nature of Claim:**

11 This claim relates to the lease of the premises which are debtor's business  
12 headquarters and operations center. This consists of an Office/Warehouse Building. The  
13 monthly obligation for this creditor is \$ 9,819.89.

14 **b. Treatment of Class 6 - Impaired:**

15 Debtor will continue to make all regularly scheduled payments (\$ 9,819.89) on this  
16 contract through the duration of the contract. Any delinquent payments shall be tacked onto  
17 the end of the contract, but may be paid sooner at the decision of the debtor.

18 **Class 8: Marlin**

19 **a. Nature of Claim:**

20 This claim relates to the lease of a stretch wrap machine: Ecoplat Plus Packaging  
21 System. The monthly obligation for this creditor is \$ 453.56.

22 **b. Treatment of Class 6 - Impaired:**

23 Debtor will continue to make all regularly scheduled payments (\$ 453.56) on this  
24 contract through the duration of the contract. Any delinquent payments shall be tacked onto  
25 the end of the contract, but may be paid sooner at the decision of the debtor.  
26

1 **CL9 - Creditors that did not file a proof of claim by the Court ordered Bar Date**

2 On February 1, 2016 [at Docket No. 64] debtor filed its Notice of Bar Date for Filing  
3 of Proofs of Claim. On February 1, 2016 [at Docket No. 65] debtor's counsel filed its  
4 Certificate of Mailing indicating that the documents set forth at Docket No. 64 and No 65.  
5 were mailed to all parties in interest as set forth in the mailing list attached to the Certificate  
6 of Mailing at Docket No. 65. Advanced Merchant Services LLC and Kabbage were among  
7 the parties so served. Advanced Merchant Services LLC and Kabbage were listed on  
8 schedule F of the debtor's schedules as DISPUTED. The bar date to file proofs of claims  
9 was April 1, 2016. The bar date notice made it clear that "All required entities required to  
10 file a proof of claim on or before the bar date that fail to file a proof of claim shall be forever  
11 barred, estopped and enjoined from (a) asserting claims that such entity possesses against the  
12 debtor and (b) voting upon, or receiving distributions under any plan of reorganization of  
13 Debtor except as otherwise ordered by this Court." Neither Advanced Merchant Services  
14 LLC, nor Kabbage, filed a proof of claim by the April 1, 2016 deadline. As such, Advanced  
15 Merchant Services LLC and Kabbage shall not be entitled to vote , shall not receive an  
16 distribution through this plan and their claims will be discharged by the Discharge Debtor  
17 receives in this case. These creditors shall not be entitled to vote on the plan.

18 **CL10 - Priority Pre-Petition Wage Claims.**

19 All priority pre-petition wage claims as listed on schedule E of debtor's schedules  
20 were paid post-petition as a result of the Court's order authorizing debtor to pay pre-petition  
21 wages. [Docket No. 32]. Thus, there are no claims in this class. These creditors shall not be  
22 entitled to vote on the plan.

23 **CL11 - Tax Obligations.**

24 Debtor owed no pre-petition tax obligations and has incurred no past-due, unpaid, post-  
25 petition tax debt. Thus, there are no claims in this class.  
26

1 **PART III**

2 **IMPLEMENTATION AND FUNDING OF DEBTOR'S PLAN**

3 The Debtor' Plan will be funded by its cash on hand, and its regular cash flow.  
4 Income projections for the business are attached as **Exhibit "E"** to the Disclosure  
5 Statement. The Debtor's owner and manager, Robert Baker, Jr., shall act as the Disbursing  
6 Agent under the Plan. Once all required distributions called for in the Plan are made, the  
7 case will terminate.

