

**UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF LOUISIANA**

IN RE: ADVOCATE FINANCIAL, LLC * **CASE NO.: 10-10767**
*
DEBTOR * **CHAPTER 11**
*

**DISCLOSURE STATEMENT
PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE
WITH RESPECT TO THE PLAN OF REORGANIZATION
PROPOSED BY DEBTOR**

Advocate Financial, L.L.C., debtor-in-possession (interchangeably, “Advocate” or “Debtor”), submits this Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code to all creditors of Debtor in connection with the solicitation of acceptances of the Plan of Reorganization (“Plan”) filed by Debtor with the United States Bankruptcy Court for the Middle District of Louisiana. A copy of the Plan is attached hereto as Exhibit “A.”

**I.
INTRODUCTION**

On March 2, 2010, Advocate filed a Voluntary Petition under Chapter 11 of Title 11, United States Code. Sections 1101-1146 of Title 11 are applicable in this case. Debtor has been maintained in possession of the estate.

The Section 341(a) meeting of creditors was held on July 9, 2010, in Baton Rouge, Louisiana. The Statement of Financial Affairs, Schedules of Assets and Liabilities and Statement of Executory Contracts have been previously filed with the Court. Creditors are expressly referred

to those statements and schedules for the purpose of verification as to the assets, liabilities, and affairs of the Debtor, as well as the current financial information attached hereto.

Pursuant to Chapter 11, the Debtor has formulated a Plan of Reorganization and this Disclosure Statement setting forth all material facts that the Debtor believes may have a bearing on this case. It is anticipated that this Disclosure Statement will receive approval of the Court, and there will be a hearing on the proposed Plan for its confirmation.

II. NATURE OF CHAPTER 11 REORGANIZATION PROCEEDING

Chapter 11 of the Bankruptcy Code (the "Code") is a remedial statute designed to effect the rehabilitation and reorganization of financially distressed individuals and entities. The statutory aims of a reorganization proceeding include the following: (a) preservation of the debtor's property to maintain a "going concern" value of the debtor's business and property; (b) avoidance of a forced and destructive liquidation of the debtor's assets; (c) the protection of the interests of creditors, both secured and unsecured; and (d) the restructuring of the debts and finances of the debtor, such as would enable it to retain those assets necessary to rehabilitate its finances and, at the same time, produce the greatest recovery for its creditors.

The formulation and confirmation of a plan of reorganization is the principal function of a Chapter 11 case. Such a plan normally includes provisions for: (a) altering and modifying rights of creditors; (b) dealing with the property of the debtor; (c) paying costs and expenses of administering the Chapter 11 case; and (d) execution of the plan. The plan may affect the interests of all parties and creditors, reject executory contracts, and provide for the prosecution or settlement of claims belonging to the debtor.

In order to be confirmed by the Court, the Code requires that there be a finding that the plan receive the votes of certain requisite classes and that the plan be "fair and equitable" as to any dissenting class of creditors.

In order for a plan to be "fair and equitable," it must comply with the so-called "absolute priority rule." The absolute priority rule requires that, beginning with the most senior rank of claims of creditors against the debtor, each class in descending rank or priority must receive full and complete compensation before inferior or junior classes may participate in the distribution, unless a creditor agrees to subordinate its claim. The plan must be accepted by the affirmative vote of a majority (in number) of creditors holding two-thirds (in amount) of claims filed and allowed by each class, unless adequate provisions are made for the classes of dissenting creditors. In order to fully understand how a plan is confirmed, each individual creditor should check with its own attorney and receive full advice on the inter-workings of Sections 506(a), 1111, 1122, 1123, 1124, and 1129 of the Code. If any class or classes of creditors whose claims are impaired fail to accept the plan, it may still be confirmed under the provisions of 11 U.S.C. Section 1129(b).

