UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE

In re:	)	
	)	
New England Building Materials, LLC	)	**Chapter 11**
	)	**Case No. 12-20109**
Debtor.	)	

DISCLOSURE STATEMENT WITH RESPECT TO DEBTOR'S PLAN OF REORGANIZATION DATED JUNE 13, 2012

New England Building Materials, LLC (the "Debtor") presents this disclosure statement (the "Disclosure Statement") pursuant to 11 U.S.C. § 1125(b)[1] to all known creditors and holders of interests in and to the Debtor, in connection with the Debtor's Plan of Reorganization Dated June 13, 2012 (the "Plan"). A copy of the Plan, which has been filed with the United States Bankruptcy Court for the District of Maine, is attached hereto as ***Exhibit 1***.

I. INTRODUCTION

The Debtor provides this Disclosure Statement, pursuant to Section 1125 of the Bankruptcy Code, to all known creditors and other parties in interest of the Debtor. The purpose of this Disclosure Statement is to provide adequate information so that creditors entitled to vote on the Plan may make an informed voting decision. Your rights may be affected by the proposed Plan. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney, if you have one. If you do not have an attorney, you may wish to consult with one.

A ballot for your use in voting to accept or reject the Plan is enclosed. Instructions for completing and returning the ballot are printed on the ballot itself. IN ORDER FOR YOUR BALLOT TO COUNT, IT MUST BE RECEIVED AT THE ADDRESS STATED ON THE BALLOT NO LATER THAN 5:00 P.M. (EASTERN TIME) ON __________, 2012.

Except where specifically stated otherwise, the portions of this Disclosure Statement describing the Debtor's business operations, assets and liabilities have been prepared from the Debtor's book and records. The Debtor has done its best to assure that this Disclosure Statement is correct and complete, but no representations or warranties are made in that regard.

NO REPRESENTATIONS CONCERNING THE FINANCIAL CONDITION OF THE DEBTOR OR THE PLAN ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. THIS DISCLOSURE STATEMENT SUMMARIZES THE PLAN. FOR A DEFINITIVE UNDERSTANDING OF THE

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[1] Unless otherwise indicated, all statutory references are to Title 11 of the United States Code.

TERMS OF THE PLAN, IT IS RECOMMENDED THAT YOU REVIEW THE PLAN ITSELF. IF THERE IS ANY DISCREPANCY BETWEEN THE DISCLOSURE STATEMENT AND THE PLAN, THE PROVISIONS OF THE PLAN WILL CONTROL.

The following terms shall have the following meanings when used in initially capitalized form in this Disclosure Statement. Such meanings shall be equally applicable to both the singular and plural forms of such terms. Any term used in initially capitalized form in this Disclosure Statement that is not defined herein but that is defined in the Bankruptcy Code shall have the meaning assigned to such term in the Bankruptcy Code. Capitalized terms used in this Disclosure Statement, which are not otherwise defined herein, are defined in the Plan.

1.1 Administrative Claim shall mean a Claim arising and allowable under § 503(b) of the Bankruptcy Code with respect to the Debtor, including charges against the Debtor's estate under 28 U.S.C. § 1930.

1.2 Allowed with respect to a Claim or Interest other than a Fee Claim, shall mean any Claim or Interest (a) that is the subject of a timely filed proof of claim, or (b) any Claim or Interest that has been listed in the schedules filed with the Bankruptcy Court by the Debtor pursuant to Bankruptcy Code § 521 and is not listed therein as disputed, unliquidated, or contingent; and, in each such case as to which either (i) no objection to the allowance thereof or other similar pleading has been filed within the applicable time period set forth in the Plan, or (ii) an objection or other similar pleading has been filed and the Claim or Interest has been allowed by a Final Order but only to the extent so allowed. To the extent that all or a portion of a Claim is not Allowed, the holder of such Claim shall not receive any distribution on account of the portion of such Claim that is not Allowed.

1.3 Allowed Amount shall mean the amount of any Allowed Claim or Allowed Interest.

1.4 Assets means all property that would be property of the Debtor and the Debtor's estate under § 541 of the Bankruptcy Code, whether such property is now existing or hereafter arising or acquired and wherever located including, without limitation, all Causes of Action and all proceeds of and recoveries on Causes of Action, all accounts, contract rights, chattel paper, general intangibles, instruments, securities, furniture, fixtures, machinery, equipment, inventory, intellectual property, domain names, and interest in real estate.

1.5 Bank shall mean TD Bank, N.A. and its affiliates, successors, agents, and assigns.

1.6 Bankruptcy Code shall mean 11 U.S.C. §§ 101 *et seq.*, as in effect with respect to the Case on the Petition Date. All Code references herein are to the Bankruptcy Code in effect as of the Petition Date, unless otherwise stated.

1.7 Bankruptcy Court shall mean the United States Bankruptcy Court for the District of Maine, or any other court with jurisdiction over the Case.

1.8 Bar Date shall mean the date, if any, established by the Bankruptcy Court as the deadline for filing proofs of claims or interests in the Case.

1.9 Case shall mean the Chapter 11 Case of the Debtor now pending in the Bankruptcy Court pursuant to Chapter 11 of the Bankruptcy Code.

1.10 Cash shall mean payment, including by check, issued by or on behalf of the Debtor with respect to any payment of collected funds required to be made pursuant to the Plan.

1.11 Cause of Action shall mean all claims and causes of action now owned or hereafter acquired by the Debtor and/or its estate, whether arising under the Bankruptcy Code or other federal or state law, including, without limitation, Chapter 5 Causes of Action

1.12 Chapter 5 Causes of Action shall mean all Causes of Action arising under Chapter 5 of the Bankruptcy Code (including, but not limited to, Causes of Action arising under 11 U.S.C. §§ 544, 547, 548, 549, 550, and 553).

1.13 Claim shall mean a claim, as defined in § 101(5) of the Bankruptcy Code, against the Debtor.

1.14 Committee shall mean the Official Committee of Unsecured Creditors appointed in this case.

1.15 Confirmation Date shall mean the date on which the Confirmation Order is entered on the docket of the Bankruptcy Court.

1.16 Confirmation Order shall mean the Order (which need not be a Final Order) confirming the Plan pursuant to § 1129 of the Bankruptcy Code.

1.17 Effective Date shall mean the date determined in accordance with Article VI of the Plan.

1.18 Encumbrances shall mean all liens, encumbrances, mortgages, hypothecations, pledges, and security interests of any kind whatsoever.

1.19 Executory Contract shall mean an executory contract within the meaning of § 365 of the Bankruptcy Code.

1.20 Fee Claim shall mean the Administrative Claim of a professional person for compensation and/or reimbursement of expenses.

1.21 Final Order shall mean an Order of any court, administrative agency or other tribunal as entered on its docket as to which (a) the time to appeal or petition for rehearing or *certiorari* has expired and as to which no appeal or motion for rehearing or petition for *certiorari* has been timely filed or taken, (b) if such an appeal or motion for rehearing or petition for *certiorari* has been timely filed or taken, such order or judgment has been affirmed by the highest tribunal in which review was sought or such appeal, motion for rehearing or petition for *certiorari* was dismissed or otherwise terminated without modification of such order or judgment, and the time has expired within which any further proceeding for review may be commenced.

1.22 Liquidating Trust shall mean the New England Building Materials, LLC Liquidating Trust established by this Plan pursuant to the terms of the Liquidating Trust Agreement attached to the Plan as ***Exhibit A*****,** which Trust shall be vested with ownership of the Chapter 5 Causes of Action pursuant to the Plan.

1.23 Liquidating Trustee shall mean the Trustee appointed to oversee the Liquidating Trust and vested with the powers and responsibilities set forth in the Liquidating Trust Agreement attached to the Plan as ***Exhibit A***.

1.24 Order shall mean an order of the Bankruptcy Court.

1.25 Petition Date shall mean February 14, 2012

1.26 Plan shall mean this Plan of Reorganization, dated June 13, 2012, as it may be amended or modified by the Debtor from time to time (or such other interest rate as the Court may order or the Debtor may agree upon with the relevant parties-in-interest), together with all exhibits, schedules and other attachments hereto, as the same may be amended or modified by the Debtor from time to time (or such other interest rate as the Court may order or the Debtor may agree upon with the relevant parties-in-interest), all of which are incorporated herein by reference.

