

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF FLORIDA
PENSACOLA DIVISION

GULFCOAST SPECIALTY
PRODUCTS & SERVICES,
INC.

Case No. 15-31056-JCO
Chapter 11 Case

Debtor.

AMENDED
DISCLOSURE STATEMENT WITH RESPECT TO PLAN OF REORGANIZATION
JULY 16, 2016

ANCHORS SMITH GRIMSLEY, PLC

Attorneys for Debtor

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THE DEBTOR RESERVES THE RIGHT TO AMEND OR SUPPLEMENT THIS DISCLOSURE STATEMENT AT OR BEFORE THE CONFIRMATION HEARING.

DISCLOSURE STATEMENT

GulfCoast Specialty Products & Services, Inc. (the “Debtor”) provides this Disclosure Statement to all known creditors of the Debtor in order to disclose the information deemed to be material, important, and necessary for the creditors to arrive at a reasonably informed decision in exercising their right to abstain from voting or to vote for acceptance or rejection of the Plan of Reorganization (the “Plan”) proposed by the Debtor and Proponent. A copy of the Plan is separately filed and is separately attached.

Capitalized terms used herein have the meanings assigned to them in the Definitions section in the Plan. Whenever the words “include,” “includes” or “including” are used in this Disclosure Statement, they are deemed to be followed by the words “without limitation.”

This Disclosure Statement is presented to certain holders of Claims against and Interests in the Debtor in accordance with the requirements of section 1125 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the “Code”). Section 1125 of the Code requires that a disclosure statement provide information sufficient to enable a hypothetical and reasonable investor, typical of the debtor’s creditors and interest holders, to make an informed judgment whether to accept or reject a plan. This Disclosure Statement may not be relied upon for any purpose other than that described above.

This Disclosure Statement and the Plan are an integral package, and they must be considered together for the reader to be adequately informed. This

introduction is qualified in its entirety by the remaining portions of this Disclosure Statement(including its Exhibits or Schedules), and this Disclosure Statement in turn is qualified in its entirety by the Plan. This Disclosure Statement contains only a summary of the Plan. You are strongly urged to review the Plan, a copy of which is provided herewith, before casting a Ballot.

No representations concerning the Debtor (particularly as to the values of its property) are authorized other than as set forth in this Disclosure Statement. You should not rely upon any representations or inducements made to secure your acceptance or rejection of the Plan other than as contained in this Disclosure Statement, and such additional representations and inducements should be reported to Debtor's counsel, who will in turn deliver such information to the proper authorities for such action as may be appropriate.

The information contained in this Disclosure Statement, including any exhibits concerning the financial condition of the Debtor, has not been subjected to an audit or independent review except as expressly set forth herein. The Debtor has endeavored in good faith to be accurate in this Disclosure Statement.

The statements contained in this Disclosure Statement are made as of the date of this Disclosure Statement unless another time is specified. There is no guaranty that facts will not change after this Disclosure Statement was filed; and it must be assumed that some facts will indeed change from that time until the hearing on the approval of the Disclosure Statement (discussed below), and thereafter during the periods in which the Debtor makes payments under the Plan. This Disclosure Statement was prepared in accordance with section 1125 of the Bankruptcy Code and not in accordance with

federal or state securities laws or other applicable non-bankruptcy law. Entities holding or trading in or otherwise purchasing, selling or transferring claims against, interests in or securities of, the debtor should evaluate this disclosure statement only in light of the purpose for which it was prepared. This Disclosure Statement has not been approved or disapproved by the Securities and Exchange Commission and the Securities and Exchange Commission has not passed upon the accuracy or adequacy of the statements contained herein; nor may this Disclosure Statement be construed to be advice on the tax, securities or other legal effects of the Plan. You should, therefore, consult with your own legal, business, financial and tax advisors as to any such matters concerning the solicitation, the Plan or the transactions contemplated thereby.

OVERVIEW OF CHAPTER 11

Chapter 11 comprises the chapter of the Code primarily used for business reorganization. Formulating a plan to restructure a debtor's finances forms a fundamental purpose of a case under chapter of the Code. Businesses also sometimes use chapter 11 as a means to conduct asset sales and other forms of liquidation. Whether the Debtor seeks to reorganize or liquidate, a chapter 11 plan sets forth and governs the treatment and rights creditors and interest holders will receive with respect to their claims against and equity interests in a debtor's bankruptcy estate.

