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HDOS ENTERPRISES

10
11 **UNITED STATES BANKRUPTCY COURT**

12 **CENTRAL DISTRICT OF CALIFORNIA**

13 **LOS ANGELES DIVISION**

14
15 In re

16 **HDOS ENTERPRISES,**

17 Debtor in Possession.

Case No. 2:14-bk-12028-NB

Chapter 11

18 **DEBTOR'S PLAN OF**

19 **REORGANIZATION**

20 **Disclosure Statement Hearing**

Date: [To Be Set]

Time:

Ctrm: 1545

255 E. Temple Street

Los Angeles, CA 90012

23 **Confirmation Hearing**

Date: [To Be Set]

Time:

Ctrm: 1545

255 E. Temple Street

Los Angeles, CA 90012

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I.

INTRODUCTION

HDOS Enterprises, the debtor and debtor in possession ("Debtor") in this chapter 11 bankruptcy case ("Case"), hereby proposes the following Plan of Reorganization for the resolution of the Debtor's outstanding creditor claims and equity interests ("Plan").

The Plan provides for the treatment of creditor claims based on the cash currently on hand. Thus, it is described as a "liquidating" plan because it contemplates that all of the Debtor's tangible assets will have been sold, and the Debtor will be holding cash sufficient to implement the provisions of the Plan. Reference is made to the Debtor's Disclosure Statement (which accompanies the Plan) for a discussion of the Debtor's history, its property, the Case, the sale alluded to above, relevant financial information and for its summary of the Plan and matters related to the confirmation process.

II.

DEFINITIONS, INTERPRETATION AND

RULES OF CONSTRUCTION

A. **Definitions.**

In addition to such other terms as are defined in the Bankruptcy Code, elsewhere in the Plan or in the Disclosure Statement, the following terms (which appear in the Plan and this Disclosure Statement as capitalized terms) have the following meaning:

In addition to such other terms as are defined in other sections of the Plan and the Disclosure Statement, the following terms (which appear in the Plan and this Disclosure Statement as capitalized terms) have the following meaning:

1. **"Administrative Claim"** means a Claim for costs and expenses of administration allowed under Section 503(b) of the Bankruptcy Code and referred to in Section 507(a)(1) of the Bankruptcy Code, including, without limitation: (a) the actual and necessary costs and expenses incurred after the Petition Date of preserving the Estate (such as wages, salaries or commissions for services); (b) compensation for legal, financial advisory, accounting and other services and

1 reimbursement of expenses awarded or allowed under Sections 330(a) or 331 of the Bankruptcy
2 Code; and (c) all fees and charges assessed against the Estate under 28 U.S.C. § 1930.

3 2. **“Administrative Tax Claim”** means an Administrative Claim that is not a Secured
4 Claim and that a government unit asserts against the Debtor or the Estate for taxes (or for related
5 interest or penalties) for any tax period that, either in whole or in part, falls within the period
6 beginning on the Petition Date and ending on the Effective Date.

7 3. **“Allowed Amount”** means the amount of any Claim against the Debtor determined in
8 accordance with section 502 or 506(a) of the Bankruptcy Code, or any other applicable section of
9 the Bankruptcy Code, and recognized by the Debtor as valid or allowed by Final Order of the
10 Court, except to the extent described or defined otherwise here or in the Bankruptcy Code.

11 4. **“Allowed Claim”** means a Claim against the Debtor to the extent that the Claim was
12 scheduled in the list of creditors prepared and filed with the Bankruptcy Court by the Debtor and
13 not listed as disputed, contingent or unliquidated as to amount; or a proof of claim was timely
14 filed; or is deemed filed under applicable law or by reason of an order of the Bankruptcy Court;
15 and the Debtor, or Reorganized Debtor, does not file an objection within the time fixed by the
16 Bankruptcy Court and the Claim is not otherwise a Disputed Claim (but only to the extent that
17 such Claim is not a Disputed Claim); the Claim is allowed (and only to the extent allowed) by a
18 Final Order; or the Claim is specifically allowed under the Plan. An Allowed Claim shall not
19 include unmatured or post-petition interest unless otherwise stated in the Plan.

20 5. **“Avoidance Action[s]”** means actions that may be taken to avoid transfer[s] under
21 chapter 5 of the Bankruptcy Code.

22 6. **“APA”** means that certain Asset Purchase Agreement dated July 9, 2014 and executed
23 by the Debtor and the Buyer for the sale of substantially all of the Assets.

24 7. **“Approval Date”** means the date on which an order approving the Debtor’s Disclosure
25 Statement, or an amended version thereof, is entered on the Court's docket.

26 8. **“Assets”** means the tangible and intangible assets that comprise the Estate.

27 9. **“Bank”** means Torrey Pines Bank, N.A.

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1 10. **“Bankruptcy Code” or “Code”** means title 11 of the United States Code, as now in
2 effect or hereafter amended. All citations in the Plan to section numbers are to the Bankruptcy
3 Code unless otherwise expressly indicated.

4 11. **“Bankruptcy Court” or “Court”** means the United States Bankruptcy Court for the
5 Central District of California or, if such court ceases or declines to exercise jurisdiction over the
6 Case, such court or adjunct thereof that exercises jurisdiction over the Case in lieu of the United
7 States Bankruptcy Court for the Central District of California.

8 12. **“Bankruptcy Rules” or “Rules”** means, collectively (a) the Federal Rules of
9 Bankruptcy Procedure and (b) the Local Bankruptcy Rules for the Bankruptcy Court, as now in
10 effect or hereafter amended.

11 13. **“Bar Date”** means the last date for filing proofs of claim with respect to Claims which
12 were (i) not Scheduled, or (ii) Scheduled as disputed, contingent, unliquidated or unknown, or (iii)
13 asserted in an amount in excess of that set forth in the Schedules. The Bar Date in the Case was
14 May 15, 2014.