1.27 Prime Rate shall mean the annualized rate of interest designated as the

"Prime Rate" as published in the Money Rates Section of the Wall Street Journal, Eastern Edition, as of the Effective Date. If the Prime Rate shall no longer be published in the Money Rates or any other section of The Wall Street Journal, then the holder(s) of an obligation payable with interest at the Prime Rate pursuant to this Plan shall have the right, exercising reasonable judgment, to substitute a new method for determining a comparable per annum interest rate to be charged by the holder(s) and such rate of interest determined by such method shall become the Prime Rate for the purpose of this Plan and any obligation issued pursuant to this Plan.

1.28 Priority Claim shall mean an Unsecured Claim arising before the Petition Date and allowable under §§ 507(a)(2) through 507(a)(9) of the Bankruptcy Code.

1.29 Seaboard shall mean Seaboard International Forest Products, LLC, and its affiliates, successors, agents, and assigns.

1.30 Secured Claim shall mean a claim that is secured by a perfected (or similarly binding) Encumbrance on any of the Debtor's assets, to the extent provided in 11 U.S.C. § 506 of the Bankruptcy Code.

1.31 United Healthcare shall mean United Healthcare Insurance Company a/k/a Unimerica Insurance Company, and its affiliates, successors, agents, and assigns.

1.32 United Healthcare Action shall mean the adversary proceeding initiated by the Debtor against United Healthcare, which adversary proceeding is currently pending in the Bankruptcy Court and has been assigned docket number 12-2020.

1.33 United Ventures shall mean United Ventures, LLC, a Maine limited liability company and the sole member of the Debtor. The members of United Ventures are (a) Richard A. Molyneux Revocable Trust; (b) Richard I Thompson; (c) Richard J. Corbin; (d) the Timothy O. White Revocable Trust; (e) Lake Ventures, LLC; John Shiavi; (f) Michael R. Lindburg IRA Rollover; (g) Bon Temps Roule, LLC; (h) the Wendell P. Weyland Trust; (i) Emery G. Olcott; (j) Gregory M. and Judith K. Pensabene; (k) Nancy A. Thayer; (l) Mary A. Palman; (m) the Timothy S. Olcott Trust; and (n) Gilmartin and Trevor, a Law Corporation Retirement Trust.

1.34 Unsecured Claim shall mean a Claim which arose before the Petition Date and which is not secured by any interest in any property of the Debtor's estate, and shall include a Claim which arises from the rejection of an Executory Contract or Unexpired Lease, within the meaning of § 365 of the Bankruptcy Code; provided, however, that in order to be an Unsecured Claim, such claim must be evidenced by a proof of claim which has been timely filed by the holder of the Claim (whether or not such proof of claim has been Allowed) prior to the Bar Date, or such Claim must be described on Schedule F filed by the Debtor and not noted as unliquidated, contingent or disputed on such Schedule (whether or not such claim is deemed Allowed).

II. SUMMARY OF THE PLAN

The Debtor operates an Eastern White Pine sawmill in Sanford, Maine, and is in the process of completing the divestiture of its retail, building supply business. It has reorganized its business and operations under the protection of the United States Bankruptcy Code. The Chapter 11 reorganization commenced with the filing of the Debtor's petition on February 14, 2012, and will culminate with the approval of this Plan of Reorganization, which the Debtor anticipates will occur in the third quarter of 2012. In its reorganization, the Debtor has continued and substantially completed the divestiture of its retail, building supply business, which originally consisted of nine locations in Maine and Massachusetts. It has concentrated its business on the operation of an Eastern White Pine sawmill at its Sanford, Maine sawmill. This business reorganization has enabled the Debtor to formulate and file this Plan of Reorganization.

Under the Plan, the Debtor will receive new equity investment from its owners, up to $250,000 and as necessary for it to fund all of its payment obligations on the Effective Date of the Plan. In addition, the Debtor expects to obtain a revised, revolving line of credit from its pre-petition lender, TD Bank, NA. Under the Plan, the Debtor will use the proceeds of its new investment, revenues generated by its operations, and the proceeds of causes of action created by the Bankruptcy Code, to pay all of the costs of its Chapter 11 proceedings (administrative expenses), all sales tax obligations owed to state taxing authorities, all unpaid health care claims incurred pursuant to its pre-petition employee health plan (priority claims), and to provide a dividend to unsecured creditors, which the Debtor projects will be ***at least $1,000,000.***

In addition to the satisfaction and restructuring of its debts and obligations, the Debtor's Plan will permit the continued employment of fifty (50) employees in the Sanford, Maine area. This is an area of the State of Maine that has been especially hard hit in the recent recession. For example, according to the Maine Department of Labor, as of February of this year, the unemployment rate in Sanford was 11.4%, significantly above the state average of 8.2%. The United States census shows that the median household income in Sanford between 2006 and 2010 was $36,623, $10,000 below the State median[2]. Should the Debtor go out of business and liquidate, those figures would only deteriorate. Further, the Debtor expends over $8.5 million per year, much of it in

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2 http://quickfacts.census.gov/qfd/states/23/2365725.html. Last visited June 12, 2012.

the local economy, purchasing logs, materials and supplies from local vendors. Pursuant to the Bankruptcy Code, the Bankruptcy Court is permitted to consider the impact of a Plan upon employees and their families, as well as the community. The Debtor believes that the Plan will have a very positive impact in several respects. First, it will continue employment for its 50 current employees. Second, it will satisfy unpaid health care obligations owed to more than 100 pre-petition employees and their families. Third, the Plan, by ensuring that the Debtor continues as a viable business and employer, will necessarily impact the local economy in a positive fashion.

The Debtor believes that the Plan provides for the fair and equitable treatment of all creditor claims and that the Plan is in the best interests of all creditors and other parties in interest.

III. HISTORY AND BACKGROUND OF THE DEBTOR

A. General Background of the Debtor

The Debtor was formerly known as Lavalley Lumber Company ("Lavalley"). LaValley began operations as a family business in Southern Maine, and had been in business for many years when, in 1999, it was acquired by United Ventures, a limited liability company, which now owns 100% of the membership units in the Debtor[3]. At the time of its acquisition, Lavalley ran a saw mill in Sanford, Maine and also operated three retail lumber yards in the state. Following the acquisition of Lavalley, and re-naming LaValley as New England Building Materials, LLC, the Debtor began expanding by acquiring a number of retail lumber yard operations, initially in York and Cumberland counties. In 2005, the Debtor acquired Poole Brothers, a lumber yard retailer that operated three locations in mid-coast Maine. In 2009, the Debtor purchased Stock Building Supply ("Stock"), which operated two retail lumberyards in Lakeville, Massachusetts and Norwood, Massachusetts. After these acquisitions, the Debtor manufactured Eastern White Pine lumber and sold most of its output to its own retail outlets. The Debtor's retail sales operations focused primarily on supplying materials to contractors and builders, as well as general retail purchasers.

In the 2007-2008 recession, Southern Maine and Eastern Massachusetts (and other regions of the Northeast) suffered a major downturn in new home construction. In fact, at the depth of the recession, new home starts in these regions dropped to one-half or less of prior annual rates. This was an unprecedented depression in home building, and it forced the Debtor to reconsider its operating strategy. It could not make money in the building supply business. At the same time, due to strength in exports, the wholesale lumber business remained viable. Accordingly, in 2011, the Debtor determined to divest itself of its building supply business and focus on manufacturing and wholesale sale of lumber. In that year, it began to shed its retail operations, and by the time of the filing of the Chapter 11 petition in February of 2012, it had divested all of its retail building supply assets other than its two locations in Massachusetts, and its facilities in Sanford and North Windham, Maine. The divestiture continued, and was substantially completed

3 The members of United Ventures are listed above at Article I, § 1.33.

in the Chapter 11 case. Additional background is provided in the following more detailed history.

Since approximately 2002, the Bank has been the Debtor's primary secured lender. Over the course of the relationship, the Bank lent the Debtor funds on both a term loan and a revolving loan basis. The Debtor's obligations to the Bank were secured by mortgages and liens on essentially all of the Debtor's assets. Among those lending mechanisms was a revolving line of credit (the "Revolver") with a ceiling of $7.5 million, subject to a lending availability formula tied in large part to the nature and amount of the Debtor's accounts receivable and inventory (the "Borrowing Base Formula")[4]. The Revolver was used by the Debtor to fund day-to-day operations.

The Debtor's finances began to falter as the national economy — particularly home building — went into a tail spin after 2007. The recession manifested itself powerfully (and almost immediately) in the building industry as the previously-believed to be insatiable demand for new home construction dried up. As a result, the Debtor's primary customer base – contractors and builders – dramatically scaled back on purchases and, to make matters worse, began to default on payment obligations owed to the Debtor for already-purchased materials. Another negative result of this industry contraction was that the Debtor and its competitors in the lumber industry were competing for a smaller and smaller pool of customers. As a result, the Debtor was forced to cut prices to attract business, negatively impacting its profit margins.