The Code entitles only holders of impaired claims or equity interests who receive some distribution under a proposed plan to vote to accept or reject the plan. The Code conclusively presumes that holders of unimpaired claims or equity interests under a proposed plan have accepted the plan and need not vote on it. The Claims in Classes in 1, 2, 3, 4, and 5 of this Plan are unimpaired and thus may vote either to accept or reject the Plan. The Debtor has enclosed a Ballot with this Disclosure Statement to solicit the votes of the Creditors in

Classes 1, 2, 3, 4, and 5. Those Creditors may vote on the Plan by completing the enclosed Ballot and mailing it to the following address:

Counsel for the Debtor

ANCHORS SMITH GRIMSLEY, PLC
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You should use the Ballot sent to you with this Disclosure Statement to cast your vote for or against the Plan. You may not cast Ballots or vote orally or by facsimile. For your Ballot to be considered by the Bankruptcy Court, it must be received at the above address by 5:00 p.m. (prevailing Central time) by the date fixed by the Bankruptcy Court on the accompanying scheduling order (the "Voting Deadline"). If you are a Creditor in Class 1, 2, 3, 4, or 5 and you did not receive a Ballot with this Disclosure Statement, please contact:

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A ballot that does not indicate acceptance or rejection of a plan will not be considered. An impaired class of claims accepts a plan if at least 2/3 in amount and more than 1/2 in number of the allowed claims in the class that actually vote are cast in favor of the plan. A class of interests accepts a plan if at least 2/3 in amount of the allowed interests of such class that actually vote are cast in favor of the plan. Whether or not you vote, you will

be bound by the terms and treatment set forth in the Plan if the Court confirms the Plan. The Court may disallow any vote accepting or rejecting the Plan if the vote is not cast in good faith.

Once it is determined which impaired classes have accepted a plan, the Court will determine whether the plan may be confirmed. For a plan to be confirmed, the Code requires, among other things, that the plan be proposed in good faith and comply with the other applicable provisions of chapter 11 of the Code, including a requirement that at least one class of impaired claims accept the plan, and that confirmation of the plan is not likely to be followed by the need for further financial reorganization. The bankruptcy court will confirm a plan only if it finds that all of the requirements enumerated in section 1129 of the Code have been met. The Debtor believes that the Plan satisfies all of the requirements for confirmation.

One requirement for confirmation of a plan is called the “best interests test.” Notwithstanding acceptance of the plan by each impaired class of claims, in order to confirm a plan, if even one member of an impaired class votes to reject the plan, the bankruptcy court must determine that the plan is in the best interests of each holder of a claim or interest in such class. The best interests test requires that the bankruptcy court find that the plan provides to each member of such impaired class a recovery on account of the class member’s claim or interest that has a value, as of the Effective Date of the Plan (generally, 30 days after confirmation), at least equal to the value of the distribution that each such class member would have received if the debtor’s assets were liquidated under chapter 7 of the Code on such date. The Code also requires that, in order to confirm a plan, the Court must find that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor (“financial feasibility test”). For a plan to meet this

test, the Court must find that the Debtor's estate and the Reorganized Debtor possess the capital and should generate the other resources to meet their respective obligations under the Plan. The Proponent believes that following confirmation of the Plan, the Reorganized Debtor will be able to fully perform all obligations under the Plan without any need for liquidation or further financial reorganization.

The bankruptcy court may confirm a plan notwithstanding the plan's rejection by some impaired classes, if the bankruptcy court finds that at least one impaired class of claims (not including any acceptances by "insiders" as defined in section 101(31) of the Code) has accepted the plan and that the plan satisfies certain additional conditions. This provision, found in section 1129(b) of the Code, is generally referred to as the "cramdown" provision. Pursuant thereto, the bankruptcy court may confirm a plan over the rejection by a class of secured claims if the plan is fair and equitable and satisfies one of the alternative requirements of section 1129(b)(2)(A) of the Code (otherwise known as "cramdown"). Likewise, the bankruptcy court may confirm a plan over the rejection by a class of unsecured claims if the plan is fair and equitable and if the non-accepting claimants will receive the full value of their claims, or (even if the non-accepting claimants receive less than full value), if no class of junior priority will receive or retain anything on account of its pre-petition claims or interests.

THESE ARE COMPLEX STATUTORY PROVISIONS, AND THE PRECEDING PARAGRAPHS ARE NOT INTENDED TO BE A COMPLETE SUMMARY OF THE LAW. IF YOU DO NOT UNDERSTAND THESE PROVISIONS, PLEASE CONSULT WITH YOUR ATTORNEY. THE PROPONENT EXPECTS THAT IT MAY HAVE TO RELY UPON THE "CRAMDOWNS"

PROVISION OF SECTION 1129(b) OF THE CODE IN ORDER TO CONFIRM THE PLAN.

The Court has set a hearing on confirmation of the Plan for August 19, 2016, Pensacola, Florida. Creditors may vote on the Plan by filling out and mailing the accompanying ballot form to counsel for the Debtor. Your Ballot must be filed on or before _____ 2016.