15 14. **“Business Day”** means any day, other than a Saturday, Sunday or “legal holiday” (as
16 defined in Bankruptcy Rule 9006(a)).

17 15. **“Buyer”** means HDOS Acquisition, LLC, a Delaware limited liability company and
18 the counter-party to the APA.

19 16. **“Calendar Day”** means any day of the week.

20 17. **“Case” or “Chapter 11 Case”** refers to the chapter 11 case of the Debtor (Case No.
21 2:14-bk-12028 NB).

22 18. **“Claim”** means any right to payment, whether or not such right is reduced to
23 judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, legal,
24 equitable, secured or unsecured; or, a right to an equitable remedy for breach of performance if
25 such breach gives rise to a right to payment, whether or not such right is an equitable remedy or is
26 reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed,
27 undisputed, secured or unsecured.

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1 19. **“Claimant”** means the holder of a Claim.

2 20. **“Class”** means a category of Claimants holding Claims that are substantially the same
3 who have been placed in a single group or category for purposes of the treatment of members of
4 the Class under the Plan.

5 21. **“Closing Date”** means the closing date of the Sale, which will be held on the first
6 Business Day after all conditions to closing have been met as provided in the APA.

7 22. **“Confirmation”** means the entry of the Confirmation Order by the Court.

8 23. **“Collateral”** means property of the Estate that is encumbered by a lien, or subject to a
9 security interest to secure payment of a Secured Claim.

10 24. **“Committee”** means the Official Committee of Unsecured Creditors appointed in the
11 Case by the UST.

12 25. **“Confirmation”** means the determination, by the Bankruptcy Court, that the Plan
13 meets the requirements of section 1129 of the Bankruptcy Code.

14 26. **“Confirmation Date”** means the date on which the Bankruptcy Court enters the
15 Confirmation Order on the Court docket.

16 27. **“Confirmation Hearing”** means the hearing regarding Confirmation.

17 28. **“Confirmation Order”** means the order of the Court confirming the Plan under
18 Section 1129 of the Bankruptcy Code.

19 29. **“Contingent Claims”** means those Claims which have not been liquidated or
20 monetized by the Effective Date.

21 30. **“Creditor”** means any Person or entity holding a Claim or Claims against the Debtor.

22 31. **“Creditor’s Committee”** or **“Committee”** means the Official Committee of
23 Unsecured Creditors appointed by the UST in the Case.

24 32. **“Debtor”** means HDOS Enterprises, or its successor entity.

25 33. **“Disbursing Agent”** means either the Reorganized Debtor or that Person designated
26 or retained by the Reorganized Debtor to serve as disbursing agent under the Plan.

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1 34. **“Disclosure Statement”** means the “Disclosure Statement Describing Debtor’s Plan of
2 Reorganization,” prepared by the Debtor as required by Section 1125 of the Bankruptcy Code and
3 approved by an Order of the Bankruptcy Court.

4 35. **“Disputed Claim”** means a Claim as to which a proof of claim has been Filed or
5 deemed Filed under applicable law, as to which an objection has been or may be timely Filed by
6 the Debtor or the Reorganized Debtor and which objection, if timely Filed, has not been
7 withdrawn on or before any date fixed for Filing such objections by the Plan or Order of the
8 Bankruptcy Court and has not been overruled or denied by a Final Order. Prior to the time that an
9 objection has been or may be timely Filed, for the purposes of the Plan, a Claim shall be
10 considered a Disputed Claim in its entirety if: (i) the amount of the Claim specified in the proof of
11 claim exceeds the amount of any corresponding Claim Scheduled by the Debtor; (ii) any
12 corresponding Claim Scheduled by the Debtor in its Schedules of Assets and Liabilities has been
13 Scheduled as disputed, contingent, or unliquidated, irrespective of the amount scheduled; or
14 (iii) no corresponding Claim has been Scheduled by the Debtor in its Schedules of Assets and
15 Liabilities.

16 36. **“Effective Date”** means the first Business Day after thirty (30) Calendar Days
17 following the Confirmation Date.

18 37. **“Equity Security” or “Interest”** means an equity interest in the Debtor.

19 38. **“Equity Security Holder”** means a holder of an Equity Security or Interest.

20 39. **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.

21 40. **“ESOP”** means the Hot Dog on a Stick Employee Stock Ownership Plan, the holder of
22 one hundred percent (100%) of Debtor’s Equity Securities.

23 41. **“ESOP Trustee”** means Nicholas Saakvitne, the ESOP trustee.

24 42. **“Estate”** means the estate created in the Case under Section 541 of the Bankruptcy
25 Code.

26 43. **“File” or “Filed”** means filed with the Court in the Case.
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1 44. **“Final Order”** means an order or judgment of the Court, the United States District
2 Court or other court of competent jurisdiction, which has not been reversed, stayed, modified,
3 remanded or amended, and as to which (i) the time to appeal or seek *certiorari* has expired and no
4 appeal or petition for *certiorari* has been timely filed, or (ii) any appeal that has been or may be
5 taken or any petition for *certiorari* that has been or may be filed has been resolved by the highest
6 court to which the order or judgment was appealed or from which *certiorari* was sought.

7 45. **“General Unsecured Claims”** means Unsecured Claims not entitled to priority under
8 subsection 507(a) of the Bankruptcy Code.

9 46. **“Insider”** means an insider of the Debtor, as that term is defined in Bankruptcy Code
10 section 101(31).