A perfect storm of a housing construction recession, declining sales, reduced profit margins, and defaulting customers placed the Debtor in a cash crunch that manifested itself most starkly in the Debtor's ability to draw on the Revolver: accounts receivable eligible for borrowing declined, as sales declined, and various builders and contractors who had bought from the Debtor on credit were either paying their bills later and later or not paying them at all. This decay in accounts receivable had an extremely negative effect on the Revolver Borrowing Base Formula and the Debtor subsequently found its borrowing availability under its line of credit contracting rapidly[5]. Accordingly, the Debtor found itself increasingly hard-pressed to purchase inventory (*i.e.*, white pine for the Sanford mill and other products for the retail operations) as well as to satisfy its obligations to creditors.

In an attempt to alleviate the cash flow issues, and place its business back on an even keel, the Debtor undertook various remedial measures. First, it began contracting the scope of its retail footprint after examining the economics of each location. As a result, it began closing various locations beginning in late 2010 (starting with its Portsmouth office) and continuing through and after the Petition Date. It simultaneously

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[4] More specifically, the Borrowing Base Formula allows the Debtor to borrow funds in an amount equal to the aggregate of 75% of the eligible inventory and 50% of inventory at cost.

[5] When the Debtor sold inventory on credit and then did not get paid, it had (a) less inventory on hand; and (b) less money to buy additional inventory, thereby negatively impacting that component of the Borrowing Base Formula as well.

retained an investment banking entity with deep experience in the lumber industry, the Jian Group ("Jian"), to explore the possibility of selling the Debtor as a going concern.

Unfortunately these efforts did not bear sufficient fruit to ward off a bankruptcy filing. Jian was unable to find any interested buyers for the Debtor as a whole and the Debtor was forced to accelerate its contraction, closing locations across Maine and consolidating those operations at its Sanford location (the "Sanford Facility"), where the mill business remained a bright spot in an otherwise gloomy economic picture. In the fall of 2011, the Debtor, among other things, sold its three mid-coast Maine locations, listed its Windham location (the "Windham Facility") for sale, and began to negotiate with Deering Lumber ("Deering"), an established Southern, Maine lumber supply retailer, on a sale of the retail portion of the Debtor's Sanford facility. The Debtor ultimately agreed, prior to the Petition Date, to the terms of sale for the Windham Facility and it entered into a Letter of Intent for the sale of the retail portion of the Sanford Facility as well as additional real property located in Springvale, Maine.

During the same time period, the Debtor also renegotiated the terms of the Revolver with the Bank. These negotiations ultimately resulted, in early 2012, with the Bank agreeing to allow the Debtor to borrow against the Revolver in amounts up to $800,000 greater than would be allowed pursuant to the Borrowing Base Formula[6] (the "Overadvance"). In return for the grant of the Overadvance facility, certain principals of United Ventures, the Debtor's parent company, agreed to personally guarantee the same. Prior to the filing of the Debtor's Chapter 11 petition, and in order to be assured that the Revolver would be available to fund the Chapter 11 case in adequate amounts, the Debtor negotiated an additional Overadvance amount for the Overadvance facility. The Bank, as a condition to providing the same, required the guarantors to post cash deposits to secure their guaranties. The guarantors agreed and provided the cash required by the Bank. In exchange for continuing their guaranties and providing cash security for the same, which enabled the Debtor to have adequate funding for its Chapter 11 case, the guarantors required that the Bank agree to grant them a right of subrogation, that is, the right to stand in the shoes of the Bank, if and to the extent that they were called upon to pay their guaranties. Access to the Overadvance facility, as augmented prior to the filing of the petition, provided the Debtor with the ability to continue funding its day-to-day operations throughout the Chapter 11 case (hereafter, "Debtor-in-Possession Financing" or "DIP Financing").

During 2011 and in early 2012, certain United Ventures principals or their nominees (which included the guarantors) also made secured loans to the Debtor in an aggregate principal amount of $486,450. In addition, they made unsecured loans to the Debtor in an aggregate principal amount of $600,000 during the same time period. All of these loan funds were used by the Debtor to finance its day-to-day operations. In return for the secured loans, the lending principals of United Ventures were granted a first-priority, perfected security interest in certain accounts receivable of the Debtor that were

6 Again, the Borrowing Base Formula penalized the Debtor's borrowing ability as its accounts receivable grew older and less collectible and its inventory pool shrunk.

ineligible for borrowing under the Revolver (the "Ineligible A/R Collateral")[7]. Because the accounts receivable representing the Ineligible A/R Collateral were ineligible for borrowing under the Revolver (because they could not be included in the Bank's Borrowing Base Formula due to their advanced age), the Bank agreed to subordinate its security interest in the same to the lending Principals. Prior to the Petition, the Ineligible A/R Collateral that served as security for the Principals' loans was collected by the Debtor and the amounts so collected were paid to the Principals in partial satisfaction of the loans. Prior to the Petition Date, a total of $432,285 in principal and interest was repaid on account of these secured loans made by the Principals. In addition, a total of $20,785 in interest was paid on account of the unsecured loans made by Principals. As of the Petition Date, $619,431 in principal and interest remained due on the unsecured loans and $65,568 in principal and interest remained due on the secured loans[8].

Attached hereto as ***Exhibit 2*** are the Debtor's bankruptcy schedules, as amended (the "Schedules"), and the SOFA, both of which have been filed with the Bankruptcy Court. They show that, as of the Petition Date, that the Debtor had Assets (primarily at book value) of $13,883,899.73 and liabilities of $11,653,587.68.

B. The Chapter 11 Case

Unfortunately, the Debtor's efforts to divest itself of unprofitable retail operations, and to borrow money from its principals, were not enough to reverse the Debtor's financial deterioration. The Debtor found itself, among other things, the target of multiple actual and threatened lawsuits by various creditors. Early this year, the Debtor's finances became so strained that the Debtor began to worry that creditors would place attachment liens, trustee process, or other encumbrances on its bank accounts, accounts receivable, and other property, including the Sanford and Windham Facilities. If this had occurred, it likely would have forced the cessation of all operations, and it would have made it difficult, if not impossible, for the Debtor to consummate the sales of the Sanford and Windham Facilities and the Springvale real estate, not to mention other assets. This would have terminated any prospect for a reorganization of the Debtor. As such, the Debtor had no practical choice but to seek the protections of Chapter 11, which protections prevented creditors from taking the adverse actions described above, and permitted the Debtor to reorganize under the Bankruptcy Code for the benefit of all of its creditors, its employees, and its owners.

Following the filing of the Debtor's Chapter 11 Petition, the Debtor retained Marcus, Clegg & Mistretta, P.A. ("MCM"), as Bankruptcy Counsel to assist in the Chapter 11 proceedings, and by orders dated March 6, 2012, and April 12, 2012, the Bankruptcy Court approved the retention of said firm. By order dated March 19, 2012,

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[7] The Ineligible A/R Collateral represented a snapshot of ineligible receivables under the Borrowing Base Formula as of the date that the principals made their secured loans to the Debtor. Accounts receivable that became ineligible receivables under the Borrowing Base Formula after the secured loans were made did not become collateral for the Debtor's obligations to those principals.

[8] The Debtor directs the reader's attention to Exhibit A to the Statement of Financial Affairs (the "SOFA") for more information on this secured and unsecured lending. The SOFA is part of Exhibit 2 hereto.

the Bankruptcy Court approved the retention of Windsor Associates ("Windsor") as a financial consultant to the Debtor. The Debtor has also, with the Bankruptcy Court's approval, hired various other professionals to perform certain discrete legal, accounting, and brokerage functions on behalf of it and its estate.

On February 28, 2012, the United States Trustee for the District of Maine (the "UST") appointed the Committee. On March 30, 2012, the Bankruptcy Court approved the retention of the law firm of Bernstein, Shur, Sawyer, and Nelson, P.A. ("BSSN") as counsel to the Committee. It subsequently authorized the Committee to hire Spinglass Management Group, LLC ("Spinglass") as a financial consultant.

