UNITED STATES BANKRUPTCY COURT
DISTRICT OF MASSACHUSETTS
CENTRAL DIVISION

In re Hopkinton Drug, Inc. Debtor	Chapter 11 No. 16-40234-CJP

COMBINED PLAN OF REORGANIZATION AND DISCLOSURE STATEMENT FOR SMALL BUSINESS DEBTOR

Hopkinton Drug, Inc. (hereinafter Hopkinton Drug or the Debtor) filed a petition for reorganization on February 19, 2016 and proposes this Plan of Reorganization (hereinafter the Plan) to reorganize its affairs.

THIS COMBINED PLAN AND DISCLOSURE STATEMENT IS A LEGALLY BINDING ARRANGEMENT AND SHOULD BE READ IN ITS ENTIRETY. ACCORDINGLY, PARTIES MAY WISH TO CONSULT WITH COUNSEL OF THEIR CHOICE REGARDING THE CONTENTS OF THE PLAN AND THE DISCLOSURE STATEMENT.

ARTICLE I

I. INTRODUCTION

A. General

This is a Combined Plan of Reorganization and Disclosure Statement for a Small Business Debtor (hereinafter the Plan and Disclosure Statement) filed pursuant to the provisions of 1121(a) of the Bankruptcy Code (hereinafter the Code). Hopkinton Drug is a Small Business Debtor as that term is defined in 101(51D) of the Bankruptcy Code.

Portions of the Plan and Disclosure Statement which refer solely to the Plan of Reorganization will be referred to as the Plan. This Plan and Disclosure Statement contains a description of (1) the Debtor, (2) the operation of the Debtor’s businesses, and (3) the Debtor’s expectations for future operations. It also discusses the Plan itself and the valuation of the Debtor’s assets and alternatives to the Plan.

The Debtor filed a petition for reorganization under Chapter 11 of the Bankruptcy Code on February 19, 2016 (hereinafter the Petition Date). The bankruptcy proceeding is pending in the United States Bankruptcy Court in Worcester, Massachusetts. The Debtor operates a gift shop, retail drug store, and mixes and sells compounded drugs from a location in the center of Hopkinton, MA. The Debtor has been operating its business as a Debtor-in-Possession since the Petition Date

pursuant to Sections 1107 and 1108 of the Code.

Pursuant to Section 1125 of the Code this Plan and Disclosure Statement is being sent to all holders of claims against the Debtor so that the Debtor may solicit votes for the Plan and creditors may be provided information concerning the Plan, the Debtor, and the prospect of future operations. All references to the Plan and Disclosure Statement are as it may be amended from time to time.

B. Summary of the Plan

The Plan provides for payment of the secured claim of McKesson Drug, Inc. ("McKesson") in the approximate amount of $23,000, in equal installments of principal and interest over one year. The Plan also provides for payment of Three Hundred Fifty Thousand ($350,000) to general unsecured creditors over two years, with a down payment of $250,000 and to pay in full a convenience class owed $2,000 or less. Finally, the Plan provides for transfer of the shareholder interest from Dennis Katz ("Katz") to Teresa Anthony ("Anthony"), who is Katz's wife and project manager at the Debtor, in exchange for the infusion of $200,000 into the Debtor. The total amount required at confirmation to make the initial payment to creditors and to pay administrative expenses and other obligations is expected to be $315,000.

C. Attachments

Accompanying this Disclosure Statement is a copy of historical financial information for the Debtor for the two years prior to the bankruptcy (Exhibit A), the five months since the Petition Date (Exhibit B), a financial forecast for the Debtor for the next twelve months (Exhibit C), and a liquidation analysis of the Debtor (Exhibit D).