THE FOREGOING IS A BRIEF SUMMARY OF THE HIGHLIGHTS OF A PLAN OF REORGANIZATION AND CONFIRMATION OF SUCH, AND THIS SUMMARY SHOULD NOT BE RELIED ON FOR VOTING PURPOSES. CREDITORS ARE URGED TO CONSULT WITH THEIR OWN COUNSEL BEFORE MAKING ANY DECISIONS ON THE PLAN FILED HEREIN.

In addition to the above, Section 1125 of the Code requires that there be post-petition disclosure in the form of a Disclosure Statement that provides "adequate information" to creditors before anyone may solicit acceptance of a Chapter 11 plan. THIS DISCLOSURE STATEMENT IS PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE SO AS TO PROVIDE "ADEQUATE INFORMATION" TO THE CREDITORS IN THIS PROCEEDING. CREDITORS ARE URGED TO CONSULT WITH THEIR OWN INDIVIDUAL COUNSEL OR EACH OTHER, AND TO REVIEW ALL OF THE PLEADINGS FILED IN THIS BANKRUPTCY PROCEEDING IN ORDER TO FULLY UNDERSTAND THE DISCLOSURES MADE HEREIN, ANY PLANS OF REORGANIZATION FILED HEREIN, AND ANY OTHER PERTINENT MATTERS IN THIS PROCEEDING. ANY PLAN OF REORGANIZATION WILL BE COMPLEX, ESPECIALLY SINCE IT REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT BY THE DEBTOR (OR ANY OTHER PROPONENT OF A PLAN). AN INTELLIGENT JUDGMENT CONCERNING ANY PROPOSED PLAN CANNOT BE MADE WITHOUT FULLY UNDERSTANDING THE COMPLEXITIES OF ANY PLAN PROPOSED HEREIN.

This Chapter 11 case is conducted under the supervision of the Bankruptcy Judge of the United States Bankruptcy Court for the Middle District of Louisiana. The Court may: (a) authorize the Debtor, as debtor-in-possession, to operate its business and manage its property; (b) permit rejection of executory contracts; (c) authorize the Debtor to borrow money; (d) authorize the Debtor to lease or sell its property; (e) grant or deny relief from the stay of any suit against the Debtor and against any acts or proceedings to enforce a lien against the Debtor's property; and (f) approve and confirm any plans of reorganization.

The Debtor is in a distressed financial condition and is suited for and in dire need of the broad protection and relief afforded by Chapter 11. The Debtor expects to be able to restructure its finances through settlements with creditors in a satisfactory manner through its Plan of Reorganization. The distressed financial condition of the Debtor made it necessary for the Debtor to seek relief under Chapter 11 of the Code. The Debtor has proposed a Plan of Reorganization as described herein and intends to solicit approval and acceptance of the Plan from its creditors, but only after there has been judicial approval of this Disclosure Statement, including any amendments hereto.

III. DISCLOSURE INFORMATION

The Debtor submits this Disclosure Statement in compliance with its obligation under the United States Bankruptcy Code to provide "adequate information" to enable each of its creditors to

reach an informed decision regarding whether it is in a creditor's best interest to vote to accept the Plan described herein.

What follows is a discussion of the Debtor and its assets and liabilities. The Plan specifies in detail the manner and amounts of payments to the Debtor's creditors for their claims if the Plan is accepted. Neither the Plan nor this Disclosure Statement is designed to forecast consequences that would follow from a general rejection of the Plan. However, it is the opinion of the Debtor that rejection of this Plan could result in the termination of the Debtor's operations, the liquidation of all of the Debtor's assets, and unsecured creditors receiving little or nothing for their claims. The Debtor is convinced that the Plan represents its best effort and that it has an excellent chance to continue operations under the Plan. The Debtor is equally convinced that all creditors will be in a better position if the Plan is accepted by the creditors and affirmed by the Bankruptcy Court.

The Debtor urges all creditors to read this Disclosure Statement and the attached Plan carefully. Following their review of the facts, the Debtor urges its creditors to make a decision to pursue the avenue that is in the mutual best interests of the Debtor and its creditors and vote to accept the Plan.