Since the Petition Date, the Debtor has continued to divest itself of its retail operations, and focus on its Sanford sawmill business. Among other things, the Debtor has consummated the Sanford/Springvale and Windham sales, realizing approximately $3.6 million dollars in proceeds, most of which have been used, per the terms of the Debtor's DIP Financing, to pay down the Debtor's obligations to the Bank. The Debtor has also sold much of its retail inventory through its remaining retail outlet in Lakeville, Massachusetts, and it has sold unneeded rolling stock and other equipment. The Debtor has also vacated its Norwood, Massachusetts facility (where the Debtor was a tenant), and moved aggressively to recover outstanding accounts receivable, including, by placing mechanics liens, where available, on homes constructed using materials purchased from the Debtor by contractors but not paid for. The Debtor anticipates completing the sale of its retail-related assets and vacating the Lakeville facility (where is it is also a tenant) by the end of July of this year. Once these tasks are completed, the Debtor will be operating only its Sanford sawmill, which the Debtor expects will continue to generate positive net income from operations, and will provide the funding necessary for the Debtor to meet its obligations under the Plan.

IV. ASSETS OF, AND CLAIMS AGAINST, THE DEBTOR

A. Assets of the Debtor

The Assets of the Debtor are as set forth herein and in the attached Schedules. Those assets can be placed into seven general categories (and are discussed in more detail below at Article IV:

1. Inventory: The Debtor has two types of inventory (a) inventory related to its Sanford mill operation, such as logs and finished lumber (the "Mill Inventory"); and (b) the remaining inventory from the Debtor's retail operations, which is now almost completely consolidated in Lakeville, Massachusetts for sale (the "Lakeville Inventory"). As of May 31, 2012[9], the book value of the Mill Inventory was ***$1,193,919*** and the book value of the Lakeville Inventory was ***1,293,780***[10].

[9] The Debtor is using figures as of May 31, 2012, because they represent the last complete month of financial results available to it. The Debtor believes that figures as of that date accurately represent the value of its assets as of the date the Plan was filed.

[10] This figure includes $59,990 of non-stock inventory (*i.e.*, displays and racking).

2. Accounts Receivable: The Debtor has two types of Accounts Receivable: (a) those generated by the on-going Mill operations ("Mill A/R"); and (b) those generated by the Debtor's now-closed retail operations ("Retail A/R"). As of May 31, 2012, the Mill A/R had a book value of ***$462,855*** and the Retail A/R had a book value of ***$1,549,591***.

3. Equipment: The Debtor has two types of equipment: (a) equipment used in the Debtor's on-going Sanford mill operations (the "Mill Equipment"); and (b) the remaining equipment that was utilized in conjunction with the Debtor's retail operations, which equipment has been consolidated in Lakeville, Massachusetts for sale (the "Lakeville Equipment"). As of May 31, 2012, the book value of the Mill Equipment was ***$299,759***. The book value of the remaining Lakeville Equipment was ***$136,062***.

4. Cash: For the most part, the Debtor has little in the way of operating cash as it is kept in in zero balance account with the Bank as a component of the DIP Financing. The Debtor has a security deposit of approximately $62,000 with ISO-New England securing electric service for the Mill.

5. Real Estate: The Debtor currently owns the following real estate: (a) its sawmill in Sanford (the "Mill"); (b) a condominium in Old Orchard Beach (the "Condo"); and (c) a camp in Greenville, Maine (the "Camp"). The Condo and the Camp were taken by the Debtor in satisfaction of unpaid invoices for building supplies sold by the Debtor to the contractors that owned these properties[11]. The Mill is currently encumbered by a mortgage held by Deering in the amount of $618,618 as of May 31, 2012 (as part of the sale of the retail portion of the Sanford Facility to Deering, Deering lent the Debtor the amount of $620,000 on top of the sale price for the same. This loan is secured by a first priority mortgage on the Mill)[12].

The Debtor believes that the fair market value of the Mill is not more than ***$793,000*** based on (a) an appraisal of the entire Sanford Facility that was conducted on behalf of the Bank in November of 2011 (the "Appraisal")[13]; and (b) data gathered from the Deering sale of a portion of the same real estate in April of this year. More specifically, the Appraisal estimated that the fair market value of the entirety of the Sanford Facility (*i.e.*, both the Mill and the portion sold to Deering earlier this year) at $3.35 million as of November of 2011. This figure is for real estate and improvements only; it does not include the value of equipment.

Deering purchased 10 of the 40 acres of real estate at the Sanford Facility as well as three buildings (Lumber Shed 4, Lumber Storage 5B, and Warehouse 17). The

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[11] The Camp is under contract to be sold for $50,000 and a motion for judicial approval of that sale is pending with the Bankruptcy Court as of the date the Plan was filed. The Debtor anticipates that Bankruptcy Court approval will be acquired, the sale will be consummated, and the sale proceeds will be acquired received before Plan Confirmation.

[12] Because the Deering became a secured creditor of the Debtor *after* the Petition Date, Deering is not subject to the Plan, and their debtor/creditor relationship is not governed by the Bankruptcy Code.

[13] The Appraisal is available upon request by parties-in-interest.

Appraisal set the fair market value of the real estate (*i.e.*, the land itself not including buildings and other improvements) at $278,000. One-quarter of that amount – representing the 10 acres conveyed to Deering out of the total 20 acre parcel – is $70,000[14]. According to the Appraisal, the fair market value of the three buildings sold was $1,140,090. By adding together the fair market values for (a) the real estate sold to the Deering ($70,000); and (b) the buildings and other improvements totals ($1,140,090) one arrives at an aggregate fair market value, according to the Appraisal, of $1,210,090 for the portion of the Sanford Facility purchased by Deering. However, Deering paid only $743,000 for the same[15], or 61% of the fair market value ($743,000/$1,210,090). The Debtor considers the price paid by Deering, at an arms-length sale in April of this year, to be the true fair market value of the real estate purchased by Deering. As such, the Debtor believes that the true fair market value of its remaining Sanford real estate does not exceed 61% of the amount -- $2,314,910 – allocated by the Appraisal to the Debtor's remaining real estate. Sixty-one percent of $2,314,910 equals $1,412,095.10. The Debtor believes that the fair market value of its real estate in Sanford does not exceed this amount; it may well be less than this amount because the Debtor believes that the real estate sold to Deering was the more saleable portion of its real estate. Nevertheless, for the purpose of this Disclosure Statement, the Debtor treats this amount as the fair market value of its Sanford real estate. The current balance of the Deering mortgage on the same -- $618,618 – is then subtracted to arrive at the net equity available: $793,477.10. The Debtor then rounded that figure to $793,000.

The Condominium, which was transferred to the Debtor several years ago by a contractor to settle a debt owed to the Debtor, has a fair market value of, at most, ***$225,000***. Although the tax-assessed value of the same is $388,200, the Debtor does not believe that that figure has any relation to its fair market value. The Debtor has attempted to sell the Condo for a number of years and has received no offers that greater than $175,000 (the Debtor believes that these were lowball offers that also do not accurately reflect the fair market value of the Condo). Given the general lack of interest in the Condo at any an amount anywhere near its tax-assessed value (which is unsurprising given the glut of similar units throughout the Old Orchard Beach area), the low purchase offers received to date, and the general distressed nature of the area's real estate market, the Debtor believes that $225,000 accurately represents the fair market value of the same.

Finally, the Debtor believes that the Camp has a fair market value of ***$50,000*** as evidenced by the offer for the same which, as discussed above, has been accepted by the Debtor pending Bankruptcy Court approval. The Camp is unencumbered by any pre-petition liens, although the Bank may claim an interest in the same pursuant to the terms of the DIP Financing.

6. Chapter 5 Causes of Action: The Bankruptcy Code has various provisions that allow for the recovery of certain pre-petition transfers from the Debtor.

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[14] Rounded up from $69,500.

[15] Most of the rest of the purchase price represented the Springvale real estate that Deering also purchased as part of the transaction.

The primary cause of action that may allow for the recovery of certain pre-petition transfers is found in 11 U.S.C. § 547. That provision looks to transfers of money or other items of value from the Debtor to its creditors in the 90 day period immediately preceding the Petition Date. If one or more of those transfers were not made in satisfaction of a secured debt, or not made in the ordinary course of the Debtor's business, or were not followed by the provision of new value by the recipient of the payment, then they may be deemed "preferences" and could be recoverable and re-distributed to all creditors on a pro-rata basis. The Debtor's records indicate that there were approximately $2.18 million in transfers that *could* qualify as preferences. Based on the experience of the Debtor's bankruptcy counsel, the Debtor believes that a net 25% recovery rate on these preferences is feasible, meaning that their value for Plan purposes is approximately ***$545,000***. The Debtor does not believe that the other potential Chapter 5 causes of action, such as to recover allegedly fraudulent transfers under 11 U.S.C. § 548 have any appreciable value, although the Debtor leaves the ultimate determination of the value of the Article 5 Causes of Action to the Liquidating Trustee who will, as described in more detail below at Article VI, § D, ultimately evaluate and prosecute the same.