II. THE PLAN

A. Payment of Administrative Claims

Except as otherwise voluntarily agreed upon by the claimant or as set forth immediately hereafter, Administrative Claims, as defined by Section 503(b) of the Code and entitled to first priority under Section 507(a)(1) of the Code, including amounts awarded under Section 330 of the Code for professional fees and services awarded under Section 506(c), shall be paid in full their allowed claims on the later of the Effective Date or the date they are allowed. Trade debt and taxes incurred by the Debtor in the ordinary course of the Chapter 11 case will be paid on an ongoing basis in accordance with the business practices and terms between the Debtor and its trade creditors. Administrative Claims include post-petition fees and expenses awarded to professionals employed by the Debtor during the course of the Chapter 11 proceedings. The Debtor estimates that the only unpaid professional fees existing at the time of confirmation will be fees owed to their counsel and their accountant of approximately $50,000, which fees ware subject to approval of the Court.

B. Payment of Priority Tax Claims

The Debtor believes that it owes no past-due payroll or sales taxes and is a Sub-Chapter S corporation, for which any income prior to and during the Chapter 11 proceedings flowed directly to Katz.

DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS

The Plan divides the creditors and equity interest holders of the Debtor into five (5) classes. The treatment of each Class under the Plan is described below.

Class One Class One is comprised of the secured claim of McKesson (the "McKesson Claim") as due and owing on the Petition Date arising from an open line of credit begun in the summer of 2015. The McKesson Claim is secured by all property of the Debtor. The current balance of the McKesson Claim is approximately $28,600. McKesson will retain its security interests in the Debtor's assets and be paid principal and interest at the rate of 12% on its secured claim over a period of twelve months, commencing fourteen days after confirmation of the Plan. This class is impaired.

Class Two Class Two consists of the Unsecured Claims of persons and entities who are not Insiders or holders of Equity Interests of the Debtor and whose claim is not treated as a Class 3 Creditor. Class Two creditors hold Claims in the estimated amount of $900,000 and will be paid $250,000 within 30 days of confirmation of the Plan or the date any claim is allowed, whichever shall last occur, said payments to be shared on pari passu basis by allowed claimants. This class is impaired.

Class Three Class Three consists of the debt guaranteed by Debtor and due to Bank of America, N.A. (BoA) for which Hopkinton Drug Realty, LLC is the primary obligor. The asserted amount of the Class 3 debt is approximately $552,000. The Debtor also asserts that $51,000 of the claim is not an amount to which BoA is entitled if the debt is paid in accordance to the terms of the contract between Hopkinton Drug Realty, LLC and BoA. The allowed Class Three Claim will be paid in accordance with the terms of the contract between the BoA and Hopkinton Drug Realty, LLC. This class is unimpaired.

Class Four Class Four consists of a convenience class who are owed less than $2,000 or voluntarily agree to reduce their claims to $2,000. These creditors will be paid in full 30 days after confirmation. This class is unimpaired.

Class Five Class Five consists of the Equity Interest of Katz in the Debtor. Katz ownership interest in the Debtor be extinguished and Anthony shall become the sole shareholder. This class is impaired.

A. Treatment of Executory Contracts and Unexpired Leases

This Plan does not provide for the rejection of any executory contract or unexpired lease. The

Debtor may file a motion or amend this Plan to reject one or more executory contracts and leases prior to confirmation. Subject to the requirements of Section 365 of the Code, all executory contracts or unexpired leases of the Debtor that are not rejected, have not been rejected by order of the Bankruptcy Court, or are not the subject of a motion to reject that is pending before 30 days after the Confirmation Date, will be deemed assumed. If any party to an executory contract or unexpired lease which is deemed assumed pursuant to the Plan objects to the assumption, the Bankruptcy Court may conduct a hearing on such objection on any date which is either mutually agreeable to the parties or fixed by the Bankruptcy Court. All payments to cure defaults that may be required by Section 365(b)(1) of the Code will be made by the Debtor. In the event of a dispute regarding the amount of any such payments or the ability of the Debtor to provide for adequate assurance of future performance, the Debtor will make any payments required by Section 365(d)(1) of the Code after entry of a Final Order resolving such dispute.

All Proofs of Claim with respect to Claims arising from the rejection of executory contracts or unexpired leases must be filed with the Bankruptcy Court within thirty (30) days from and after the date of entry of an order of the Bankruptcy Court approving such rejection or such claims will be barred. A creditor whose claims arise from rejection of executory contracts and unexpired leases will be treated as an unsecured creditor.