8 **PART IV**

9 **EFFECT OF CONFIRMATION**

10 Because the Debtor are individuals, pursuant to § 1141(d)(5) of the Bankruptcy Code,  
11 Confirmation of the Plan does not provide the discharge for the Debtor. The Debtor will  
12 move for the entry of a final decree after the Debtor has provided for the implementation of  
13 the Plan, and the final decree will contain the language providing the Debtor their discharge  
14 and such final decree will discharge any and all debts of the Debtor, that arose any time  
15 before the entry of the Confirmation Order, including, but not limited to, all principal and all  
16 interest accrued thereon, pursuant to §1141(d) of the Bankruptcy Code. The discharge shall  
17 be effective as to each Claim, regardless of whether a proof of claim was filed, whether the  
18 Claim is an Allowed Claim, or whether the holder votes to accept the Plan.

19 In addition, any pre-confirmation obligations of the Debtor dealt with in the Plan shall  
20 be considered New Obligations of the Debtor, and these New Obligations shall not be  
21 considered in default unless and until the Debtor defaults on the New Obligations pursuant to  
22 the terms of the Plan. The New Obligations provided for in the Plan shall be in the place of,  
23 and completely substitute for, any pre-Confirmation obligations of the Debtor and, once the  
24 Plan is confirmed, the only obligations of the Debtor shall be such New Obligations as  
25 provided for under the Plan.

26 **TAX CONSEQUENCES**

27 Pursuant to § 1125(a)(1) of the Bankruptcy Code, the Debtor are to provide a  
28

1 discussion of the potential material federal tax consequences of the Plan to the Debtor, any  
2 successor to the Debtor, and a hypothetical investor typical of the holders of claims or  
3 interests in the case, that would enable such a hypothetical investor of the relevant class to  
4 make an informed judgment about the Plan, but adequate information need not include such  
5 information about any other possible or proposed plan and in determining whether the  
6 Disclosure Statement provides adequate information, the Court shall consider the complexity  
7 of the case, the benefit of additional information to creditors and other parties in interest,  
8 and the cost of providing additional information.

9         Neither the Debtor nor their lawyers can make any statements with regard to the tax  
10 consequences of the Plan on any of the creditors. Although they would note that to the  
11 extent the creditor is not paid in full their Allowed Claim, they should consult with their tax  
12 advisor concerning the possibility of writing off for tax purposes that portion of their  
13 Allowed Claim that is not paid. Each creditor in this case, when analyzing the Plan, should  
14 consult with its own professional advisors to determine whether or not acceptance of the  
15 Plan by the creditor will result in any adverse tax consequences to the creditor.

16         The Bankruptcy Tax Act generally provides that the Debtor do not has to recognize  
17 income from the discharge of indebtedness. The Plan contemplates significant discharge of  
18 indebtedness; however, because the Debtor are in bankruptcy, they will not has to recognize  
19 the discharge of indebtedness as income for tax purposes. The Debtor do not believe the  
20 Plan will cause any adverse tax consequences.

#### 21                 **NON-ALLOWANCE OF PENALTIES AND FINES**

22         No distribution shall be made under this Plan on account of, and no allowed claim,  
23 whether secured, unsecured, priority, or administrative, shall include any fine, penalty,  
24 exemplary or punitive damages, late charges or other monetary charge relating to or arising  
25 from any default or breach by Debtor, and any claim on account thereof shall be deemed  
26

1 disallowed whether or not an objection to it is filed.

## 2 **MODIFICATION OF PLAN**

3 In addition to their modification rights under § 1127 of the Bankruptcy Code, the  
4 Debtor may amend or modify the Plan at any time prior to Confirmation without leave of the  
5 Court. The Debtor may propose amendments and/or modifications of their Plan at any time  
6 subsequent to Confirmation with leave of the Court and upon notice to Creditors. After  
7 Confirmation of the Plan, the Debtor or the Reorganized Debtor may, with approval of the  
8 Court, as long as it does not materially or adversely affect the interests of Creditors, remedy  
9 any defect or omission or reconcile any inconsistencies of the Plan, or in the Confirmation  
10 Order, if any may be necessary to carry out the purpose and intent of his Plan.