11 47. **“KERP”** means the Key Employee Retention Plan granted by the Court on June 18,
12 2014 [Docket No. 337], under which certain of the Debtor’s critical employees are entitled to a
13 key employee retention plan bonus if they remain in the Debtor’s employment for a specified
14 period of time.

15 48. **“Lease Rejection Claim”** means a Claim arising from the rejection of an unexpired
16 commercial lease.

17 49. **“Order”** means an order or judgment of the Bankruptcy Court as entered on the
18 docket.

19 50. **“Person”** means any individual, corporation, general partnership, limited partnership,
20 association, joint stock company, joint venture, estate, trust, government or any political
21 subdivision, governmental unit (as defined in the Bankruptcy Code) or official committee
22 appointed by the United States Trustee.

23 51. **“Petition”** means the voluntary chapter 11 bankruptcy petition Filed by the Debtor.

24 52. **“Petition Date”** means February 3, 2014.

25 53. **“Plan”** means the Debtor’s Plan of Reorganization in this Case and all exhibits and
26 schedules annexed thereto or referred to therein, as the same may be amended, modified, or
27 supplemented from time to time.

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1 54. **“Plan Distribution Account”** means the account to be created by the Debtor at or
2 before Confirmation, from which the Disbursing Agent will make distributions under the Plan.

3 55. **“Priority Claim”** means an Unsecured Claim entitled to priority pursuant to
4 subsections 507(a)(1), (3), (4) and (6) of the Bankruptcy Code for wages, salaries, vacation,
5 severance, sick pay or commissions.

6 56. **“Priority Tax Claim”** means a Claim entitled to priority under section 507(a)(8) of
7 the Bankruptcy Code that a government unit asserts against the Debtor or the Estate for taxes (or
8 for related interest or penalties) for any tax period that, either in whole or in part, falls before the
9 Petition Date.

10 57. **“Professional Fee Claim”** means:

11 (a) A Claim under Bankruptcy Code §§ 327, 328, 330, 331, 503 or 1103 for
12 compensation for professional services rendered or expenses incurred in the Case, or

13 (b) A Claim either under Bankruptcy Code § 503(b)(4) for compensation for
14 professional services rendered or under Bankruptcy Code § 503(b)(3)(D) for expenses incurred in
15 making a substantial contribution to the Estate.

16 58. **“Reorganized Debtor”** means the Debtor, on and after the Confirmation Date.

17 59. **“Royalty Note”** means the promissory note payable by the Buyer to the Reorganized
18 Debtor as provided for in the APA. The principal amount of the Royalty Note is equal to one
19 percent (1%) of the annual net revenues generated by the Hot Dog on a Stick restaurants acquired
20 under the APA for each of calendar years 2015, 2016, 2017 and 2018, but not less than \$250,000
21 for each of calendar years 2015, 2016, 2016 and 2018.

22 60. **“Sale”** means the sale of substantially all of the Assets to the Buyer under the terms of
23 the APA, free of liens and other claims pursuant to section 363(f) of the Bankruptcy Code.

24 61. **“Scheduled”** means as set forth on the Schedules of Asset and Liabilities.

25 62. **“Schedules of Assets and Liabilities”** means the Schedules of Assets and Liabilities
26 filed by the Debtor with the Bankruptcy Court, as the same have been or may be amended from
27 time to time prior to the Effective Date.

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1 63. **“Secured Claim”** means a Claim secured by a lien, security interest or other charge
2 against the property in which the Estate has an interest, or which is subject to set-off under section
3 553 of the Bankruptcy Code, to the extent of the value of the property, determined in accordance
4 with section 506(a) of the Bankruptcy Code.

5 64. **“Secured Creditor”** means the holder of an Allowed Secured Claim.

6 65. **“Subordinated Secured Claims”** means the Secured Claims of Yoachum and
7 Witczak.

8 66. **“Unclassified Claims”** means Administrative Claims, Administrative Tax Claims,
9 Priority Claims and Priority Tax Claims.

10 67. **“Unsecured Claim”** means a Claim against the Debtor that is (i) not secured by a lien
11 or security interest against property of the Estate determined in accordance with section 506(a) of
12 the Bankruptcy Code, and (ii) not subject to set-off under Section 553 of the Bankruptcy Code,
13 and (iii) is not a Priority Claim.

14 68. **“Unsecured Creditor”** means the holder of an Unsecured Claim.

15 69. **“UST”** means the Office of the United States Trustee, Region 16.

16 70. **“Witczak”** means Christopher J. and Linda Witczak.

17 71. **“Yoachum”** means Larry R. and Rosa Yoachum.

18 B. **Interpretation, Computation Of Time And Governing Law.**

19 1. **Defined Terms.** Any term used in the Plan or the Disclosure Statement that is not
20 defined in the Plan, in Article II, Section A, but that is used in the Bankruptcy Code or the
21 Bankruptcy Rules has the meaning provided in the Bankruptcy Code or the Bankruptcy Rules.

22 2. **Rules of Interpretation.** For purposes of the Plan: (a) whenever from the context
23 it is appropriate, any term, whether stated in the singular or the plural, shall include both the
24 singular and the plural; (b) any reference in the Plan to a contract, instrument, agreement or
25 document being in a particular form or on particular terms and conditions means that such
26 document shall be substantially in such form or substantially on such terms and conditions; (c) any
27 reference in the Plan to an existing document or Exhibit Filed or to be Filed means such document
28

1 Holders of Administrative Claims (including, without limitation, professionals
2 requesting compensation or reimbursement of expenses and holders of Administrative Tax
3 Claims) that are required to File a request for payment of such Claims and that do not File such
4 requests by the applicable bar date shall be forever barred from asserting such Claims against
5 the Debtor, the Debtor in Possession, the Estate, the Reorganized Debtor, or any of their
6 respective property.

7 (a) Professionals.