NO REPRESENTATIONS CONCERNING THE DEBTOR, PARTICULARLY AS TO ITS FUTURE BUSINESS OPERATIONS, OR VALUE OF ITS ASSETS, ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE ACCEPTANCE OF THE PLAN THAT ARE OTHER THAN AS CONTAINED IN THIS DOCUMENT SHOULD NOT BE RELIED UPON BY ANY PERSON. THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO ANY CERTIFIED AUDIT. THE RECORDS KEPT BY THE DEBTOR ARE NOT WARRANTED OR REPRESENTED TO BE WITHOUT INACCURACY, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO BE ACCURATE.

IV. DEBTOR'S HISTORY

The Debtor is a limited liability company formed under the laws of the State of Louisiana. The Debtor has one member, *viz.*, La Chenaie Holding, L.L.C. ("La Chenaie"), which is also a limited liability company formed under the laws of the State of Louisiana. The Debtor has been in existence since 1993. The Debtor's is engaged in the business making loans to attorneys, law firms, and their clients to fund the reasonable costs and expenses of litigation.

Until 2003, the Debtor's principal source of funding was its parent company, La Chenaie, as well as Neaflize OBC, a french bank, and Citibank BSI SA. Commencing in 2003, the Debtor obtained a line of credit loan at Hancock Bank of Louisiana ("Hancock"), initially up to the principal amount of \$1.7 million. The limit of the loan at Hancock was eventually increased to \$10 million. The Debtor also had a line of credit loan with La Chenaie up to the principal amount of \$10 million. Subsequent to 2003, the Debtor primarily relied on funding from Hancock and LaChenaie. The Debtor's line of credit loan with Hancock, represented by promissory notes, was renewed a total of

eight times, with the last maturity date being January 31, 2010. Immediately following the maturity of the loan on that date, Hancock filed a collection lawsuit against the Debtor that necessitated this Bankruptcy.

Prior to Hancock's collection lawsuit, the Debtor made all payments to its creditors in a timely manner. In fact, the Debtor repaid over \$19 million to its creditors over several years and at all times ran an efficient business.

In July 2009, the loan officer handling the Advocate loan for Hancock resigned. Subsequent to his resignation, a new loan officer was assigned, but that person was not familiar with the nature of the Debtor's business nor the loan histories of the Debtor's loans to its customers. Additionally, in 2009, Hancock changed its requirements for audited financial statements and began requiring the Debtor to classify on its financial statements as non-performing loans all loans that were not due within a fixed period. By the nature of Advocate's business, this resulted in most of Advocate's loans being reported as non-performing, not because of any change in business habits or performance, but because of Hancock's change in auditing requirements.

Since the filing of this bankruptcy proceeding on March 2, 2010, the Debtor has accumulated cash reserves in the approximate amount of \$1.15 million, and the Debtor expects that reserve amount to increase within approximately the next thirty (30) days. Additionally, there are numerous cases that the Debtor has been prosecuting for collection that the Debtor anticipates will result in additional cash reserves. It is anticipated that within the next three years, the Debtor will collect from its debtors amounts sufficient to pay all of the Debtor's creditors in full.

V. FINANCIAL STATEMENTS

The Debtor has met with the United States Trustee and had also filed an initial report with the United States Trustee. All financial accounts of the Debtor have transferred to a debtor-in-possession bank account at Regions Bank in New Orleans, Louisiana. The Debtor has complied with all reporting requirements of the United States Trustee.

The monthly, unaudited financial statements that the Debtor has filed with the Court are available for inspection at the office of the Clerk of the United States Bankruptcy Court for the Middle District of Louisiana, and copies of said statements are available from the same source at the cost of the requesting party.