I. PRELIMINARY STATEMENT AND HISTORY
AND FINANCIAL CONDITION OF DEBTOR

(1) HISTORY OF DEBTOR

The Debtor is a Florida corporation which was formed on March 21, 2011. The shareholders of the Debtor are Wayne Bernheisel who owns 82.2% of the shares of the Debtor and Jennifer Bernheisel who owns the remaining 17.8% of the shares of the Debtor where Wayne acts as President and Jennifer is the Vice-President. The Debtor operates a veteran owned small business that sells, services and provides the installation of awnings, shutters, shutter related products, and overhead doors for residential, government, and commercial applications. The Debtor's operations are located at 12889 U.S. Hwy 98 West, Suite 111A, Miramar Beach, Florida (the "Business") which the Debtor owns. The Business operates out of a physical location at the same address owned by the Debtor. Additionally the Debtor leases a storage unit at Tops'l Hill Warehouse in Santa Rosa Beach, Florida and has use of a Warehouse facility owned by Certified Mfg. in Holt, Florida. On a monthly basis the Debtor generates gross revenue of approximately \$90,000. Expenses, excluding debt service, are approximately \$80,750 per month. Since 2010, Debtor has seen a reduction in sales more than 60% and a reduction in gross profit by approximately 15% due to changes in the economy. The value of the Debtor's real property (excluding business operations) is approximately \$490,000.00.

The Debtor currently employs approximately 13 people in the normal operations of

the Business. For the fiscal year 2014, the Debtor had total revenue of \$1,190,138. For the period January 1, 2015 through September 30, 2015, the Debtor had total revenue of approximately \$1,038,000.00.

(2) HISTORY OF THE DEBTOR'S LOANS.

(a) Wells Fargo Bank, N.A.

On April 20, 2011, Debtor executed and delivered to Wells Fargo a Note in the original amount of \$1,425,600.00, as modified by a Note Modification dated September 6, 2012, and a Modification Agreement dated June 12, 2013 (collectively the "Note"). On April 20, 2011, Debtor executed and delivered to Wells Fargo the following:

1. a Mortgage recorded on April 27, 2011 in Official Records Book 2864, Page 2940 (the "Mortgage")

2. A Commercial Security Agreement (the "Security Agreement").

Wells Fargo filed a UCC-1 Financing Statement with the Florida Secured Transaction Registry on April 26, 2011. On April 29, 2015, Wells Fargo filed a Complaint in the Circuit Court of the First Judicial Circuit in and for Walton County, Florida against the Debtor and others (the "Foreclosure Action"). Wells Fargo asserts in the Foreclosure Action that it is owed \$1,567,562.00. The Defendants filed Answers and Affirmative Defenses to the Lawsuit and Wells Fargo Bank, N.A. had set its Motion for Summary Judgment for hearing on or about October 20, 2015. The Lawsuit also seeks recovery against the guarantors, Wayne and Jennifer Bernheisel.

(b) Ally Bank

In October of 2014, Debtor executed an agreement with Ally Bank for the purchase of a

2007 Chevrolet Silverado and gave to Ally Bank a security interest in the vehicle for the purchase money. As of the filing of this Disclosure Statement, the outstanding balance due Ally Bank is \$9,674.76 which consists of 29 remaining monthly payments of \$326.53.

(3) SOURCE OF FINANCIAL INFORMATION

The source of financial information for this Disclosure Statement and Plan is from reports from the Debtor and the Debtor's officers. The financial information contained herein, including the exhibits annexed to this Disclosure Statement, has not been audited.

II. DEBTOR'S OPERATION AND STRUCTURE

(1) SYNOPSIS OF OPERATION IN CHAPTER 11

On, November 2, 2015, the Debtor filed its application to retain Anchors Smith Grimsley, PLC ("ASG") to represent the Debtor in this case, nunc pro tunc, to the Petition Date. ASG accepted a fee retainer from the Debtor (as supplemented by the Guarantors) in the amount of \$10,000.00, and a cost advance of \$1,717.00. The Debtor recognizes that it is in all constituents' best interest to emerge from Chapter 11 as quickly as possible.

No creditor's committee has been appointed in this case.

On December 23, 2015, the Court entered its Order Authorizing Interim Use of Cash Collateral [ECF No. 32], authorizing the Debtor to use Wells Fargo's cash collateral pursuant to a Budget for the interim period.

On January 28, 2016, the Court entered its Agreed Final Order Authorizing Use of Cash Collateral [ECF No. 50] (the "Final Order") which directed the Debtor to make adequate protection payments to Wells Fargo Bank, N.A. in the amount of \$2,146.00 per month.

The Debtor has filed this Disclosure Statement and the Plan in an effort to

expeditiously start and conclude the reorganization process.