8 For all fees except Clerk's Office fees and UST fees, all professionals or other entities
9 seeking compensation or reimbursement of expenses pursuant to Sections 327, 328, 330, 331,
10 503(b) and 1103 of the Bankruptcy Code for services rendered before the Effective Date
11 (including, without limitation, any compensation requested by any professional or any other
12 Person for making a substantial contribution in the Case) shall File and serve on the
13 Reorganized Debtor an application for final allowance of compensation and reimbursement of
14 expenses no later than sixty (60) Calendar Days after the Effective Date and the Court must rule
15 on the application. Only the Allowed Amount of fees will be required to be paid under this
16 Plan.

17 (b) Ordinary Course Liabilities.

18 Holders of Administrative Claims based on liabilities incurred in the ordinary course of
19 the Debtor's business (other than Claims of governmental units for taxes or Claims and/or
20 penalties related to such taxes) shall not be required to File any request for payment of such
21 Claims. Such Administrative Claims shall be assumed and paid by the Reorganized Debtor
22 pursuant to the terms and conditions of the particular transaction giving rise to such
23 Administrative Claim, without any further action by the holder[s] of such Claim[s].

24 The following chart lists all of the Debtor's § 507(a)(1) Administrative Claims and their
25 treatment under this Plan.

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<u>NAME</u>	<u>AMOUNT OWED</u>	<u>TREATMENT</u>
Friedman Law Group, P.C.	\$97,000 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Clerk's Office	\$0.00 (estimate)	Paid in full on Effective Date.
UST	\$13,000.00 (estimate)	Paid in full on or before Effective Date.
Pachulski Stang Ziehl & Jones	\$140,000 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
A & G Realty Partners	\$170,000.00	Paid in full on or before Effective Date.
Greenberg Traurig, LLP	\$25,000 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
FTI Consulting, Inc.	\$165,000 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Scouler & Company, LLC	\$175,000 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Law Offices of Brian Cole	\$0.00 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>TREATMENT</u>
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	Littler Mendelson \$0.00 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Kacvinsky, Daisak, Bluni PLLC	\$0.00 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Rust Omni Consulting	\$9,370.00 (estimate)	To the extent there are any unpaid professional fees accruing pre-Confirmation, the Allowed Amount of such Claim shall be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
KERP	\$412,000 (Aggregate)	Paid in full thirty (30) Calendar Days after the Effective Date.
TOTAL	\$1,206,370.00	

2. Administrative Tax Claims.

Administrative Tax Claims are Administrative Claims that are not Secured Claims and that a government unit asserts against Debtor or the Estate for taxes (or for related interest or penalties) for any tax period that, either in whole or in part, falls within the period beginning on the Petition Date and ending on the Effective Date. The Administrative Tax Claims will be paid in full, in cash on the later of (i) the Effective Date, and (ii) the first Business Day after the Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>TREATMENT</u>
California State Board of Equalization	\$217,500 (estimate)	The Claim of the California State Board of Equalization will be paid in full and on the later of the Effective Date of the first Business Day after the Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>TREATMENT</u>
Hawaii Department of Taxation	\$4,802.11 (estimate)	The Claim of the Hawaii Department of Taxation will be paid in full and on the later of the Effective Date of the first Business Day after the Claim becomes an Allowed Claim.
Nevada Department of Taxation	\$17,519.48 (estimate)	The Claim of the Nevada Department of Taxation will be paid in full and on the later of the Effective Date of the first Business Day after the Claim becomes an Allowed Claim.
New Mexico Taxation & Revenue Department	\$5,000.03 (estimate)	The Claim of the New Mexico Taxation & Revenue Department will be paid in full and on the later of the Effective Date of the first Business Day after the Claim becomes an Allowed Claim.
Utah State Tax Commission	\$27,078.41 (estimate)	The Claim of the Utah State Tax Commission will be paid in full and on the later of the Effective Date of the first Business Day after the Claim becomes an Allowed Claim.
TOTAL	\$271,900.03	

3. Priority Tax Claims.

The Bankruptcy Code requires that each holder of such a 507(a)(8) Priority Tax Claim receive at least the present value of such Claim in deferred cash payments, over a period not exceeding five years from the Petition Date. The Priority Tax Claims will be paid in full, in cash on the later of (i) the Effective Date, or (ii) the first Business Day after the Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>TREATMENT</u>
California State Board of Equalization	\$438,110.41	The Claim of the California State Board of Equalization will be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Los Angeles County Tax Collector	\$10,393.58	The Claim of the Los Angeles County Tax Collector will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Maricopa County Treasurer	\$712.39	The Claim of the Maricopa County Treasurer will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Nevada Department of Taxation	\$41,366.00	The Claim of the Nevada Department of Taxation will be paid in full on the later of the

		Effective Date and the first business day after the Claim becomes an Allowed Claim.
State of Wyoming Department of Revenue & Taxation	\$3,009.70	The Claim of the State of Wyoming Department of Revenue & Taxation will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Utah State Tax Commission	\$34,555.00	The Claim of the Utah State Tax Commission will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
County of Orange	\$3,308.31	The Claim of the County of Orange will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Arizona Attorney General	\$211.90	The Claim of the Arizona Attorney General will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
TOTAL	\$531,667.29	