The following financial information is attached to this Disclosure Statement as follows:

- A. Statement of Forecasted Net Income - Cash Basis Years ending December 31, 2005-2011 (Exhibit "B");
- B. Estimate of Plan payments (Exhibit "C"); and

C. Class 4 Chart (Exhibit "D").

**VI.
DESCRIPTION OF ASSETS**

The following is a list of the Debtor's major assets that are addressed in the Debtor's Plan of Reorganization, along with an estimate of value:

<u>PROPERTY</u>	<u>ESTIMATED VALUE</u>
1) Cash in Debtor's possession	\$1,800,000.00
2) Interest in Waldmann Interest Limited Partnership	862,634.18 ¹
3) Loans Receivable	19,273,790.20 ²
4) Adversary Claim against Hancock Bank	\$ _____ ³
<u>TOTAL:</u>	<u>\$21,936,424.38</u>

**VII.
LIQUIDATION ANALYSIS**

Although the Plan calls for a 100% payout to all creditors, both secured and unsecured, the following is a liquidation analysis that would apply if the Debtor were to convert this case to Chapter 7 liquidation proceedings. The Debtor filed its bankruptcy Petition on March 2, 2010. Therefore, liquidation under Chapter 7 would be under the laws existing at the time the Petition was filed.

The Debtor, with essentially the same set of creditors, has been successfully run since 2003, with all creditors being paid in a timely manner. The management of the Debtor's business is complicated, and there is no other similar business currently located in the State of Louisiana that performs the same lending services as the Debtor. In a Chapter 7 liquidation, the United States Trustee would have to seek out-of-state assistance in order to manage the affairs of the Debtor or attempt to sell the Debtor's assets at "fire sale" prices. Many of the Debtor's loans to its customers are performing loans and merely need to be monitored, but some will require long-term monitoring until paid in full. Moreover, judgments in certain cases in which Advocate has filed suit for

¹ This is a fixed value based on payoff of principal; it could be as much as \$3.1 million.

² See exhibit E.

³ No value is assigned to this asset. The Court, after trial, will assign value.

collection may not be rendered in the near future and may eventually require proceedings to execute said judgments. A Chapter 7 Trustee would likely be faced with few options, which may involve long-term proceedings, complex accounting requirements, and “fire sales” at reduced prices, none of which would be advantageous to the Debtor’s creditors. The non-performing loans are in various stages of litigation or other collection efforts, and the histories of those loans are complicated. A change in the management of the Debtor’s business or a liquidation of the Debtor’s assets at this time would only benefit the borrowers under the non-performing loans and would likely result in a disruption or possible discontinuance of the prosecution of the Debtor’s collection lawsuits.

Hancock is the Debtor’s largest creditor, and whether it is over-secured, under-secured, or not secured at all has not yet been finally determined. If Hancock is deemed to be over-secured, it might attempt to lift the stay, but could do so only to collect adequate funds to pay the secured debt. It is expected that this would create havoc among the Debtor’s borrowers and result in a gross injustice to the Debtor’s remaining creditors. If Hancock is under-secured, it might attempt to lift the stay in order to foreclose on its collateral, which could deprive all unsecured creditors of any proceeds. The Debtor’s Plan proposes that all creditors will be paid in full. If Hancock is an unsecured creditor, the United States Trustee might attempt to liquidate the Debtor’s assets to pay various creditors.

Certain funds have been paid by the Debtor that may be subject to 11 U.S.C. §§ 547 and/or 548, but the collectability of those funds is uncertain. Any collection efforts would be arduous and time consuming for either a committee of unsecured creditors or for a Chapter 7 trustee.

The Plan proposes that all creditors will be paid in full within a short period of time. Priority creditors, administrative creditors, and unsecured creditors will be paid in full upon the effective date of the Plan. Hancock will be protected by an escrow account to be established at Hancock, which would be maintained until further orders of this Court, depending upon the eventual determination of Hancock’s creditor status and the outcome of the Debtor’s Adversary Proceeding pending against Hancock.

VIII. DESIGNATION OF CLASSES OF CLAIMS

For purpose of repayment of the Debtor’s indebtedness under the Plan, the claims of creditors of the Debtor are classified as follows:

Class 1 - Class 1 is composed of all actual and necessary costs and expenses of administration of and claims against the Debtor entitled to priority in accordance with Section 503(b) and Section 507(a)(1) of the Code.