7. United Healthcare Action: The Debtor has initiated a lawsuit against United Healthcare, the insurance carrier which provided "stop loss" coverage for its prepetition employee health plan. The stop loss coverage was in effect through December 31, 2011, and it was intended to provide insurance reimbursement to the Debtor to the extent that the Debtor's health plan incurred medical expense liability for any covered individual in excess of $40,000 in any year. The Debtor estimates that in 2011, as much as $500,000 in excess medical liability was incurred by the health plan. Prior to the Petition Date, the Debtor had not made a claim for reimbursement for such amount against the stop loss carrier, but on April 9, 2012, it made its claim. The carrier denied it on the grounds that the Debtor had not, as the carrier believed the insurance policy required, pre-paid the excess claims to medical providers before making a coverage claim. The Debtor disputed this interpretation of the policy, and so informed the carrier. In addition, on May 24, 2012, the Debtor commenced suit against the carrier to recover its claims (thereby commencing the United Healthcare Action). While the Debtor believes that the terms of its insurance coverage will ultimately require the carrier to pay its excess coverage claims, and the Debtor intends to prosecute this claim vigorously, the Debtor can provide no assurances of the amount or timing of any outcome of this litigation. ***Nevertheless, under the Plan, and regardless of the amount or timing of any recovery from the stop loss carrier, the Debtor will pay, in full, all unpaid health claims for covered medical services provided to its present and former employees.***

B. Claims Against the Debtor

The Bankruptcy Court has previously established June 18, 2012 (the "Bar Date"), as the deadline for the filing of proofs of claims against the Debtor's estate for the purpose of establishing the Debtor's liabilities[16]. To the extent that a proof of claim or

[16] The Bar Date applies to all claims and interests against the Estate except for administrative claims under Section 503(b) of the Bankruptcy Code and claims held by governmental entities.

interest was not filed on or before the Bar Date, and to the extent that the Claim is scheduled by the Debtor as disputed, unliquidated or contingent, the holder of the Claim is deemed to have waived any and all Claims against the Debtor's Estate. No Claim will be entitled to payment until such Claim is an Allowed Claim. If an objection is made to a Claim, no payment will be made until the Court determines the lawful amount of the Claim. The Debtor has reserved the right to object to all Claims. Based on the proofs of claim filed, the Debtor's schedules of Assets and liabilities prepared by the Debtor, and the Debtor's most recent estimates of value of its Assets, the claims against the Debtor and the Assets of the Debtor can be stated as follows:

1. Secured Claims.

A claim is "secured" when a creditor holds a lien on particular Assets ("Collateral") to assure payment of the Claim. In general, proceeds from any sale of Collateral must be applied first to the repayment of any claims secured by the Collateral. If the amount of the Claim exceeds the value of the Collateral, then the Claim is considered to be a "secured claim" under the Bankruptcy Code, to the extent of the value of the Collateral, and an unsecured Claim for any balance of the claim in excess of the value of the Collateral.

a. *The Bank:* The total aggregate value of the Bank's Allowed Secured Claims against the Debtor as of the Petition Date was $5,971,317. Since the bankruptcy filing, and primarily as a result of the Debtor's efforts to liquidate its unneeded real and personal property, the amount of the Bank's Allowed Claims has been paid down to approximately $1,020,000 as of May 31, 2012.

The Bank claims a first priority security interest in all of the Debtor's assets except for the following: the Mill, the Condo, the Camp, Ineligible A/R Collateral and the Chapter 5 Causes of Action. The Bank has a second priority security interest in the Ineligible A/R Collateral Receivables behind only the Richard A. Molyneux Revocable Trust (the "Molyneux Trust"). The Bank has a second priority mortgage on the Condo behind only Gorham Savings Bank. The Bank may have a security interest in the Camp pursuant to the terms of the Bankruptcy Court Order approving the DIP Financing.

Because the Debtor believes that the aggregate value of the Bank's collateral (*i.e.*, the Inventory, most of the Debtor's Accounts' Receivable, the Equipment, Cash (if any), *etc.*) equals or is greater than the total amount of the Bank's Allowed Claim, the Debtor treats the Bank's full secured claim as Allowed Secured Claim.

b. *Seaboard*: Seaboard claims a second priority security interest in all of the Inventory (both the Mill Inventory and the Lakeville Inventory) behind only the Bank, which security interests purports to secure an obligation to Seaboard in the amount of approximately $233,000. In addition, because the Debtor's records show that Seaboard owed the Debtor $99,903.42 for pre-Petition Date products sold by the Debtor to Seaboard, the Debtor considers Seaboard to be secured at least in the amount of $99,903.42. After taking into account this conceded security (*i.e.*, the amount that

Seaboard owed to the Debtor as of the Petition Date), the remaining obligation to Seaboard would be approximately $144,000. The Debtor believes that there is sufficient inventory to secure the Debtor's claim based on the Debtor's liquidation analysis accompanying this Disclosure Statement.

c. *Holders of Setoff Rights (Excluding Seaboard)*: Aside from Seaboard, there are also a number of other creditors of the Debtor who have setoff rights arising from obligations owed to the Debtor as of the date of the Petition Date. Each of these creditors is deemed secured in the amount of the setoff. Those amounts are reflected in this table:

Creditor	**Setoff Available**	**Net Amount Due Creditor After Setoff**[17]	**Net Amount Due Debtor After Setoff**
Bestway	$58,067.67	$1,221.93	N/A
Eastern Forest	$7,252.31	$0.00	$0.00
Warren Trask	$12,352.22	$419.42	N/A
L.R. McCoy Co.	$12,352.22	N/A	$603.33
HHP, Inc.	$1,349.00	$3,652.40	N/A
Gillies & Prittie	$6,750.73	$8,259.35	N/A
Jeff Simpson	$11,437.65	$97.94	N/A
R. Pepin & Son	$520.00	$0.00	$0.00

To the extent that the Debtor still owes a given creditor any amount after setoff has been effected, that remaining amount constitutes an Allowed Unsecured Claim pursuant to the terms of the Plan and will be placed in Class 7 for plan purposes (*see* Article VI, below).

d. *Gorham Savings Bank*: Gorham Savings Bank ("GSB") has a first priority mortgage in the Condo which secures a note with a current balance of $209,276.08. Given the Debtor's belief that the fair market value of the Condo is $225,000, GSB's Allowed Secured Claim is fully secured.

e. *The Trust* : The Trust has a first priority security interest in the Ineligible A/R Collateral securing a note to the Debtor that had a balance of approximately $67,246 as of May 31, 2012. As of May 31, 2012, the book value of the Ineligible A/R Collateral was in excess of $1 million and the Debtor believes that it is likely to realize at least $136,000, from such accounts, and perhaps more, because the Debtor has been able to effectively utilize legal process to place liens on a number of the projects on which the product underlying the Ineligible A/R Collateral were utilized. Moreover, the Debtor believes that it has already collected Ineligible A/R Collateral

[17] This amount will become deemed an Allowed Unsecured Claim and will be placed in Class Seven for Plan purposes (see Article VI, § D below).

proceeds well in excess of the amount of the Trust's Claim since the Petition Date. As such, the Plan treats the Trust's Allowed Secured Claim as fully secured.

f. *Holders of Tax Liens on Real or Personal Property:* The Town of Sanford (the "Sanford") asserts a Secured Claim against the Debtor's personal property located at the Mill in the amount of $67,059.38. The Debtor does not believe that Sanford's statutory lien on the personal property takes priority over the lien in the same held by the Bank because Sanford, by its own admission (*see* Proof of Claim no. 159-1), failed to take the steps required by 36 M.R.S.A. § 612 to grant its lien a first-priority position. The Debtor does not believe that, once the amount of the Debtor's indebtedness to the Bank is taken into account, there is any equity in the personal property to secure Sanford's lien. As such, Sanford's Claim is not a secured claim, but it is entitled to Unsecured Priority Status and is dealt with accordingly.

The Town of Greenville ("Greenville") asserts a Secured Claim in the Camp as a result of unpaid real estate taxes in the total amount of $3,618.15. The Debtor paid $1,284.34 of that amount after the Petition Date to ensure that title to the Camp did not automatically transfer to Greenville by operation of state law. As such, Greenville holds an Allowed Secured Claim in the amount of $2,333.81.

2. Administrative and Unsecured Priority Claims.

The Bankruptcy Code entitles certain types of Unsecured Claims to be paid in full prior to payment of other Claims. These types of Unsecured Claims include Administrative Claims. Administrative Claims are Claims arising from the costs and expenses of conducting a Chapter 11 case. They include fees of professional persons employed by the Debtor and by the Committee to the extent approved by the Bankruptcy Court, and ordinary and necessary claims incurred after the initiation of the Chapter 11 case. Administrative Claims also include claims for the costs and expenses of preserving the Debtor's Estate or its Assets.