(2) BRIEF SUMMARY OF THE PLAN

The Plan provides, generally, for the following:

- (i) The payment in full of all Allowed Administrative Expense Claims on the Effective Date or upon such other terms as the Debtor and the holder of each Allowed Administrative Expense Claim shall agree;
- (ii) Allowed Priority Claims shall be paid over time as allowed by the Bankruptcy Code;
- (iii) Wells Fargo Bank, N.A. is the holder of a Class 1 Claim. Wells Fargo Bank, N.A. shall retain its Lien in the Property in an amount determined by the Court. Debtor intends to seek operations at another facility and will have this completed no later than December 2016. Should the Debtor be unable to have operations at another facility then Debtor will move to dismiss/convert this Chapter 11 administration. Debtor will continue to pay Wells Fargo adequate protection payments till December of 2016 provided it is able to secure a new operations facility via lease not purchase. The lease for the new operations facility will be for a payment of \$5,000.00/month or less for a term of no more than 3 years. At the time Debtor secures a new operations facility, Debtor will surrender the property at 12889 US Hwy 98 West to Wells Fargo. After surrender, Wells Fargo's claim will be unsecured and the balance will be treated as a Class 3 General Unsecured Claim.
- (iv) Ally Bank is the holder of a Class 2 Claim. Debtor intends to retain the 2007 Chevrolet Silverado and continue to make its monthly payment of \$326.53 till

Ally Bank is paid in full.

- (v) Allowed Class 3 General Unsecured Claims shall receive their pro rata share of a monthly payment of \$5,000.00 at 5.1% for a period of 10 years beginning January 25, 2017 with a balloon payment due at the expiration of the 10 years of monthly payments;
 - (vi) Class 4 Equity Interests shall not be extinguished and the Reorganized Debtor will be continue to be owned by Wayne and Jennifer Bernheisel at the same percentage of ownership.
 - (viii) Class 5 Walton County Tax Collector. This Allowed claim shall be paid when due until the property is surrendered to Wells Fargo at which time no further obligation will be due by Debtor..
 - (ix) The Debtor's Projections are attached hereto as Exhibit A should the Debtor obtain a new operations facility by December 2016. Should the Debtor not secure a new operations facility by December 2016, Debtor shall file to dismiss/convert this Chapter 11 administration.
- (3) EXECUTORY CONTRACTS

Any lease or executory contract not assumed by order of the Court or by the terms of the Plan and Confirmation Order are rejected. Copies of all leases and contracts will be made available to any party that requests them in writing.

(4) OBJECTIONS TO CLAIMS

The claims bar date for all creditors (other than governmental entities) is March 17, 2016. The claims bar date for all governmental entities is June 13, 2016. The IRS has filed a proof of claim to which Debtor objected and the IRS has amended its claim to zero. The Debtor does not anticipate filing significant objections to claims.

(5) PRESERVATION OF ACTIONS AND CAUSES OF ACTIONS

From and after the Effective Date, to the extent not otherwise adjudicated or settled prior to or as a part of the Plan, all rights pursuant to sections 502, 510, 541, 544, 545 and 546 of the Code; all preference claims pursuant to section 547 of the Code; all fraudulent transfer claims pursuant to section 544 or 548 of the Code; all claims relating to post-petition transactions under section 549 of the Code; all claims recoverable under section 550 of the Code; and, all claims (including claims arising at common law or equity) against any person, entity, etc., on account of any debt, other claim or right in favor of the Debtor, seek a determination that they are under-secured or wholly unsecured, that they do not have a lien on the Debtor's assets, including cash, that their claim should be disallowed and or other legal or equitable claims, are hereby preserved, retained and assumed for enforcement by the Debtor or the Reorganized Debtor as appropriate, who shall, at its election, have the right to prosecute or settle, to execute and enforce any judgment or settlement agreement therein and to exercise all such avoidance powers. Based upon payments made prior to the filing of the Petition Date and the payment in full of all claims, the Debtor does not anticipate the filing of any Causes of Action or avoidance actions. However, the Debtor reserves the right to investigate these claims and file them if appropriate.

(6) EFFECT OF CONFIRMATION

General Injunction. Pursuant to Sections 105, 1123, 1129 and 1141 of the Bankruptcy Code, in order to preserve and implement the various transactions contemplated by and provided for in the Plan, as of the Effective Date, except as otherwise expressly provided in the Plan or in the Confirmation Order, all Persons or Entities that have held, currently hold or may hold a Claim, Debt, Liability or Interest that is discharged or terminated pursuant to the terms of the

Plan are and shall be permanently enjoined and forever barred from taking any of the following actions on account of any such discharged or terminated Claims, Debts, Liabilities, or Interests, other than actions brought to enforce any rights or obligations under the Plan or the Plan Documents: (a) commencing or continuing in any manner any action or other proceeding against the Debtor and its Property or Business; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order against the Debtor and its Property or Business; (c) creating, perfecting or enforcing any Lien or encumbrance against the Debtor, and its Property or Business; (d) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtor; (e) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of the Plan or the Confirmation Order; or (f) interfering with or in any manner whatsoever disturbing the rights and remedies of the Debtor. The Debtor shall have the right to independently seek enforcement of this general injunction provision. This general injunction provision is an integral part of the Plan and is essential to its implementation. Notwithstanding anything to the contrary contained herein, the provisions of this Article shall not release or be deemed a release of any of the Causes of Action.