Class 2 - Class 2 is composed of all allowed unsecured claims entitled to priority under Section 507 of the Bankruptcy Code, other than those in Class 1 above, including taxes, customs, and duties owed to federal, state, and local governmental units, as set forth in 11 U.S.C. Section 507(a)(8).

Class 3 - Class 3 is composed of allowed secured claims.

Class 4 - Class 4 is composed of the allowed claims of the unsecured creditors that have performed post petition work for the Debtor pursuant to orders of this Court.

Class 5 - Class 5 is composed of general unsecured creditors.

Class 6 - Class 6 is composed of the claim of Citibank BSI SA.

Class 7 - Class 7 is composed of Hancock's unsecured claim, if any.

Class 8 - Class 8 is composed of LaChenaie's claim.

IX. SUMMARY OF THE PLAN OF REORGANIZATION

The following is the specific treatment that each class of creditors will receive under the Plan of Reorganization:

Class 1: Claims are unimpaired. The holder of any allowed Class 1 claim shall be paid in full, without interest, in cash or cash equivalent, upon the effective date of the Plan. Class 1 claims are estimated not to exceed \$300,000.00.⁴

Class 2: Claims are unimpaired. These claims shall be paid in-full upon the effective date of the Plan without interest. Class 2 claims are estimated not to exceed \$7,000.00.

Class 3: Claim is unimpaired. This is Hancock's potential secured claim. All interest accruing on Hancock's loan, subsequent to January 31, 2010, at the contractual non-default rate, will be paid and placed into an escrow account at Hancock on the effective date of the Plan. Additionally, \$1 million will be paid to Hancock upon the Effective Date of the Plan. All funds paid to Hancock will remain in escrow until further orders of this Court and a final decision in the Debtor's Adversary Proceeding pending against Hancock. In the event this Court determines that the Debtor does not owe Hancock any amount, or that Hancock is indebted to the Debtor, the funds in the escrow account would be disbursed accordingly. A valuation hearing will be conducted to determine if Hancock has any unsecured claim. If this Court finds that Hancock has an unsecured claim, Hancock will be paid in full on the effective date of the Plan, by depositing the amount owed into the said escrow account at Hancock, which will be maintained until further orders of this Court after a final decision in the Adversary Proceeding. 50% of all monies received will be placed in escrow until the Adversary Proceeding is final. If the Court determines that Hancock has a valid Secured Claim, it will be paid from these proceeds until the debt is extinguished. Any and all suits against the Debtor and its guarantors will be dismissed without prejudice.

⁴ This includes fees of professionals.

Class 4: Claims are impaired. These claims consist of the allowed claims of the unsecured creditors that have performed post-petition work for the Debtor pursuant to authorization orders of this Court. This class is impaired and creditors in this class will receive 95% of their pre-petition debt.

Class 5: Claims are unimpaired. Creditors in this class shall be paid 100% of allowed claims upon the effective date of the Plan.

Class 6: Claims are impaired. These claims shall be paid 100% of post-petition interest only, and interest only payments shall be maintained throughout the Plan until the debt is paid in full.

Class 7: Claim is unimpaired. This claim consists of Hancock's unsecured claim, if any. If there is such an unsecured claim, as determined by this Court, the full amount of the unsecured portion shall be paid into said escrow account at Hancock on the effective date of the Plan, which shall be maintained until further orders of this Court.

Class 8: Claims are impaired. Creditors in this class will receive payment of their unsecured claims only after all creditors in Classes 1, 2, 3, 4, and 5 are paid in-full. These claims will be paid monthly interest on the loan balances and will receive all revenue from the Waldmann Interests Limited Partnership as payment against principal. LaChenaie, as the Debtor's parent company, will make funds available to effectuate the Plan, which will increase the amount of this claim by the same amount.

X.

ESTIMATION OF ADMINISTRATIVE EXPENSES

The Debtor has paid all current operating expenses when due from amounts collected from its loans to customers. Administrative expenses include amounts due to Baldwin Haspel Burke & Mayer, L.L.C. for legal services rendered in connection with this reorganization proceeding. Total fees are currently estimated in the amount of \$350,000.00. Accounting fees are due in the approximate amount of \$1,000.00. Other professional fees are estimated in the amount of \$1,300.00.