Administrative Claims are entitled, pursuant to Bankruptcy Code Section 507(a)(l), to receive payment before other Priority Claims and before payment of pre-petition Unsecured Claims against the Debtor's estate.

The Debtor estimates that as of the Effective Date of the Plan, Administrative Claims will consist primarily of the Debtor's obligations for (a) payment of legal fees for Debtor's bankruptcy counsel (MCM), its financial consultant (Windsor) and the various other professional persons and entities retained by the Debtor to perform certain discrete functions (collectively, the "Debtor's Professional Fees"); (b) payment of legal fees for the Committee's counsel (BSSN) and its financial consultant (Spinglass) (collectively, the "Committee's Professional Fees"); and (c) payment of legal fees for the Bank's counsel (the "Bank Professional Fees") (collectively, the "Professional Fees")[18]. Aside from pending applications for compensation for a broker and an investment banker, the

[18] The Debtor is obligated to pay reasonable Bank Professional Fees as part of its agreement for DIP Financing.

Professional Fees are for the most part paid on a monthly basis, as they are incurred (subject, however to final allowance by the Court). The Debtor anticipates that total Professional Fees for the period of time between June 1, 2012 and the Effective Date will not total more than $200,000, although it has budgeted fees of $350,000 for that period. The Debtor's and the Committee's Professional Fees are subject to approval of the Bankruptcy Court pursuant to the procedures set forth in Sections 330 and 331 of the Bankruptcy Code and they shall be paid in cash on or before the Effective Date of the Plan.

In addition to Administrative Claims, the Bankruptcy Code also provides priority for payment of claims for various unpaid taxes and other eligible expenses. The Debtor believes that the aggregate amount of valid Priority Claims is approximately **$1,077,000** as set forth below:

Creditor	Anticipated Allowed Priority Claim
Health Claims Payable[19]	$ 809,097.85
Massachusetts Department of Revenue	$200,406.39
Town of Sanford (personal property taxes)	$ 67,059.38
TOTAL:	**$1,076,563.62**

3. <u>General Unsecured Claims.</u>

Claims that are neither fully Secured Claims, nor Claims entitled to Priority under the Bankruptcy Code are considered "general unsecured claims." If a claimant supplied goods or services to the Debtor, the Claim arose prior to the Petition Date, and the claimant holds no security for payment of the Claim, the claimant holds a general unsecured claim. In addition, a Claim for damages resulting from the Debtor's rejection of an executory contract is a general unsecured claim, as is the Claim of a Secured creditor, to the extent that the Claim exceeds the value of the collateral.

In order to become an Allowed Unsecured Claim, and thus receive payment pursuant to the Plan, a general Unsecured Claim must have either been (i) set forth in a proof of claim properly filed with the Bankruptcy Court on or before the Bar Date and approved by the Court, or (ii) listed by the Debtor in its schedules of liabilities filed with the Bankruptcy Court as a general Unsecured Claim which is neither disputed, unliquidated or contingent. Even if properly filed or scheduled, a Claim may still be disallowed if an objection to the Claim is filed by the Debtor and sustained by the Bankruptcy Court. The Debtor has scheduled approximately $4.4 million in Unsecured Claims.

[19] The Health Claims Payable represents the aggregate amount that may be due to various healthcare providers who provided health care services to the Debtor's employees before the termination of its self-insured health plan effective as of the Petition Date. The Debtor is in the process of evaluating the total amount of the Health Claims Payable but has not completed that analysis. As such, the Debtor is using the figure claimed in the Department of Labor proof of claim (84-1) that purports to represent all claims under the health claim as the Health Claims Payable for purposes of this Disclosure Statement. The Debtor reserves the right to challenge this figure once that analysis is complete.

V. ALTERNATIVES TO THE PLAN – ASSET LIQUIDATIONS

Before turning to the details of the Plan, the Debtor believes it is appropriate to discuss the alternatives to that Plan. These alternatives are the benchmarks against which the Debtor believes its Plan should be evaluated. The Debtor believes that the alternatives to the Plan are: (a) an orderly liquidation of the Debtor's Assets in the context of this Chapter 11 case; or (b) liquidation of the assets in a proceeding under Chapter 7 of the Bankruptcy Code, with the liquidation overseen by a Chapter 7 trustee appointed pursuant to the Code. It is important to note that there is absolutely no guarantee that management would remain to oversee an orderly liquidation[20] if the Plan is rejected. In fact, the Debtor believes it likely that the case would likely convert to a Chapter 7 liquidation overseen by a trustee. Regardless, the distribution of the net proceeds thereof to secured, priority, and unsecured creditors would occur in the order of priority and manner provided in the Bankruptcy Code.

In a nutshell, and as will be demonstrated below, the Debtor believes that its Plan returns far more value to creditors than either of these liquidation scenarios or any other alternatives.

In general, liquidation of the Debtor's assets would require that secured creditors be paid first, then administrative expense creditors, including administrative expense creditors in the Chapter 11 case and in any subsequent Chapter 7 case (with the latter – *i.e.*, the expenses of the Chapter 7 trustee and his professionals, *etc*. -- having priority), then priority creditors, with the balance, if any, distributed to unsecured creditors on a *pro rata* basis. The Debtor, in conjunction with its professionals, has prepared an analysis which provides a numerical breakdown of the amounts that creditors could expect to receive under the two alternative scenarios, *i.e.* a Chapter 11 orderly liquidation or a Chapter 7 liquidation (the "Waterfall Analysis"). The Waterfall Analysis is attached hereto as ***Exhibit 3*** and is explained below. As will be demonstrated, the Debtor's proposed Plan, which contemplates the continued operation of the Debtor, rather than the liquidation of its assets, provides a substantially greater benefit to the various classes of creditors than either of the liquidation scenarios.

The Waterfall Analysis is comprised of two pages. The first page analyzes the Debtor's assets and the likely proceeds of sale in each of the liquidation scenarios. The second page analyzes the Debtor's liabilities and calculates what amounts, if any, would be available for holders of Allowed Unsecured Claims after all senior obligations are satisfied. Each page also has columns representing asset sale proceeds and liabilities in each of the two liquidation scenarios (titled "Orderly Liquidation" and "Chapter 7 Liquidation")[21].

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[20] None of the Debtor's management is employed pursuant to a contract. As such, the Debtor cannot prevent its management team from departing when they so desire. The Debtor believes it entirely possible that some of the management team would depart if confronted with an orderly liquidation scenario instead of the prospect of a reorganization as a going concern.

[21] The Waterfall Analysis does not take into account any recoveries of the Chapter 5 Causes of Action, because these causes of action will be made available to creditors under all scenarios, and are not

A. ***<u>Assets</u>***

In either liquidation scenario, all of the Debtor's real and personal Assets would be liquidated. In the Chapter 11 orderly liquidation scenario, the Debtor's current management would wind down the business in the context of this Chapter 11 case for the benefit of all creditors. In doing so, the Debtor would have the benefit of management's institutional knowledge and expertise in liquidating assets, an advantage that would result in higher returns for creditors than could reasonably be anticipated if a Chapter 7 trustee without the same experience with either the Debtor or the industry was appointed.

For example, in an orderly liquidation, the Debtor expects that management would finish milling all of its logs and then sell the final product at much higher prices than selling product as work in process. Conversely, it is unlikely that a Chapter 7 trustee would do anything more than sell those work in process as-is, where-is, with a concomitant decrease in the amounts realized. Similarly, current management is deeply knowledgeable about the Debtors' commercial relationships that underlie the accounts receivable (both Retail A/R and Mill A/R). As such, the Debtor would be able to realize more in collecting those accounts receivable on a going-forward basis than a Chapter 7 trustee, as the Debtor's management is familiar with the customers' financial condition, able to rebut claims that product was not delivered or was defective, *etc.* This fact is reflected by the fact that the asset values in the Orderly Liquidation column of the Waterfall Analysis have values greater than those in the Chapter 7 liquidation analysis. Simply put, a management-conducted orderly liquidation is virtually certain to realize more in net proceeds than a sale conducted by a Chapter 7 trustee (but significantly less than the proposed Plan dividend) and the figures on the Waterfall Analysis reflect this.