B. Means for Implementation of the Plan

On Confirmation all property of the Debtor, tangible and intangible, including, without limitation, licenses, furniture, fixtures, and equipment will revert to the Reorganized Debtor, free and clear of all claims and interests except as provided herein. The Reorganized Debtor will pay the claims described above from cash generated by its operations and the $200,000 capital contribution of Anthony.

All quarterly disbursement fees arising under 23 USC Section 1930 (the Quarterly Fees) due and owing prior to confirmation shall be paid in full on or before the Confirmation Date by the Debtor. All Quarterly Fees which accrue post confirmation shall be paid on a timely basis by the Reorganized Debtor prior to the case being closed.

The Debtor will require $315,000 at confirmation to pay (a) the initial dividend to general unsecured creditors ($250,000), (b) allowed professional fees ($50,000), and (c) the expected convenience class ($15,000)

C. Provision for Disputed Claims

The Debtor may object to the allowance of any Claims within 30 days of the date the Bankruptcy Court enters an order confirming this Plan by filing an objection with the Bankruptcy Court and serving a copy thereof on the holder of the Claim, in which event the Claim objected to will be treated as a Disputed Claim under the Plan. If and when a Disputed Claim is finally resolved by allowance of the Claim in whole or in part, the Debtor will make any payments in to the claimant in accordance with the Plan. Prior to the confirmation hearing the Debtor expects to file a motion to compromise the claims of and against Beth Graubart, who had filed a lawsuit against the Debtor

after being terminated, which compromise will waive all claims of one against the other.

III. INFORMATION PERTAINING TO THE DEBTOR

A. Description of the Debtor's Business

Edward H. Katz opened Hopkinton Drug as a sole proprietorship in 1954. In June of 1980 his son, Dennis Katz, organized the Debtor as a corporation and became its president and 100% stock holder. The Debtor operates both a gift store and a community retail pharmacy from its location in the center of Hopkinton. The property from which it conducts its business is owned by Hopkinton Drug Realty, LLC, which is owned, through a realty trust, by Katz. The property contains a building with 14,500 square feet of floor space on a 1.58-acre lot. Much of the lot is improved with asphalt for parking. In September of 2005 the Debtor and Hopkinton Drug Realty, LLC entered into a fifteen-year lease providing for monthly rent of $15,000, triple net. In addition to dispensing manufactured pharmaceuticals, the Debtor sells durable medical equipment, medical garments and fittings, provides counseling, and ships custom compounded prescription medications to customers in a number of states. Finally, the Debtor operates a gift store under the name Hopkinton Card & Gift. The Debtor is open 7 days a week and employs 40 and 46 people at any given time.

B. Background Regarding the Debtor and its operations leading to the bankruptcy filing

For many years the Debtor has consistently generated a profit. After operating exclusively as a retail pharmacy and gift shop, in 1993 the Debtor began to create targeted drugs by mixing together two or more drugs manufactured by pharmaceutical companies. In FY 2013 (the period from November 1, 2013 to October 31, 2014) the Debtor generated a profit of over $1.5 million on sales of $7.7 million (See Exhibit A). In the spring of 2013 CaremarkPCS, LLC ("Caremark"), which is a division of CVS Healthcare and provided prescription benefit management services to the Debtor, initiated an audit of the Debtor, concluding that the Debtor had shipped drugs to states without first obtaining the necessary license(s). Caremark later began recouping its asserted damages by refusing to pay the Debtor monies the Debtor was otherwise entitled to for sales of $145,000 In the summer of 2014 Caremark terminated its provider agreement with the Debtor and initiated arbitration proceedings in Arizona, resulting in a decrease in sales of 25% or $71,000 monthly. That number does not include ancillary loss in sales arising from the reduced foot traffic. The Arizona arbitrator found that Caremark was entitled to terminate the provider agreement and awarded Caremark (a) $694,000 in damages, which sum was equal to the amount of sales by Hopkinton that Caremark deemed to be inappropriate, and (b) Caremark's reasonable attorney's fees. The award was confirmed by the United States District Court in January of 2016, when that court issued a judgment in the amount of $1,036,445.55. As a result of the arbitration award the Debtor posted a loss in FY 2014 of $838,000 (See Exhibit A). Caremark has yet to file a Proof of Claim, but the Debtor believes that, after recoupment, Caremark will assert a balance due of approximately $863,000.