4. Priority Claims.

Priority Claims will be paid in full, in cash on the later of (i) the Effective Date, and (ii) the first Business Day after the Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>TREATMENT</u>
Dan Smith	\$5,769.23	The Priority Claim of Dan Smith will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Angela Percival	\$12,475.00	The Priority Claim of Angela Percival will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Vivianna Becerrill	\$12,475.00	The Priority Claim of Vivianna Becerrill will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Erin Massa	\$7,558.08	The Priority Claim of Erin Massa will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Eugene Hallner	\$2,692.00	The Priority Claim of Eugene Hallner will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Grant Jurgenson	\$4,302.74	The Priority Claim of Grant Jurgenson will be paid in full on the later of the Effective Date

		and the first business day after the Claim becomes an Allowed Claim.
Jay B. Kowallis	\$12,475.00	The Priority Claim of Jay B. Kowallis will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Jeffrey Disbrow	\$11,405.57	The Priority Claim of Jeffrey Disbrow will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Kathleen Johnson	\$8,106.96	The Priority Claim of Kathleen Johnson will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Laurie Sonia	\$12,475.00	The Priority Claim of Laurie Sonia will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Lisbeth Miller	\$6,683.55	The Priority Claim of Angela Percival will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Marnie Purvis	\$12,475.00	The Priority Claim of Angela Percival will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Nicole Ogden	\$12,234.29	The Priority Claim of Angela Percival will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Vanessa Leavitt	\$10,841.93	The Priority Claim of Angela Percival will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
Dan Bylund	\$3,576.93	The Priority Claim of Dan Bylund will be paid in full on the later of the Effective Date and the first business day after the Claim becomes an Allowed Claim.
TOTAL	\$135,546.28	

C. Classified Claims and Interests.

1. Classes of Secured Claims.

The following provisions of the Plan cover all Secured Claims, and provide for their treatment under this Plan.

Class 1 – Secured Claim of the Bank.

The Secured Claim of the Bank will be paid in full in cash from proceeds of the Sale.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>INSIDERS (Y/N)</u>	<u>IMPAIRED (Y/N)</u>	<u>TREATMENT</u>
Bank	\$1,039,496.00	No	No	The Secured Claim of the Bank will be paid in full in cash from proceeds of the Sale.
TOTAL	\$1,039,496.00			

Class 2 – Secured Claims of the Subordinated Secured Creditors.

The Secured Claims of the Subordinated Secured Creditors will be paid in full in cash from proceeds of the Sale.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>INSIDERS (Y/N)</u>	<u>IMPAIRED (Y/N)</u>	<u>TREATMENT</u>
Witczak	\$531,720.80	No	No	The Secured Claim of Witczak will be paid in full in cash from proceeds of the Sale.
Yoachums	\$797,581.20	No	No	The Secured Claim of Yoachum will be paid in full in cash from proceeds of the Sale.
TOTAL	\$1,329,302.00			

2. Classes of Unsecured Claims.

Class 3 – General Unsecured Claims Other Than Lease Rejection Claims And Contingent Claims.

General Unsecured Claims are Unsecured Claims not entitled to priority under Code Section 507(a). As set forth in Section V(D), the Disbursing Agent will pay holders of General Unsecured Claims, other than Lease Rejection Claims (see Class 4 below), the Allowed Amount on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.

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<u>NAME</u>	<u>AMOUNT OWED</u>	<u>INSIDERS</u> (Y/N)	<u>IMPAIRED</u> (Y/N)	<u>TREATMENT</u>
General Unsecured Claims	\$1,873,193 (estimate)	No	Yes	The holders of General Unsecured Claims (estimated, based on Claims properly filed in the Case or Scheduled by Debtor and not considered, as of the Petition Date to be "contingent, disputed or unliquidated") shall be paid in full in cash on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.

Class 4 – Lease Rejection Claims.

Lease Rejection Claims are Unsecured Claims which arise from the rejection of an unexpired lease between the Debtor and its landlord. Lease Rejection Claims are not entitled to priority under Code Section 507(a). As set forth in Section V(D), the Disbursing Agent will pay all holders of Class 4 Lease Rejection Claims the Allowed Amount on the later of the Effective Date and the first Business Day after the Lease Rejection Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>INSIDERS</u> (Y/N)	<u>IMPAIRED</u> (Y/N)	<u>TREATMENT</u>
Lease Rejection Claims	\$1,657,627 (estimate)	No	Yes	The Lease Rejection Claims will be paid in full in cash on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.

Class 5 – The Unsecured Claim Of The ESOP.

The Unsecured Claim of the ESOP, if any, will be subordinated to all Claims in Plan Classes 1 through 4. If necessary, the Class 5 Claim of the ESOP shall be estimated for voting purposes, as provided in Bankruptcy Rule 3018(a). The Class 5 Claim will be paid from cash available for distribution after the payment of all Allowed Claims of higher priority, including Unclassified Claims. Payment to the holder of the Allowed Class 5 Claim will be made on the

1 later of i) the first Business Day after the first anniversary of the Effective Date; and ii) the first
2 Business Day after the Claim becomes an Allowed Claim.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>INSIDERS (Y/N)</u>	<u>IMPAIRED (Y/N)</u>	<u>TREATMENT</u>
Unsecured Claim of the ESOP	\$12,666,000 (estimate)	No	Yes	The Unsecured Claim of the ESOP, if any, will be subordinated to Claims in Plan Classes 1 through 4 and will be paid from cash available for distribution after the payment of all Allowed Claims of higher priority, including Unclassified Claims. Payment to the holder of the Class 5 Claim will be made on the later of i) the first Business Day after the first anniversary of the Effective Date; and ii) the first Business Day after the Claim becomes an Allowed Claim.

13 Class 6 – Interests.

14 The Interests will be retained by the ESOP until the Equity Securities are redeemed by
15 the Reorganized Debtor. Upon redemption, the Reorganized Debtor anticipates declaring an “in
16 kind” dividend, and assigning the Royalty Note to the ESOP, along with any remaining cash
17 after distributions are made to the holders of Allowed Claims. The timing and structure of that
18 transaction will also depend on the advice of Debtor’s special ESOP counsel and the relevant
19 provisions of ERISA. As of this writing, it is the Debtor’s intention to defer this transaction
20 until the Unsecured Claim of the ESOP has been resolved, but not less than twelve (12) months
21 after the Effective Date. The intent of this deferral is to protect the Estate from any Claims that
22 may be Filed against the Debtor.