B. ***<u>Liabilities</u>***

In contrast, the liabilities in both of the liquidation scenarios, other than bankruptcy administration costs (which increase in a Chapter 7 liquidation as a whole new layer of professionals is added), are the same The amounts of secured, priority and unsecured debts do not change with the method of liquidation. Administrative expenses would change, however in the two liquidation scenarios. In the Chapter 11 Orderly Liquidation, there would be expenses for Debtor's professionals as well as Creditor Committee professionals, but there would be no administrative expenses for a trustee or an attorney for the trustee. In the Chapter 7 Liquidation, the opposite would be true—there would be expenses for a trustee and his counsel, but substantially reduced Chapter 11 administration expenses. The attached Waterfall Analysis shows the impact of the different administrative expense levels in each liquidation scenario, as well as the ultimate net recovery for creditors in each liquidation scenario.

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material to the liquidation of other business assets. Because this Plan assigns the Chapter 5 Causes of Action to the Liquidating Trust for the benefit of all creditors, they are not a material factor in consideration of alternatives to the Plan. *See* discussion below at Article V, § B.

In summary, in the Chapter 11 Orderly Liquidation, the net recovery for unsecured creditors from the liquidation of the Debtor's assets would be $143,832 plus the anticipated recovery on the Chapter 5 causes of action ($545,000) for a total of approximately $688,832. In the Chapter 7 Liquidation, the net recovery is negative, or, in effect, zero, with Allowed Priority Unsecured Claims unable to be paid in full and Allowed Unsecured Claims receiving nothing.

In contrast to these liquidation scenarios, the Debtor's Plan would return as much as $1,000,000, and possibly more, to unsecured creditors, as shown below.

VI. DESCRIPTION OF THE PLAN

A. Introduction.

The following description of the Plan is only a summary. Creditors and other parties in interest are urged to carefully read the Plan in full. If the Plan is confirmed by the Bankruptcy Court, the Plan will be binding upon the Debtor, all creditors, and other affected parties.

In order for any Claim to be paid pursuant to the Plan, the Plan must be confirmed by the Bankruptcy Court and must take effect in accordance with its terms. The hearing at which the Court will consider confirmation of the Plan has been scheduled to take place on _______________ at __________, 2012 at the United States Bankruptcy Court, 537 Congress Street, in Portland, Maine. If the Plan is confirmed on that date, the Plan will take effect on the Effective Date as defined in the Plan.

In order for your particular Claim against the Debtor to receive a distribution under the Plan, the Claim must be an Allowed Claim. A Claim is allowed when it is determined to be valid pursuant to procedures established by the Bankruptcy Code, the Bankruptcy Court, and the Plan. For further information in this regard, see Section VIII, "Allowance of Claims and Interests," below.

B. Treatment of Non-Classified Claims.

Under the Plan, certain Priority Claims are not classified. These include Administrative Claims (11 U.S.C. Section 507(a)(1)), and Claims entitled to priority under Sections 507(a)(2) and 507(a)(8) of the Bankruptcy Code. These unclassified Claims will be paid as follows:

All Allowed Priority Unsecured Claims against the Debtor that are held by the entities listed in the chart above at § IV.B.2, with the exception of the Health Claims Liability (*i.e.*, all tax-based Claims that are entitled to priority under Section 507(a)(8)) shall be paid in full as follows. The Debtor will pay the full amount thereof by the execution and delivery of one promissory note to each holder of an Allowed Priority Claim. Each such note shall be payable in the amount of the holder's respective Allowed Priority Claim, payable in sixty (60) consecutive, equal monthly installments of principal and interest. These promissory notes shall issue on the Effective Date and payments on the same shall commence on the first (1^{st}) day of the month following the Effective Date, and continuing monthly until each Allowed Priority Claim is paid in full. Interest shall be paid at 125% of the Prime Rate, in effect from time to time (or such other interest rate as the Court may order or the Debtor may agree upon with the relevant parties-in-interest).

All other unclassified Claims – *i.e.*, Allowed Administrative Claims and the Health Claims Liability -- will be paid in full on the Effective Date, or in such amount, or on such date and under such terms as the Debtor and those creditors may agree.

In addition, the Debtor shall have the continuing obligation to pay the quarterly fees required by 28 U.S.C. § 1930 until this case is closed, converted, or dismissed.

C. ***Classification of Claims under the Plan.***

The Plan divides Claims (other than certain unclassified Claims such as Administrative Claims and Claims entitled to priority (*see* Article II of the Plan) and interests into eight (8) classes. Distributions to holders of Allowed Claims under the Plan are in full settlement and satisfaction of those Claims, including any interest accrued thereon. Following is a list of the eight classes of Claims and their proposed treatment under the terms of the Plan:

Class One shall consist of all Claims of any kind or nature held by the Bank.

Class Two shall consist of all Secured Claims of any kind or nature held by Seaboard, including any right of setoff.

Class Three shall consist of the holders of all Secured Claims that are secured exclusively by virtue of rights of setoff, but Seaboard shall not be a member of this Class.

Class Four shall consist of all Secured Claims held by the Trust.

Class Five shall consist of all Secured Claims held by GSB.

Class Six shall consist of shall consist of the holders of all Secured Claims of any kind or nature not encompassed by Classes One, Two, Three, Four, and Five.

Class Seven shall consist of the holders of all Allowed Unsecured Claims, including Allowed Unsecured Claims, arising from the rejection, prior to or after the Confirmation Date, of an executory contract or unexpired lease.

Class Eight shall consist of the holders of all equity interests in and to the Debtor, including equity interests evidenced by any class of membership units issued by the Debtor.

D. Treatment of Claims Under the Plan.

Class One. The holder of the Class One Claim – the Bank -- shall be unimpaired[22]; this means that the Bank's Claim shall be dealt with as if no bankruptcy filing had occurred. Because the Bank's claim is unimpaired, it is not entitled to vote for or against the Plan. *See* Section 1126(f) of the Bankruptcy Code.

Class Two. To the extent that the holder of the Class Two Secured Claim – Seaboard -- is entitled to exercise rights of setoff in satisfaction of that Claim, Seaboard shall be entitled to exercise its rights of setoff as of the Effective Date of the Plan. This exercise of setoff right shall not prejudice the ability of the Debtor and/or the Liquidating Trustee to challenge any set off made by Seaboard on or prior to the Petition Date, under the provisions of Chapter 5 of the Bankruptcy Code (including, but not limited to, 11 U.S.C. § 553(b)).

In full and final satisfaction of the balance of the Seaboard Allowed Secured Claim remaining after the exercise of setoff rights, the Debtor shall pay the full amount thereof by the execution and delivery, on the Effective Date, of a promissory note of the Debtor, in the full amount of such Allowed Secured Claim, such promissory note to be payable in consecutive, equal monthly installments of principal and interest, based upon an amortization schedule calling for the payment of the note in five (5) years from and after the Effective Date. The Class Two promissory note shall issue on the Effective Date and payments on the same shall commence on the first (1st) day of the month following the Effective Date, and continuing monthly until the 60th month, when any remaining balance shall be paid and satisfied in full. Interest shall be paid at 125% of the Prime Rate, in effect from time to time (or such other interest rate as the Court may order or the Debtor may agree upon with the holder of the note). The Class Two Claim shall retain all security which currently secures the Class Two Claim, and as such, the aforesaid promissory note shall be secured by a second-priority security interest in and to the Debtor's inventory and is subordinate to the Bank's first-priority lien in the same. The Class Two Claim is impaired under the Plan and the holder of such Claim is entitled to vote as a class to accept or reject this Plan.

Class Three. To the extent that the holders of Allowed Class Three Secured Claims are entitled to exercise rights of setoff in satisfaction of those Claims those holders of Allowed Class Three Secured Claims shall be entitled to exercise their rights of setoff as of the Effective Date of the Plan in the amounts set forth above in Article IV, § B.1.c. To the extent that a holder of an Allowed Secured Claim is still owed any amount after setoff has been effected, that remaining amount shall constitute an Allowed Unsecured Claim and shall be accorded the treatment set forth below for Class Seven.

The exercise of setoff rights as permitted by this Plan shall not prejudice the ability of the Debtor and/or the Liquidating Trustee to challenge any setoff made by a holder of an Allowed Class Three Claim prior to the Petition Date under the provisions of

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[22] The Debtor directs the reader's attention to Article XIII below for a further discussion of impaired and unimpaired classes.

Chapter 5 of the Bankruptcy Code (including, but not limited to, 11 U.S.C. § 553(b)). The holders of Allowed Claims in Class Three shall be unimpaired, and solicitation of acceptance of this Plan from the Class Three claimants is not required under Section 1126(f) of the Bankruptcy Code.