XI.

MANAGEMENT OF DEBTOR'S PROPERTY AFTER CONFIRMATION

The Debtor will continue to own and retain those assets not otherwise provided for within the Plan. The income derived from Advocate's operations shall be used to cover expenses of the Plan. The Debtor will receive 50% of all monies received as a management fee.

The payments required to be made to creditors will be generated from Advocate's operations and possible recovery of damages claim against Hancock.

**XII.
EXECUTORY CONTRACTS**

All leases and executory contracts, if any, are rejected.

**XIII.
SIGNIFICANT POST-PETITION EVENTS**

On July 2, 2010, the Debtor filed an adversary proceeding against Hancock. Since filing its bankruptcy Petition on March 2, 2010, the Debtor has accumulated approximately \$1.15 million in cash reserves, and the Debtor expects that reserve amount to increase within approximately the next thirty (30) days.

**XIV.
LITIGATION**

On July 2, 2010, the Debtor filed an adversary proceeding in this Court against Hancock, pending as adversary proceeding docket number 10-1046. The Adversary Proceeding alleges that Hancock failed to file, or to timely and properly file, a continuation statement to continue the effectiveness of a UCC-1 Financing Statement, as a result of which said UCC-1 Financing Statement lapsed in May of 2008. The Adversary Proceeding also alleges fraud, intentional misrepresentation, bad faith, detrimental reliance, failure to provide reasonable notice to Advocate, nullity of a second UCC-1 Financing Statement that Hancock filed without Advocate's knowledge, authority, or consent, damages resulting from Hancock contacting Advocate's account debtors and customers, and damages for wrongful seizure of funds belonging to Advocate. The allegations are described more fully in the Adversary Complaint for Damages and Declaratory Judgment filed in this Court. A copy of the Adversary Complaint is attached as Exhibit "F."

Any and all suits against the Debtor and/or its guarantors shall be dismissed without prejudice.

**XV.
UNITED STATES TRUSTEE'S FEES**

The Debtor will pay all fees owed to the Office of the United States Trustee as required by 28 U.S.C. §1930(a)(6).

**XVI.
CONCLUSION**

The Debtor expects to receive payments in the normal course of its business and from the prosecution of its various lawsuits in amounts sufficient to pay Hancock in full within three years, but only after all priority claims, administrative claims, and unsecured claims are paid in full on the effective date of the Plan. Advocate will pay Hancock the non-default, contractual rate of interest

on a monthly basis pursuant to the terms of the Plan. All payments into an escrow account at Hancock will be maintained until after the Adversary Proceeding is concluded by order of this Court. Insiders subject to possible claims under 11 U.S.C. § 548 shall not be paid until all other creditors are paid in full, including any unsecured debt. Notwithstanding any provisions contained herein to the contrary, the claim of any creditor who fails to timely file a proof of claim by _____ shall be deemed discharged in full.

The Debtor believes that the information contained in this Disclosure Statement, combined with the information contained in the financial statements provided herewith and the exhibits hereto, will assist each creditor in making a reasonable business judgment on the Debtor's Plan of Reorganization. The Debtor hopes that each class of creditor affected by the Plan will accept the Plan as providing the best method of realizing full value of the Debtor's property, thereby leading to maximum dividends to all creditors.

BALDWIN HASPEL BURKE & MAYER, L.L.C.

Respectfully submitted:

s/Dennis M. LaBorde
DENNIS M. LABORDE (Bar #17979)
LANCE J. ARNOLD (Bar #18768)
STEPHEN P. SCHOTT (Bar #2096)
Baldwin Haspel Burke & Mayer, L.L.C.
Energy Centre, Suite 2200
1100 Poydras Street
New Orleans, Louisiana 70163-2200
Attorneys for Advocate Financial, LLC

0379405