<u>NAME</u>	<u>AMOUNT OWED</u>	<u>INSIDERS (Y/N)</u>	<u>IMPAIRED (Y/N)</u>	<u>TREATMENT</u>
Interests	Unknown	No	Yes	Interests will be retained by the ESOP until the Equity Securities are redeemed by the Reorganized Debtor and exchanged for cash and the Royalty Note.

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IV.

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

The Debtor believes that all executory contracts and unexpired leases, which were in existence as of the Petition Date (i) have been either assumed or rejected pursuant to prior order of the Court, or (iii) have expired or terminated under the terms of the agreement.

The Debtor may amend this Article of the Plan at any time before the Effective Date to: (a) delete any executory contract or unexpired lease and provide for its rejection under the Plan or otherwise, or (b) add any executory contract or unexpired lease and provide for its assumption and assignment. Any executory contract or unexpired lease not expressly assumed in connection with the Plan will be deemed rejected on the Effective Date.

V.

MEANS FOR EXECUTION AND IMPLEMENTATION OF THE PLAN

A. Funding of Plan.

All obligations required to be satisfied in cash under the Plan on the Effective Date will be satisfied from cash on hand of the Debtor. It is anticipated that the Sale proceeds will be more than sufficient to pay all obligations arising under the Plan, on the Effective Date and beyond.

B. Effective Date Payments.

The Debtor anticipates the following payments required under the Plan, on or soon after the Effective Date, in the amounts estimated as follows:

<u>NAME</u>	<u>ESTIMATED AMOUNT</u>	<u>TREATMENT</u>
Professional Fees	\$460,000	To the extent there are any unpaid professional fees accruing pre-confirmation, the Allowed Amount of such Claim will be paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
UST Fees	\$13,000	Paid in full on or before the Effective Date.

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KERP	\$412,000	Paid in full thirty (30) Calendar Days after the Effective Date.
Administrative Tax Claims	\$209,976.00	Paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Priority Tax Claims	\$531,667.29	Paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Priority Claims	\$135,546.28	Paid in full on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Class 1: Secured Claim of the Bank	\$1,039,496.00	Paid in full in cash from proceeds of the Sale.
Class 2: Secured Claim of the Subordinated Secured Creditors	\$1,329,302.00	Paid in full in cash from proceeds of the Sale.
Class 3: General Unsecured Claims	\$1,873,193	The Allowed Amount of General Unsecured Claims (estimated, based on Claims properly filed in the Case or Scheduled by Debtor and not considered, as of the Petition Date to be “contingent, disputed or unliquidated”) will be paid in full in cash on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
Class 4: Lease Rejection Claims	\$1,657,627	The Allowed Amount of the Lease Rejection Claims will be paid in full in cash on the later of the Effective Date and the first Business Day after the Claim becomes an Allowed Claim.
TOTAL	\$7,661,807.57	

C. Reservation of Rights to Initiate Post-Confirmation Claim Objections

The Debtor reserves all rights to object to Claims both before and after Confirmation. Claimants whose Claims are objected to will receive notice and an opportunity to respond. Any Claim objection shall be filed no later than 90 days after the Effective Date. Unless a Creditor’s Claim has been expressly allowed by Order of the Court, and except as noted above, no Creditor should rely or expect that his/her/its Claim will be allowed in full when voting on the Plan.

1 D. Disbursing Agent.

2 The Reorganized Debtor, or a Person designated by the Reorganized Debtor in its
3 discretion, shall act as the Disbursing Agent to make all distributions provided for under the Plan.
4 The Disbursing Agent shall serve without bond and shall receive such compensation for
5 distribution services rendered pursuant to the Plan as the parties may agree.

6 E. Limitation of Liability.

7 Neither the Debtor, the Reorganized Debtor, nor any of its shareholders, officers,
8 directors, employees, members or agents, nor any professional Persons employed by the Debtor
9 and the Reorganized Debtor, shall have or incur any liability to any Person for any act taken or
10 omission made in good faith in connection with, related to, or arising out of the Case or
11 formulating, implementing, confirming or consummating the Plan, this Disclosure Statement or
12 any contract, instrument, release or other agreement or document created in connection with the
13 Plan or this Disclosure Statement to the fullest extent permitted by the Bankruptcy Code.

14 F. Fees, Default Interest, Late Charges.

15 Notwithstanding anything to the contrary herein, no attorneys' fees or other
16 "professional" fees (as the term "professional" is defined in 11 U.S.C. § 327) or default interest,
17 late penalties or any similar charge claimed by a Creditor of the Estate shall be compensable by
18 the Debtor, or out of property of the Estate, nor shall the same constitute part of an Allowed
19 Claim, until the creditor seeking to recover said fees from the Debtor or the Estate has had such
20 fees approved as "reasonable" or otherwise "enforceable" by the Bankruptcy Court. Such
21 approval must be made through a motion for the recovery of same which is (i) made on no less
22 than twenty-one (21) days' written notice to the Reorganized Debtor, its attorneys and the Office
23 of the UST, and (ii) filed and served within sixty (60) days after the Confirmation Date or be
24 forever barred.

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1 VI.

2 **EFFECT OF CONFIRMATION OF PLAN**

3 A plan of reorganization is “confirmed” by the entry of the Confirmation Order. The
4 purpose of this section is to describe some of the more important legal effects that will result
5 from Confirmation.