C. Officers, Directors and Shareholders:

The Debtor is currently owned by Katz, who is also the only officer and director of the Debtor. Katz works full-time for the Debtor and was paid a salary in FY 2014 of $163,390. Katz also received a distribution in FY 2014 of $355,948, which was used to pay income taxes and his obligations arising from a divorce in 2005. While Katz will no longer be a shareholder, he will continue to be employed by, and remain the CEO of, the Reorganized Debtor and receive the same salary during the next twelve months. Katz's salary may increase after the first year but any increase will be dependent upon the profitability of operations and will also be limited by the rate of inflation. Anthony also currently works full-time for the Debtor and receives an annual salary of $152,450. The Reorganized Debtor will pay Anthony the same salary post-confirmation.

D. Post-petition operations

After a protracted permitting process and unsuccessful attempts to purchase the Debtor's facility and operations, CVS opened a pharmacy diagonally across from the Debtor in the center of Hopkinton in March of 2016. Although the financial impact of the new competition created by the opening is difficult to assess at this time the Debtor has taken some actions to blunt the economic impact of any deterioration in sales, including decreasing the pharmacy and store hours and with that the monthly payroll, creating a customer service specialist position to help customers address their healthcare needs, and implementing a more effective analysis of sales and efficient restocking. The Debtor has also increased its marketing of its compounding operations in an effort to create a broader and more stable customer pool for that portion of its business. Monthly sales since the Petition Date have been on something of a roller coaster ride bouncing between a low of $384,000 in March to $486,000 in May. June and July sales were $474,000 and $473,000 respectively. During the same 5-month period the Debtor generated a profit of $160,000.

E. Projected income and expenses

The Debtor faces both positive and negative forces going forward. Until CVS Pharmacy opened its store across the street, the Debtor was the only retail pharmacy in town. Despite the opening by CVS, the Debtor continues to benefit from a strong local customer base that often prefers locally owned businesses over national chains. As a result of existing and pending applications for building permits, it is anticipated that the population in the Town of Hopkinton will increase by 4,000 over the next several years. However, the Debtor is still hampered by being denied access to Caremark's prescription management program, and the number of insurance companies that use the CVS/Caremark program as the preferred supplier continues to grow. As a consequence, and despite the expected increase in Hopkinton's population, the Debtor believes it is likely that future retail drug sales will drop a further 7.5% and that the front store and gift sales will drop 8.0% as a result of the reduced foot traffic. Compounding sales are also expected to decline, at least temporarily, due to stricter regulatory compliance, resulting in the inability of the Debtor to continue to serve customers in several states in which it is presently licensed. The Debtor does expect those sales to rebound in 2017, due primarily to the increased marketing efforts.

Projections are an inexact science. However, based upon the multiple variables, both positive and negative, the Debtor believes that it will generate a small profit for the rest of the year and a profit of $156,000 on $4.7 million in annual sales in calendar year 2017. Projected income and expenses are attached hereto at Exhibit C

F. Risks

Of the $350,000 dividend to be paid to general unsecured creditors $250,000 will be paid at the time of confirmation, and $200,000 of new capital will be contributed to the Debtor. Only $100,000 will be paid on a deferred basis, therefore the Debtor believes the risks of full payment are substantially reduced. However, the Debtor's monthly sales volume has been volatile during the Chapter 11 proceedings. Retail foot traffic is dependent upon a multitude of factors, including competition, the weather, and the retail consumers' confidence in the economy. Much of the Debtor's The Town of Hopkinton is an upper-middle class community that should weather any economic downturn well. In addition, much of the Debtor's business is highly regulate. Any changes in those regulations that significantly increase the cost of doing business or alter the Debtor's ability to continue the conduct of its business as currently operated, would impact the Debtor's bottom line.