Injunction in Favor of Guarantors. As long as the Reorganized Debtor is not in default under the Plan, Wells Fargo shall be enjoined and barred from taking any of the following actions: (a) commencing or continuing in any manner any action or other proceeding against the Guarantors of such obligations; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order against

the Guarantors; and (c) creating, perfecting or enforcing any Lien or encumbrance against the Guarantors. The Guarantors shall have the right to independently seek enforcement of this injunction provision. Guarantors, Wayne and Jennifer Bernheisel have serve important duties related to the daily activities of the Debtor and therefore are an integral part to the success of reorganization. Wayne's role includes:

- Business Development; whereas I have employees that conduct project sales, I personally handle all business development. This includes networking and identifying upcoming projects that our current General Contractors or others have not approached us about or are not even aware of. I attend weekly Rotary meetings as well as monthly Economic Development Council meetings (TeCMEN) and act as Chairman. I also attend the quarterly meeting EDC meetings.
- I lead all the strategic planning to include:
 - On site bi-weekly sales meeting to review opportunities, issues, and status of major jobs
 - Systemic business issues that need resolution
 - Future business trend analysis
 - Review and introduction of new products to the business
 - Sales promotions and ideas
 - Establish long term agreements with vendors.
- Meet and call potential customers when I'm in the office or referred directly to me because of my networking.
- I review and approve all major customer warranty claims
 - I deal with vendors/suppliers as may be needed when there are claims issues
- Analyze all business lead data that we collect to identify and modify our advertising and marketing activity. This is done on a bi-weekly basis.
 - Approve all advertising and marketing spend
 - Help create advertisements and review for approval
 - Review signage etc.
- Personally interview all project sales, installers, and office personnel applicants for the

business. I either create or review any open position descriptions. I post any positions on Florida's Career Source. VP of Ops does all other postings.

- I review all bills and approve for payment. Payments are not made without my approval.
- Conduct all personnel performance reviews to include setting annual goals and expectations, and counseling that may be necessary or employee improvement plans.

I handle all serious employee issues

I terminate employees if necessary

- I act as business financial manager and review margins, expenses, etc. to insure accuracy and identify any anomalies.

Weekly, I review 100% of all completed jobs and their costs.

I establish process and procedure for pricing to adjust for business actuals as needed or find other solutions to higher than expected costs

Create annual budget and track

- I approve all major product vendors
- I review the sales tax report each month prior to submission to state for payment
- I calculate all commissions each week and provide to VP of Operations for inclusion in payroll submission.
- I double check all payroll before its submitted into the employee leasing system by VP of Operations.
- I personally review all contracts from potential customers. Mark-up, negotiate, and sign off for company acceptance or direct and approve sign off.

I also do all wage certification submittals as required on government contracts

- I review all pricing on large quotes and:

Update e-tempest quote system when vendors adjust their pricing

Create and verify other pricing templates used

- I personally enter payroll into Quickbooks.
- I review, modify and agree to any changes in employee benefits (Paid Time Off, Health Ins, etc.) on no less than an annual basis.

- I perform any online bank requirements to help maintain separation of duties. VP of Operations typically signs all checks approved for payment and Bookkeeper prints the checks.
- I determine all company policies and update on an annual basis such as confidentiality agreements, employee handbook, new customer set up, terms and conditions, etc.
- I manage our IT support service and work with them directly to insure adequate business support is maintained by our system.
- I have also performed building maintenance, cleaned, inspect vehicles, clean vehicles, and run them in for maintenance...all on weekends as may be needed and I can accommodate.
- Pick up and deliver materials. Unload materials. Check material in at the warehouse or on site at main business. Report delivery discrepancies and report to VP of Operations the receipt of any products delivered to the warehouse.
- Purchase job materials as may be needed.

Jennifer's daily duties include managing the office, training, payroll, ordering material, ordering samples, custom paint ordering, job status, advertising & marketing, counter and in-house sales, customer issues, sales support, answering phones, and employee issues. Additionally she runs two meetings per week to cover job status, collections, and job material status. Having the Guarantors distracted by a lawsuit on the Guaranty would not help this small business from a successful reorganization given their extensive and vital duties particularly on a plan of reorganization which will pay Wells Fargo in full plus a market interest.