6 A. Discharge.

7 The Plan provides that upon payment of all payments under the Plan, the Debtor may, after
8 notice and a hearing, request the Court grant an Order discharging the Debtor for all debts incurred
9 before Confirmation. However, the discharge will not discharge any liability imposed by the Plan.
10 *See*, Bankruptcy Code section 1141(d)(5)(A).

11 Confirmation will be binding upon all Creditors and the Claims that arose before the
12 Confirmation Date to the extent they are allowed. The assumption by the Reorganized Debtor of
13 the obligations pursuant to the Plan as confirmed, together with substantial consummation of the
14 Plan, shall constitute payment in full of all such debts. Thereafter, Creditors may enforce payment
15 of their Claims only as modified and restructured in the Plan. Creditors may enforce such
16 obligations in courts of competent jurisdiction after substantial consummation of the Plan. The
17 Plan shall be considered to be “substantially consummated” in accordance with the definition
18 provided in Bankruptcy Code section 1101(2); and “fully administered” in accordance with
19 Federal Rule of Bankruptcy Procedure 3022.

20 B. Revesting of Property in the Reorganized Debtor.

21 Except as provided elsewhere in the Plan, Confirmation of the Plan will revest all of the
22 property of the Estate in the Reorganized Debtor.

23 C. Post Confirmation Status Report – Court.

24 Within 120 days of the entry of the order confirming the Plan, the Reorganized Debtor
25 shall file a status report with the Court explaining what progress has been made toward
26 consummation of the Plan. The status report shall be served on the UST and those parties who
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1 have requested special notice. Further status reports shall be filed every 120 days and served on
2 the same entities.

3 D. Post-Confirmation Conversion/Dismissal.

4 A Creditor or party in interest may bring a motion to convert or dismiss the Case under
5 Bankruptcy Code section 1112(b), after Confirmation, if there is a default in performing the Plan.
6 If the Court orders the Case converted to chapter 7 after the Plan is confirmed, then all property
7 that had been property of the Estate, and that has not been disbursed pursuant to the Plan, will
8 revert in the Chapter 7 estate. The injunction provide by the automatic stay will be reimposed
9 with respect to revested property, but only to the extent that relief from stay was not previously
10 authorized by the Court during the Case. The Confirmation Order may also be revoked under very
11 limited circumstances.

12 E. Retention of Jurisdiction.

13 Notwithstanding Confirmation or occurrence of the Effective Date, the Court shall retain
14 jurisdiction over the Case to the fullest extent provided by law. *See*, Section VII below.

15 F. Final Decree.

16 Once the estate has been fully administered as referred to in Bankruptcy Rule 3022, the
17 Reorganized Debtor shall file a motion with the Court to obtain a final decree to close the Case.

18 G. Tax Consequences of the Plan.

19 1. Introduction.

20 The implementation of the Plan may have tax consequences to the Debtor, its Creditors
21 and its Equity Security Holders. No tax opinion has been sought or will be obtained with respect
22 to any tax consequences of the Plan. Nothing in the Plan or the Disclosure Statement is intended
23 to constitute, either a tax opinion or tax advice to any person, and the summary below is provided
24 for informational purposes only.

25 The discussion below summarizes only certain of the federal tax consequences associated
26 with the implementation of the Plan. This discussion does not attempt to comment on all aspects
27 of the federal tax consequences associated with the Plan, nor does it attempt to consider various
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1 facts or limitations applicable to any particular Creditor which may modify or alter the
2 consequences described herein. A Creditor may find that the tax consequences of the Plan to
3 such Creditor differ materially from the tax consequences discussed below because of the
4 Creditor's facts and circumstances. This discussion does not address state, local or foreign tax
5 consequences or the consequences of any federal tax other than the federal income tax.

6 The following discussion is based upon the provisions of the Internal Revenue Code, the
7 regulations promulgated thereunder, and existing judicial decisions and administrative rulings. In
8 light of the rapidly-changing nature of tax law, no assurance can be given that legislative, judicial
9 or administrative changes will not be forthcoming that would affect the accuracy of the
10 discussion below. Any such changes could be material and could be retroactive with respect to
11 the transactions entered into or completed prior to the enactment or promulgation thereof. The
12 tax consequences of certain aspects of the Plan are uncertain due to the lack of applicable legal
13 authority and may be subject to judicial or administrative interpretations that differ from the
14 discussion below.

15 2. Federal Income Tax Consequence to the Debtor

16 The Debtor is a corporation for federal tax purposes. Debt discharged or modified by the
17 Plan may constitute income to the Debtor. That income will likely qualify as "cancellation of
18 debt" income and be excluded from the Debtor's taxable income under § 108 of the Internal
19 Revenue Code. Amounts included from taxable income may reduce tax attributes of the Debtor
20 such as net operating losses and adjusted tax basis in assets.

21 3. Tax Consequences to Creditors

22 A Creditor who receives a Distribution on its/his/her Claim that is less than such
23 Creditor's adjusted basis in such Claim may be entitled to claim a bad debt deduction for this
24 difference. A bad debt deduction is allowed in the taxable year of the Creditor in which a debt
25 becomes worthless. The Debtor expresses no opinion regarding the date or dates on which
26 Claims discharged under the Plan became or may become worthless.