IV. VOTING AND CONFIRMATION

A. General Requirements

In order to confirm a Plan the Code requires that the Bankruptcy Court make a series of determinations concerning the Plan, including that: (1) the Plan has classified Claims in a permissible manner; (2) the Plan complies with the technical requirements of Chapter 11 of the Code; (3) the proponent of the Plan has proposed the Plan in good faith; (4) the disclosures concerning the Plan as required by Chapter 11 of the Code have been adequate and have included information concerning all payments made or promised by the Debtor in connection with the Plan; (5) the Plan has been accepted by the requisite vote of creditors, except, as explained below, to the extent that "cramdown" is available under Section 1129(b) of the Code; (6) the Plan is "feasible" (that is, there is a reasonable prospect that the Debtor will be able to perform its obligations under the Plan and continue to operate their business without further financial reorganization, except if the Plan contemplates a liquidation of the Debtor' assets); and (7) the Plan is in the "best interests" of all creditors (that is, that creditors will receive at least as much under the Plan as they would receive in a Chapter 7 liquidation). To confirm the Plan, the Bankruptcy Court must find that all of these conditions are met. Thus, even if the creditors of the Debtor accept the Plan by the requisite number of votes, the Bankruptcy Court must make independent findings respecting the Plan's feasibility and whether it is in the best interests of the Debtor' creditors before it may confirm the Plan. The Debtor believes that the Plan fulfills all of the statutory conditions of Section 1129 of the Code. The statutory conditions to confirmation are more fully discussed immediately below.

B. Classification of Claims and Interests

The Code requires that a plan of reorganization place each creditor's claim in a class with other

claims which are "substantially similar." The Debtor believe that the Plan meets the classification requirements of the Code.

C. Voting

As a condition to Confirmation, the Code requires that each impaired class of claims accept the Plan. The Code defines acceptance of a Plan by a class of claims as acceptance by holders of two-thirds in dollar amount and a majority in number of claims of that class, but for that purpose the only ballots counted are those of the creditors who are allowed to vote and who actually vote to accept or to reject the Plan. A person who is considered an "insider," as that term is defined in Section 101 of the Code, may vote, but his/her vote is not counted in determining acceptance of the Plan. Classes of claims that are not "impaired under the Plan are deemed to have accepted the Plan. Acceptances of the Plan are being solicited only from those persons who hold Allowed Secured and Unsecured Claims that are impaired under the Plan. An Allowed Claim is "impaired" if the legal, equitable, or contractual rights attaching to the Allowed Claims of the class are modified, other than by curing defaults and reinstating maturity or by payment in full in cash. A claim to which an objection is filed is not an Allowed Claim. However, the Court may allow such a claim for purposes of voting on the Plan. If you have not received an objection to your claim prior to Confirmation of the Plan and you have received a ballot for purposes of voting on the Plan, then most likely your claim is an Allowed Claim. If you have a question, you should consult your own attorney.

D. Best Interests of Creditors

Notwithstanding acceptance of the Plan by creditors of each class, in order to confirm the Plan, the Bankruptcy Court must independently determine that the Plan is in the best interest of all classes of creditors impaired by the Plan. The "best interest" test requires that the Bankruptcy Court find that the Plan provides to each member of each impaired class of claims a recovery which has a value at least equal to the value of the distribution which each such creditor would receive if the Debtor were liquidated under Chapter 7 of the Code. Please see the discussion of liquidation value below.

Confirmation Without Acceptance by All Impaired Classes

Even if a plan is not accepted by all impaired classes, it may still be confirmed. The Code contains provisions for confirmation of a plan where at least one impaired class of claims has accepted it. These "cramdown" provisions are set forth in Section 1129(b) of the Code. A plan of reorganization may be confirmed under the cram-down provisions if, in addition to satisfying the usual requirements of Section 1129 of the Code, it (i) "does not discriminate unfairly" and (ii) "is fair and equitable," with respect to each class of claims that is impaired under, and has not accepted, the plan. As used by the Code, the phrases "discriminate unfairly" and "fair and equitable" have narrow and specific meanings unique to bankruptcy law.