III. CLAIMANTS AND IMPAIRED INTEREST HOLDERS

Claimants and interest holders entitled to vote under the Plan must affirmatively act in order for the Plan to be confirmed by the Court. According to the Debtor's Plan, none of the Classes 1, 2, 3,4, and 5 are "impaired" classes within the meaning of § 1124 of the Bankruptcy Code. Any impaired class, must vote to accept the Plan in order for the Plan to be confirmed without a cram down. A Claimant who fails to vote to either accept or reject the Plan will not be included in the calculation regarding acceptance or rejection of the Plan.

A ballot to be completed by the holders of Claims and/or Interests is included herewith.

Instructions for completing and returning the ballots are set forth thereon and should be reviewed at length. The Plan will be confirmed by the Court and made binding upon all Claimants and interest holders if (a) with respect to impaired Classes of Claimants, the Plan is accepted by holders of two-thirds (2/3) in amount and more than one-half (1/2) in number of Claims in each such class voting upon the Plan and (b) with respect to classes of interest holders, if the Plan is accepted by the holders of at least two-thirds (2/3) in amount of the allowed interests of such class held by holders of such interests. In the event the requisite acceptances are not obtained, the Bankruptcy Court may, nevertheless, confirm the Plan if it finds that the Plan accords fair and equitable treatment to any class rejecting it. Your attention is directed to Section 1129 of the Bankruptcy Code for details regarding the circumstances of such “cramdown” provisions.

IV. ANALYSIS OF THE PLAN VS. LIQUIDATION ANALYSIS

All payments as provided for the in the Debtor’s Plan shall be funded by the Debtor’s cash on hand and revenue from the operation of the Business.

As with any Plan, an alternative would be a conversion of the Chapter 11 case to a Chapter 7 case and subsequent liquidation of the Debtor by a duly appointed or elected Trustee. In the event of liquidation under Chapter 7, the following is likely to occur:

(a) An additional tier of administrative expenses entitled to priority over general unsecured claims under § 507(a)(1) of the Bankruptcy Code would be incurred. Such administrative expenses would include Trustee’s commissions and fees to the Trustee’s accountants, attorneys and other professionals likely to be retained by said Trustee for the purposes of liquidating the assets of the Debtor.

(b) Further claims would be asserted against the Debtor with respect to such

matters as income and other taxes associated with the sale of the assets, and the inability of the Debtor to fulfill outstanding, contractual commitments and other related claims.

(c) A liquidation analysis containing a balance sheet is attached as Exhibit B .

Predicated upon the foregoing, it is management's opinion that the liquidation value of the Debtor would be insufficient to pay all classes of creditors and that the Allowed Class 1 Wells Fargo Claim would be under secured in that scenario.

The Court has set a claims' Bar Date. All indebtedness scheduled by the Debtor as not disputed, contingent or unliquidated or any indebtedness set forth in a properly executed and filed Proof of Claim shall be deemed an Allowed Claim unless the same is objected to, and the objection thereto is sustained by the Court.

V. RISK ANALYSIS

The Debtor believes there is minimal risk to the creditors if the Plan is confirmed. However, in deciding how to cast your vote, you should consider the following risk factors.

1. **The Debtor fails to meet its revenue projections.**

VI. U.S. FEDERAL INCOME TAX CONSIDERATIONS

A summary description of certain U.S. federal income tax consequences of the Plan is provided below. This description is for informational purposes only and is subject to significant uncertainties. Only the principal consequences of the Plan for the Debtor and for the holders of Claims and Interests who are entitled to vote to confirm or reject the Plan are described below. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan, and no tax opinion is being given in this Disclosure Statement. No rulings or determinations of the Internal Revenue Service ("IRS") or any other tax authorities have been obtained or sought with respect to the Plan, and the description below is not binding upon the IRS or such other authorities.

The following discussion of U.S. federal income tax consequences is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), regulations promulgated and proposed thereunder and judicial decisions and administrative rulings and pronouncements of the IRS as in effect on the date hereof. Legislative, judicial or administrative changes or interpretations enacted or promulgated in the future could alter or modify the analyses and conclusions set forth below. It cannot be predicted at this time whether any tax legislation will be enacted or, if enacted, whether any tax law changes contained therein would affect the tax consequences to holders. Any such changes or interpretations may be retroactive and could significantly affect the U.S. federal income tax consequences discussed below.