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1 d. Grant or deny any application for allowance of compensation or
2 reimbursement of expenses authorized pursuant to the Bankruptcy Code or this Plan, for periods
3 ending on or before the Effective Date;

4 e. Resolve any motion pending on the Effective Date to assume, assume and
5 assign, or reject any executory contract or unexpired lease to which the Debtor is a party or with
6 respect to which the Debtor may be liable and to hear, determine and, if necessary, liquidate, any
7 and all Claims arising therefrom;

8 f. Ensure that distributions to holders of Allowed Claims are accomplished
9 pursuant to the provisions of this Plan;

10 g. Correct any defect, cure any omission, or reconcile any inconsistency in
11 this Plan or in the Confirmation Order as may be necessary to carry out the purposes and intent of
12 this Plan;

13 h. Decide or resolve any application, motion, adversary proceeding, contested
14 or litigated matter or grant or deny any application, motion, adversary proceeding or any other
15 matter involving the provisions of this Plan, the Confirmation Order, the Equity Interests after
16 Confirmation, the Debtor or the Estate that may be pending on the Effective Date, may be raised
17 after the Effective Date;

18 i. Enter such orders as may be necessary or appropriate to implement or
19 consummate the provisions of this Plan and all contracts, instruments, releases, and other
20 agreements or documents created in connection with this Plan, including orders under
21 Bankruptcy Code section 1142, and/or 1143 and/or 1146(b);

22 j. Resolve any and all controversies, suits or issues that may arise in
23 connection with the consummation, interpretation or enforcement of this Plan, or any entity's
24 obligations incurred in connection with this Plan;

25 k. Modify this Plan before or after the Effective Date pursuant to Section
26 1127 of the Bankruptcy Code, or modify any contract, instrument, release, or other agreement or
27 document created in connection with this Plan; or remedy any defect or omission or reconcile any
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1 inconsistency in any Bankruptcy Court Order, this Plan, any contract, instrument, release, or
2 other agreement or document created in connection with this Plan, in such manner as may be
3 necessary or appropriate to consummate this Plan, to the extent authorized by the Bankruptcy
4 Code;

5 l. Issue injunctions, enter and implement other orders or take such other
6 actions as may be necessary or appropriate to restrain interference by any entity with
7 consummation or enforcement of this Plan;

8 m. Enter and implement such orders as are necessary or appropriate if the
9 Confirmation Order is for any reason modified, stayed, reversed, revoked or vacated;

10 n. Determine any other matter that may arise in connection with or relate to
11 this Plan, the Confirmation Order or any contract, instrument, release, or other agreement or
12 document created in connection with this Plan; and

13 o. Enter an order closing the Case. If the Bankruptcy Court abstains from
14 exercising jurisdiction or is otherwise without jurisdiction over any matter arising out of the Case,
15 including the matters set forth in this Article, this Article shall have no effect upon and shall not
16 control, prohibit, or limit the exercise of jurisdiction by any other court having competent
17 jurisdiction with respect to such matter.

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VIII.

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MISCELLANEOUS PROVISIONS

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A. Plan Modification.

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The Debtor may modify the Plan at any time before Confirmation. The Reorganized
Debtor may modify the Plan at any time after Confirmation if: (a) the Plan has not been
substantially consummated; and (b) the Court, after notice and a hearing, authorizes the proposed
modification.

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1 B. Withdrawal of this Plan.

2 The Debtor reserves the right to revoke or withdraw this Plan prior to Confirmation. If
3 the Debtor withdraws this Plan, then this Plan shall be null and void, and nothing contained in
4 this Plan shall: (1) constitute a waiver or release of any Claim by or against, or any Interest in, the
5 Debtor; or (2) prejudice the rights of the Debtor in any further proceeding.

6 C. Exemption from Certain Transfer Taxes.

7 In accordance with Bankruptcy Code section 1146(c), neither the issuance, transfer, nor
8 exchange of a security, nor the delivery of an instrument or transfer under this Plan shall be taxed
9 under any law imposing a stamp or similar tax. The Confirmation Order shall direct all
10 governmental officials and agents to forego the assessment and collection of any such tax or
11 governmental assessment and to accept for filing and recordation any of the foregoing
12 instruments or other documents without payment of such tax or other governmental assessment.

13 D. Successors and Assigns.

14 The rights, benefits and obligations of any entity named or referred to in this Plan shall be
15 binding on, and shall inure to the benefit of, any heir, executor, administrator, successor or assign
16 of such entity.

17 E. Exhibits.

18 Exhibits to this Plan that are not Filed simultaneously with this Plan shall be mailed to any
19 party-in-interest that makes a written request for such Exhibits to the Debtor after such Exhibits
20 are Filed.

21 F. Saturday, Sunday or Legal Holiday.

22 If any payment or act under this Plan is required to be made or performed on a date that is
23 not a Business Day, then the making of such payment or the performance of such act may be
24 completed on the next succeeding Business Day, but shall be deemed to have been completed as
25 of the required date.

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1 G. Governing Law.

2 Unless a rule of law or procedure is supplied by (i) federal law (including the Bankruptcy
3 Code and Bankruptcy Rules) or (ii) an express choice of law provision in any agreement,
4 contract, instrument, or document provided for, or executed in connection with, this Plan, the
5 rights and obligations arising under this Plan shall be governed by, and construed and enforced in
6 accordance with, the laws of the State of California without giving effect to the principles of
7 conflict of laws thereof.

8 H. No Admissions.

9 Notwithstanding anything herein to the contrary, nothing contained in this Plan shall be
10 deemed as an admission by the Debtor with respect to any manner set forth herein including,
11 without limitation, liability on any Claim or the propriety of any Claims classification.

12 I. Final Decree.

13 Once the Estate has been fully administered, the Debtor will file a Motion with the Court
14 under Bankruptcy Rule 3022 to obtain a final decree closing the Case.

15 DATED: August 4, 2014 HDOS ENTERPRISES

17 By: /s/ Dan Smith
18 Dan Smith, President

19 Approved as to form:
20 FRIEDMAN LAW GROUP, P.C.

21
22 By: /s/ J. Bennett Friedman
23 J. Bennett Friedman
24 Attorneys for Debtor in Possession

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