The requirement that a plan of reorganization not "discriminate unfairly" means that a dissenting class must be treated equally with respect to other classes of equal rank. The Debtor believes that their Plan does not "discriminate unfairly" with respect to any class of Claims.

The “fair and equitable” standard differs according to the type of claim to which it is applied. In the case of secured creditors, the standard is met if the secured creditor retains its lien and is paid the present value of its interest in the property which secures the secured creditor’s claim. With respect to unsecured creditors, the standard is met if the unsecured creditor receives payment in the full amount of its claim or, in the event that it receives less than the full amount of its claim, no junior class receives or retains any interest in property of the debtor. The standard as applicable to unsecured creditors is also known as the “absolute priority rule.”

V. LIQUIDATION VALUATION

To calculate what creditors would receive if the Debtor were to be liquidated, the Bankruptcy Court must first determine the aggregate dollar amount that would be generated from the Debtor’s assets if the Chapter 11 Case were converted to a Chapter 7 case under the Code and the assets were liquidated by a trustee in bankruptcy (the “Liquidation Value”). The Liquidation Value would consist of the net proceeds from the disposition of the assets of the Debtor augmented by the cash held by the Debtor.

The Liquidation Value available to general creditors would be reduced by (a) the claims of secured creditors to the extent of the value of their collateral, and (b) by the costs and expenses of the liquidation, as well as other administrative expenses of the Debtor’s estates. The Debtor’s costs of liquidation under Chapter 7 would include the compensation of the appointed trustee, as well as counsel and other professionals retained by the trustee; disposition expenses; all unpaid expenses incurred by Debtor during the Chapter 11 case (such as compensation for attorneys) which are allowed in the Chapter 7 proceeding; litigation costs; and claims arising from the operation of the Debtor’s business during the pendency of the Chapter 11 reorganization and Chapter 7 liquidation cases. Once the percentage recoveries in liquidation of secured creditors, priority claimants, general creditors and equity security holders are ascertained, the value of the distribution available out of the Liquidation Value is compared to the value of the property offered to each of the classes of Claims under the Plan to determine if the Plan is in the best interests of each creditor and equity security holder.

The liquidation valuation of a business is often a contested issue in a Chapter 11 case. Two methods of valuation widely used are the so-called “auction” method and the “going concern” method. Using the auction approach, assets tend to be valued as though they were sold at a public auction and not in use at the time of the sale. The auction method is widely used with tangible personal property such as trucks, trailers and tractors, assets which you can touch and feel and which are easily valued as a function of the initial purchase price and subsequent depreciation from use. The latter approach, the going concern method, tends to value assets based upon their contribution to earnings. The going concern method tends to be used with assets that tend not to suffer a decline from use such as accounts of a utility, maintenance contracts and the like.

The Debtor estimates that Unsecured Creditors would receive a pari passu dividend after liquidation of approximately $316,800. In addition to listed creditors it would be expected that h the Debtor’s landlord would be entitled to file a claim for damages arising from rejection of the

lease between it and the Debtor, which claim would be not less than $180,000. Also, Bank of America has filed a claim in the amount of $51,000 arising from what the Debtor believes to be an early payment penalty that may be an allowed claim if the Debtor is liquidated. A liquidation analysis is attached to this Plan and Disclosure Statement at Exhibit D. Absent an order authorizing any interim distribution it is expected that creditors would not receive a dividend for a minimum of 12 months after conversion and more likely, twenty-four to thirty-six months. The Debtor believes that the Plan is in the best interests of all creditors and that a conversion to Chapter 7 with the additional costs noted, above would provide less of a return to unsecured creditors.