## 12 **CLOSING OF THE CASE**

13 If the Court does not close this case on its own motion, the Debtor will move the  
14 Court to administratively close this case once the Plan is deemed substantially consummated.  
15 Until substantial consummation, the Debtor will be responsible for filing pre- and post-  
16 confirmation reports required by the United States Trustee and paying the quarterly post-  
17 confirmation fees of the United States Trustee, by check, pursuant to 28 U.S.C. § 1930, as  
18 amended. Pursuant to 11 U.S.C. § 1129(a)(12), all fees payable under section 1930 of title  
19 28, as determined by the Court at the hearing on confirmation of the Plan, will be paid, by  
20 check, on the Effective Date.

## 21 **DISCLAIMER**

22 Court approval of this Disclosure Statement and the accompanying Plan of  
23 Reorganization, including exhibits, is not certification of the accuracy of the contents  
24 thereof. Furthermore, Court approval of these documents does not constitute of the Court's  
25 opinion as to whether the Plan should be approved or disapproved.



## **RISKS**

The risk of the Plan lies essentially with Debtor's ability to maintain his post-petition rental income to make Plan payments as called for under the Plan of Reorganization as confirmed.

### **PROPONENTS RECOMMENDATION / ALTERNATIVES TO THE PLAN**

The Debtor recommend that all creditors entitled to vote for the Plan do so. The alternatives to confirmation of the Plan would be either conversion of this case to a case under Chapter 7 of the Bankruptcy Code or its dismissal.

Conversion will result in the appointment of a Chapter 7 trustee and, most likely, the hiring of an attorney by the trustee. Expenses incurred in administering of the Chapter 7 case will take priority in the right to payment over allowed, administrative expenses incurred in the Chapter 11 case. Both Chapter 7 and Chapter 11 administrative expenses take priority over the payment of unsecured claims without priority. In other words, conversion would likely decrease the net amount available to pay currently existing creditors.

In addition, conversion could substantially delay any distribution to creditors beyond the time period for distribution defined in the Plan. A Chapter 7 trustee is not limited to specific deadlines for closing a case and distributing assets to creditors. It is not unusual for distribution in Chapter 7 cases to be delayed for years. Moreover, the return on the assets of the Estate a trustee is likely to obtain through a standard Chapter 7 liquidation could be less than the return the Plan will generate.

Dismissal of this case would leave all creditors holding unsecured claims in the position of having to institute legal proceedings to collect their debts. Moreover, outside the context of a bankruptcy case, the first creditor to collect may collect all non-exempt property, leaving nothing to be paid to remaining creditors. In addition, dismissal of this case would open the door for the Debtor to file a new bankruptcy case, which could further delay or

1 reduce funds available to pay creditors.

2 **For all these reasons, the Debtor urges you to vote to accept the Plan and to**  
3 **return your ballots in time to be counted.**

4 **DATED:** This 31st day August, 2016

5 **CAMPBELL & COOMBS, P.C.**

6  
7 By: /s/ VRM #013954  
8 *Vincent R. Mayr, Attorney for Debtor*

9 **LIST OF EXHIBITS**

10  
11 **EXHIBIT A PROPOSED PLAN OF REORGANIZATION**  
12 **EXHIBIT B JULY, 2016 OPERATING STATEMENT**  
13 **EXHIBIT C SCHEDULES A & B**  
14 **EXHIBIT D-1 SCHEDULES D, E & F**  
15 **EXHIBIT D-2 CLAIMS REGISTER**  
16 **EXHIBIT D-3 ORDER ALLOWING PAYMENT OF PRE-PETITION WAGES**  
17 **EXHIBIT D-4 NOTICE OF BAR DATE TO FILE PROOFS OF CLAIM**  
18 **EXHIBIT D-5 SCHEDULE OF ALLOWED CLAIMS**  
19 **EXHIBIT E PROJECTION OF INCOME AND EXPENSES**  
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