THIS DISCUSSION DOES NOT ADDRESS FOREIGN, STATE OR LOCAL TAX CONSEQUENCES OF THE PLAN, NOR DOES IT PURPORT TO ADDRESS THE U.S. FEDERAL TAX CONSEQUENCES OF THE PLAN TO SPECIAL CLASSES OF TAXPAYERS. FURTHERMORE, ESTATE AND GIFT TAX ISSUES ARE NOT ADDRESSED AND TAX CONSEQUENCES RELATING TO THE ALTERNATIVE MINIMUM TAX ARE GENERALLY NOT DISCUSSED HEREIN.

NO REPRESENTATIONS ARE MADE REGARDING THE PARTICULAR TAX CONSEQUENCES OF THE PLAN TO ANY HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

Holders of Claims should generally recognize gain (or loss) to the extent the amount realized under the Plan (generally the amount of Cash received) in respect of

their Claims exceeds (or is exceeded by) their respective tax bases in their Claims. The tax treatment of holders of Claims and the character and amount of income, gain or loss recognized as a consequence of the Plan and the distributions provided for by the Plan will depend upon, among other things, (a) the nature and origin of the Claim, (b) the manner in which a holder acquired a Claim, (c) the length of time a Claim has been held, (d) whether the Claim was acquired at a discount, (e) whether the holder has taken a bad debt deduction in the current or prior years, (f) whether the holder has previously included in income accrued but unpaid interest with respect to a Claim, (g) the method of tax accounting of a holder; and (h) whether a Claim is an installment obligation for U.S. federal income tax purposes. Therefore, holders of Claims should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequence to such holders as a result thereof.

The tax treatment of a holder of a Claim that receives distributions in different taxable years is uncertain. If such a holder treats the transaction as closed in the taxable year it first receives (or is deemed to have received) a distribution of Cash and/or other property, it should recognize gain or loss for such tax year in an amount equal to the cash and the value of other property actually (and deemed) received in such tax year (other than that received in respect of accrued interest) with respect to its Claim (other than any portion of the Claim that is attributable to accrued interest) plus the estimated value of future distributions (if any) less its tax basis in its Claim (except to the extent its Claim is for accrued interest). A holder should then subsequently recognize additional income or loss when additional property distributions are actually received in an amount equal to the Cash and/or value of such other property (other than that received in respect of accrued interest) less the holder's allocable tax basis in

its Claim with respect to such subsequent distribution. A holder may have to treat a portion of any such subsequent distribution as imputed interest recognizable as ordinary income in accordance with the holder's method of tax accounting. If instead the open transaction doctrine applies as a result of the value of the Subsequent Distributions that a holder may receive not being ascertainable on the Effective Date, such holder should not recognize gain (except to the extent the value of the Cash and/or other property already received exceeds such holder's adjusted tax basis in its Claim (other than any Claim for accrued interest)) or loss with respect to its Claim until it receives the final distribution thereon (which may not be until the Final Distribution Date). It is the position of the IRS that the open transaction doctrine applies only in rare and extraordinary cases. The Debtor believes that the open transaction doctrine should not apply and that holders may be entitled to take the position that on the Effective Date no value should be assigned to the right to receive any Subsequent Distributions. Creditors are urged to consult their own tax advisors regarding the application of the open transaction doctrine and how it may apply to their particular situations, whether any gain recognition may be deferred under the installment method, whether any loss may be disallowed or deferred under the related party rules and the tax treatment of amounts that certain Creditors may be treated as paying to other Creditors.

Holders of Allowed Claims will be treated as receiving a payment of interest (in addition to any imputed interest as discussed in the preceding paragraph) includible in income in accordance with the holder's method of accounting for tax purposes, to the extent that any Cash and/or other property received pursuant to the Plan is attributable to accrued but unpaid interest, if any, on such Allowed Claims. The extent to which the receipt of Cash

and/or other property should be attributable to accrued but unpaid interest is unclear. The Plan provides, and the Debtor intends to take the position, that such Cash and/or other property distributed pursuant to the Plan will first be allocable to the principal amount of an Allowed Claim and then, to the extent necessary, to any accrued but unpaid interest thereon. Each holder should consult its own tax advisor regarding the determination of the amount of consideration received under the Plan that is attributable to interest (if any) and whether any such interest may be considered to be foreign source income. A holder generally will be entitled to recognize a loss to the extent any accrued interest was previously included in its gross income and is not paid in full.