VI. FEDERAL INCOME TAX CONSEQUENCES

Implementation of the Plan may result in federal income tax consequences to holders of Allowed Claims. Tax consequences to a particular creditor may depend on the particular circumstances or facts regarding the claim of the creditor. No tax opinion has been sought or will be obtained with respect to any tax consequences of the Plan, and the following disclosure (the "Tax Disclosure") does not constitute and is not intended to constitute either a tax opinion or tax advice to any Person. Rather, the Tax Disclosure is provided for informational purposes only.

Because the Debtor intends to continue its existence and business operations, it will receive a discharge with respect to its outstanding indebtedness. Actual debt cancellation in excess of the fair market value of the consideration – stock, cash or other property – paid in respect of such debt will hereinafter be referred to as a "Debt Discharge Amount."

In general, the Internal Revenue Code (the "IRC") provides that a taxpayer who realizes a cancellation or discharge of indebtedness must include the Debt Discharge Amount in its gross income in the taxable year of discharge. The Debt Discharge Amounts may arise with respect to Creditors who will receive, in partial satisfaction of their Claims, including any accrued interest, consideration consisting of or including cash. The Debtor's Debt Discharge Amount may be increased to the extent that unsecured Creditors holding unscheduled claims fail to timely file a Proof of Claim and have their Claims discharged on the Confirmation Date pursuant to Section 1141 of the Bankruptcy Code. No income from the discharge of indebtedness is realized to the extent that payment of the liability being discharged would have given rise to a deduction.

If a taxpayer is in a case under the Bankruptcy Code and a cancellation of indebtedness occurs pursuant to a confirmed plan. However, such Debt Discharge Amount is specifically excluded from gross income (the "Bankruptcy Exception"). The Debtor intends to take the position that the Bankruptcy Exception applies to it. Accordingly, the Debtor believes it will not be required to include in income any Debt Discharge Amount as a result of Plan transactions.

Section 108(b) of the IRC, however, requires certain tax attributes of the Debtor to be reduced by the Debt Discharge Amount excluded from income. Tax attributes are reduced in the following order of priority: net operating losses and net operating loss carry-overs; general business credits; minimum tax credits; capital loss carry-overs; basis of property of the taxpayer; passive activity loss or credit carry-overs; and foreign tax credit carry-overs. Tax attributes are generally reduced by one dollar for each dollar excluded from gross income, except that general tax credits,

minimum tax credits, and foreign tax credits are reduced by 33.3 cents for each dollar excluded from gross income. An election can be made to alter the order of priority of attribute reduction by first applying the reduction against depreciable property held by the taxpayer in an amount not to exceed the aggregate adjusted basis of such property. The Debtor does not presently intend to make such election. If this decision were to change, the deadline for making such election is the due date (including extensions) of the Debtor's federal income tax returns for the taxable year in which such debt is discharged pursuant to the Plan.

The federal tax consequences of the Plan to a hypothetical investor typical of the holders of claims or interests in this case depend to a large degree on the accounting method adopted by that hypothetical investor. A "hypothetical investor" in this case is defined as a general unsecured creditor. In accordance with federal tax law, a holder of such a claim that uses the accrual method and who has posted its original sale to the Debtor as income at the time of the product sold or the service provided hypothetically should adjust any net operating loss to reflect the dividend paid by the Debtor under the Plan provided that the holder previously deducted the liability to the Debtor as a "bad debt" for federal income tax purposes. Should that holder lack a net operating loss, then in accordance with federal income tax provisions, the holder should treat the dividend paid as ordinary income, again provided the holder previously deducted the liability to the debtor as a "bad debt" for federal income tax purposes. If the accrual basis holder of the claim did not deduct the liability as a "bad debt" for federal income tax purposes, then the dividend paid by the Debtor has no current income tax implication. A holder of a claim that uses a cash method of accounting would, in accordance with federal income tax laws, treat the dividend as income at the time of receipt.

THE DEBTOR MAKES NO REPRESENTATIONS REGARDING THE PARTICULAR TAX CONSEQUENCES OF CONFIRMATION AND CONSUMMATION OF THE PLAN AS TO ANY CREDITOR. EACH PARTY AFFECTED BY THE PLAN SHOULD CONSULT HER, HIS OR ITS OWN TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES OF THE PLAN WITH RESPECT TO A CLAIM.

VII. FEASIBILITY

The Bankruptcy Code requires as a condition to Confirmation that the Bankruptcy Court find that liquidation of the Debtor or the need for further reorganization is not likely to follow after Confirmation. The Debtor depends on recurring monthly revenue from its business and it has prepared financial projections and related schedules which are attached hereto as Exhibit B. Those projections show that the Debtor is capable of operating into the foreseeable future and generating sufficient funds to perform its obligations in the Plan and continuing without the need for further financial reorganization.

VIII. DISCLAIMERS

THE CONTENT OF THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT AS PROVIDING ADEQUATE INFORMATION TO CREDITORS SO THAT THEY MAY HAVE SUFFICIENT

INFORMATION TO VOTE ON THE PLAN. NO REPRESENTATIONS CONCERNING THE DEBTOR, INCLUDING THOSE RELATING TO ITS FUTURE BUSINESS OPERATIONS, OR THE VALUE OF ITS ASSETS, ANY PROPERTY, AND CREDITORS' CLAIMS, INCONSISTENT WITH ANYTHING CONTAINED HEREIN HAVE BEEN AUTHORIZED. THE DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS COMPLETE OR WITHOUT OMISSIONS. THE BANKRUPTCY COURT'S APPROVAL OF THIS PLAN OF REORGANIZATION AND DISCLOSURE STATEMENT DOES NOT CONSTITUTE A RECOMMENDATION FOR OR AGAINST THE PLAN.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN, AND NOTHING CONTAINED IN IT WILL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTOR OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE ADVICE ON THE TAX OR OTHER LEGAL EFFECTS OF THE REORGANIZATION ON HOLDERS OF CLAIMS.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THIS DATE UNLESS ANOTHER TIME IS SPECIFIED, AND NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THIS DISCLOSURE STATEMENT WILL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS SINCE THE DATE OF THE DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THIS DISCLOSURE STATEMENT WAS COMPILED.

IX. EFFECT OF THE ORDER CONFIRMING THE PLAN

To understand the full effect of an order confirming the Plan, you should read Section 1141 of the Code. The following is a summary of that section.

A. The provisions of the confirmed Plan bind the Debtor, any entity issuing securities under the plan, any entity acquiring property under the Plan, and any creditor, equity security holder, or general partner in the Debtor, whether or not the claim or interest of such creditor, equity security holder, or general partner is impaired under the Plan and whether or not such creditor, equity security holder, or general partner has accepted the Plan.

B. Except as otherwise provided in the Plan or the order confirming the Plan, the confirmation of the Plan vests all of the property of the estate in the Debtor.

C. Except as otherwise provided in the Plan or in the order confirming the Plan, after confirmation of the Plan, the property dealt with by the Plan is free and clear of all claims and interests of creditors, equity security holders, and of general partners in the Debtor.

D. Except as otherwise provided in the Plan, or in the order confirming the Plan, the confirmation of the Plan discharges the Debtor from any debt that arose before the date of such confirmation. There may be other exceptions set forth in Section 1141.

E. The confirmation of the Plan does not discharge a debtor if the Plan provides for the liquidation of all or substantially all of the property of the estate, the Debtor does not engage in business after consummation of the Plan; and the Debtor would be denied a discharge if the case were a case under Chapter 7.

X. CONCLUSION

The Bankruptcy Court has not determined that this Plan and Disclosure Statement contains information sufficient for holders of Claims to make an informed judgment in exercising their right to vote on the Plan. The Plan is the result of an effort by the Debtor to provide creditors with a meaningful dividend. An alternative to the Plan is liquidation which will, in all likelihood, provide a smaller return to creditors on their Allowed Claims. Payment of any dividend will also not be made in 2016, but must await either closure of the case or allowance of an interim distribution. The Debtor therefore believes that the Plan is preferable to liquidation.

Hopkinton Drug, Inc.
By its attorney

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