Certain payments, including the payments of Claims and Interests pursuant to the Plan, are generally subject to information reporting by the payor to the IRS. Moreover, such reportable payments are subject to backup withholding under certain circumstances. Under the backup withholding rules, a holder of a Claim may be subject to backup withholding at the applicable tax rate with respect to distributions or payments made pursuant to the Plan, unless the holder: (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (b) provides a correct taxpayer identification number and certifies under penalty of perjury as to the correctness of its taxpayer identification number and certain other tax matters. Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of those subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of U.S. federal income taxes, a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES OF THE PLAN ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS ABOUT THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

CIRCULAR 230 DISCLAIMER: The IRS now requires written advice (including electronic communications) regarding one or more Federal (i.e., United States) tax issues to meet certain standards. Those standards involve a detailed and careful analysis of the facts and applicable law which we expect would be time consuming and costly. We have not made and have not been asked to make that type of analysis in connection with any advice given in this Disclosure Statement. As a result, we are required to advise you that any Federal tax advice rendered in this e-mail is not intended or written to be used and cannot be used for the purpose of avoiding penalties that may be imposed by the IRS.

VII. POST-CONFIRMATION STRUCTURE

Upon the Effective Date, the Reorganized Debtor will make disbursements pursuant to the Plan. In accordance with, and subject to, the provisions of the Plan, the Reorganized Debtor shall continue to conduct the day-to-day operations of its business. Wayne and Jennifer

Bernheisel shall continue to own the Reorganized Debtor at the same percentage of ownership. The Debtor contemplates continued management by the Reorganized Debtor through Wayne Bernheisel who shall not receive compensation for this management until the plan is complete. Wayne has not received a salary from Debtor since 2013 and he is willing to receive no pay until the plan is complete.

VIII. CONFIRMATION BY CRAM DOWN

The Debtor reserves the right, in the event that impaired classes reject the Plan, to seek confirmation of the Plan if the Court finds that the Plan does not discriminate unfairly and is fair and equitable with respect to each dissenting class.

The Plan is deemed fair and equitable if it provides (i) that each holder of a Secured Claim retains its lien and receives deferred cash payments totaling at least the allowed amount of its claim, of a value, as of the effective date of the Plan, of at least the value of its secured interest in the property subject to his lien, and (ii) that each holder of an Unsecured Claim receives property of a value equal to the allowed amount of its claim, or no holder of a junior claim receives or retains any property.

IX. MISCELLANEOUS PROVISIONS

A. Notwithstanding any other provisions of the Plan, any Claim which is scheduled as disputed, contingent, or unliquidated or which is objected to in whole or in part on or before the date for distribution on account of such claim shall not be paid in accordance with the provisions of the Plan until such claim has become an Allowed Claim by a Final Order. If allowed, the Claim shall be paid on the same terms as if there had been no dispute.

B. At any time before the Confirmation Date, the Debtor may modify the Plan, but may not modify the Plan so that the Plan, as modified, fails to meet the requirements of

§1122 and § 1123 of the Bankruptcy Code. After the Debtor files a modification with the Bankruptcy Court, the Plan, as modified, shall become the Plan.

C. At any time after the Confirmation Date, and before Substantial Consummation of the Plan, the Debtor may modify the Plan with permission of the Court so that the Plan, as modified, meets the requirements of § 1122 and §1123 of the Bankruptcy Code. The Plan, as modified under this paragraph, shall become the Plan.

D. After the Confirmation Date, the Debtor may, with approval of the Court, and so long as it does not materially and adversely affect the interest of creditors, remedy any defect or omission, or reconcile any inconsistencies in the Plan or in the Order of Confirmation, in such manner as may be necessary to carry out the purposes and effect of the Plan.

E. The Debtor shall pay the United States Trustee the appropriate sum required pursuant to 28 U.S.C. §1930(a)(6), within ten (10) days from the entry of an order confirming this Plan, for pre-confirmation periods and simultaneously provide to the United States Trustee an appropriate affidavit indicating the cash disbursements for the relevant period. The Debtor, as a reorganized debtor, shall further pay the United States Trustee the appropriate sum required pursuant to 28 U.S.C. §1930(a)(6) for post-confirmation periods within the time period set forth in 28 U.S.C. §1930(a)(6), based upon post-confirmation disbursements made by the Reorganized Debtor, until the earlier of the closing of this case by the issuance of a final decree by the Bankruptcy Court, or upon the entry of an order by the Bankruptcy Court dismissing this case or converting this case to another chapter under the United States Bankruptcy Code, and the reorganized debtor shall provide to the United States Trustee upon the payment of each post-confirmation payment an appropriate affidavit indicating all the cash disbursements for the

relevant period.

X. CONCLUSION

Under the Debtor's Plan, all Creditors and interest holders of Debtor will participate in some manner in the distribution to be made thereunder. Proponent believes that the distributions contemplated in its Plan are fair and afford all Claimants and interest holders' equitable treatment. ACCORDINGLY, DEBTOR RECOMMENDS THAT ALL CLAIMANTS AND INTEREST HOLDERS VOTE TO ACCEPT THE PLAN.

DATED: July 16, 2016

GULFCOAST SPECIALTY PRODUCTS &
SERVICES, INC.

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Wayne Bernheisel
Its: President

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