Class Four. In full and final satisfaction of the Allowed Secured Claim in Class Four, the Debtor shall pay the full amount thereof from the proceeds of Ineligible A/R Collateral recovered after the Petition Date. The holder of Allowed Claims in Class Four – the Trust -- shall be unimpaired, and solicitation of acceptance of this Plan from the Class Four claimant is not required under Section 1126(f) of the Bankruptcy Code.

Class Five. In full and final satisfaction of the Allowed Secured Claim in Class Five, the Debtor shall restate and reaffirm its obligations to GSB under the applicable note and mortgage, and shall continue to make payments on the same pursuant to the terms of the promissory note. The Class Five Claim shall retain all security which currently secures the Class Five Claim, and as such, the aforesaid promissory note shall be secured by a first priority mortgage in a certain condominium unit located in Old Orchard Beach Maine and owned by the Debtor. The Class Five Claim is unimpaired under the Plan and therefore GSB is not entitled to vote as a class to accept or reject this Plan.

Class Six. The holders of Allowed Claims in Class Six shall be unimpaired, and solicitation of acceptance of this Plan from the Class Six claimants is not required under Section 1126(f) of the Bankruptcy Code. As was discussed above, the Debtor does not believe that Sanford has an Allowed (or allowable) Secured Claim against the Debtor's estate on account of personal property taxes, and therefore that Claim is dealt with as an Allowed Unsecured Priority Claim in Article VI, § B. To the extent that it may be later judicially determined that Sanford does have an Allowed Secured Claim, that Allowed Secured Claim shall nevertheless be dealt with in the same fashion as set forth above in Article VI, § B.

Class Seven. In full and final satisfaction of all Allowed Claims in Class Seven, the holders of such Allowed Claims shall receive the payments described below.

The Confirmation Order shall create and establish the Liquidating Trust (as that term is defined above at § 1.22). The Liquidating Trust shall be governed by the terms and conditions of the Liquidating Trust Agreement annexed to the Plan as *Exhibit A*. Under the Plan, the Debtor will make payments to the Liquidating Trust, and the Trust will administer those payments and distribute them to Class Seven creditors in accordance with the provisions of the Liquidating Trust Agreement. The following payments and other assets will be transferred by the Debtor to the Liquidating Trust and held, administered and distributed by the Trust to holders of Allowed Claims in Class Seven[23].

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[23] The terms of the liquidating Trust Agreement and the Liquidating Trustee's obligations and responsibilities thereunder are described below.

(a) The Debtor shall pay the amount of $70,000 to the Liquidating Trust (the "Initial Payment") on the first day of the month in the month next following the occurrence of the Effective Date[24] (the "First Plan Payment Date"). After the Initial Payment, and subject to the limitations set forth herein, the Debtor shall distribute to the Liquidating Trust, annually, commencing with calendar year 2013, a sum equal to its Net Cash Flow (as that term is defined below) for that calendar year (the "Annual Payments"). The Annual Payment for any calendar year shall be made not later than October 1 of the following calendar year. The aggregate of the Initial Payment and all Annual Payments (which aggregate shall be referred to as the "Plan Revenue Disbursements") shall not exceed the sum of $350,000, subject to adjustment as set forth in subsections (b) and (c) below (said sum of $350,000, as adjusted pursuant to these subsections, shall be referred to as the "Plan Revenue Disbursement Cap"). For the purpose of determining the Annual Payment for any calendar year, "Net Cash Flow" shall be defined, in accordance with Generally Accepted Accounting Principles, as earnings for the calendar year before interest, taxes, depreciation, and amortization ("EBITDA") ***minus*** necessary capital expenditures ***minus*** payments made during the calendar year to priority creditors in accordance with this Plan, ***minus*** 130% of annualized debt service payments in the calendar year (principal plus interest on term loans, and interest only on revolving lines of credit).

(b) The Plan Revenue Disbursement Cap shall be (i) increased by the positive number, if any, determined by subtracting from the sum of $350,000, the total amount of Allowed Administrative Expense Claims held by professionals retained by the Debtor, the Committee, and the Bank for services rendered in the period of time between June 1, 2012 and the Effective Date (the "Plan-Related Professional Fees"), and (ii) reduced by the negative number, if any, determined by subtracting from the sum of $350,000 the Plan-Related Professional Fees.

The purpose of this provision is to reward creditors if professional fees can be kept below budgeted amounts. If professional fees total less than the budgeted $350,000 between June 1, 2012 and the Effective Date, then the dividend to holders of Allowed Class Seven Claims increases. If, on the other hand, those professional fees are greater than $350,000, then the dividend is reduced accordingly. For example, if the Plan-Related Professional Fees were $225,000 then the Plan Revenue Disbursement Cap would be increased by $125,000 to $475,000. Conversely, if the Plan-Related Professional Fees totaled $450,000, then the Plan Revenue Cap would be reduced to $250,000 ($350,000 plus ($350,000 minus $150,000).

The Debtor believes that the Plan-Related Professional Fees will come in below the $350,000 benchmark and will likely total approximately $200,000.

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[24] For example, if the Effective Date of the Plan is September 15, 2012, then the First Plan Payment Date would be October 1, 2012.

If this is the case, then the Plan Revenue Cap would increase to $500,000, a result that inures to the benefit of all holders of Allowed Class Seven Claims.

(c) The Plan Revenue Cap will also be increased by that amount of Net Proceeds, as defined below, which the Debtor obtains, if any, by final settlement of or final adjudication in the United Healthcare Action (described above at Article IV, § A.7). For the purpose of this subsection, Net Proceeds is defined as a sum of money equal to the gross amount of such settlement or recovery of monetary damages by final adjudication, less all costs and expenses, including attorneys' fees and other costs of recovery incurred by the Debtor in recovering such settlement amount or monetary damages (the "United Healthcare Action Payment"). For example, if the Debtor recovered, by settlement or judgment in the United Healthcare Action, the amount of $500,000, at a cost of $100,000 in attorneys' fees and costs, then the Plan Revenue Cap would increase by $400,000. This additional sum would be paid to the Liquidating Trust pursuant to the payment schedule set forth above.

(d) Finally, the Debtor shall assign and transfer to the Liquidating Trust all of the Chapter 5 Causes of Action. Once transferred, the Liquidating Trustee shall analyze the same and, if he or she deems it appropriate (in his or her sole discretion), prosecute the same. The net recovery of any Chapter 5 Causes of Action the Trustee may liquidate by settlement, lawsuit, *etc.* shall be distributed by the Trustee to the holders of Allowed Class 7 Claims pursuant to the terms of the LT Agreement[25].

As discussed above, the Debtor believes that prosecution of the Chapter 5 Causes of Action could result in recoveries of $500,000 or more. When that amount ($500,000) is added to the anticipated Plan Revenue Disbursements after the Plan Revenue Cap is adjusted upwards ($500,000 +/-), the Liquidating Trustee could gross over a million dollars[26] for the benefit of holders of Allowed Class Seven Claims before any potential recovery on the United Healthcare Action is factored in.

Disbursement of Plan Distributions, prosecution of Chapter 5 Causes of Action, and related matters shall be governed by the terms of the Liquidating Trust Agreement. The Debtor directs the reader's attention to the copy of the Liquidating Trust Agreement which is attached to the Plan as *Exhibit A*. In a nutshell, the Plan Trustee shall be appointed by the Bankruptcy Court at the Confirmation Hearing and he or she shall serve as a fiduciary for the holders of Allowed Class Seven Claims. Those holders of Allowed Class 7 Claims shall, in turn, receive beneficial interests in the Liquidating Trust in amounts equal to the dollar amounts of their Allowed Class Seven Claims. The

[25] As is discussed below at Article VII, § A(i), should United Ventures make an Equity Investment, then, in exchange for the same, all Causes of Action against it, its members and their affiliates will be released as part of the Plan.
[26] Exclusive of the expenses of administering the Liquidating Trust.

Liquidating Trust shall operate independently of the Debtor (although cooperation and negotiation between the Debtor and the Liquidating Trustee is anticipated and expected).

The Liquidating Trust will be tasked with, among other things, taking ownership of the Chapter 5 Causes of Action and liquidating the same, receiving Plan Revenue Disbursements (up to the amount of the Plan Revenue Disbursement Cap) and the United Healthcare Action Payment (if any) from the Debtor and, ultimately, making Plan distributions to the holders of Allowed Class Seven Claims. All such distributions shall be *pro rata* based on the number of Liquidating Trust beneficial interests held by a holder of an Allowed Class Seven Claim compared with the total number of Liquidating Trust beneficial interests outstanding and shall be net of the expenses of operating the Trust[27]. ***The Liquidating Trustee is vested with sole discretion as to the timing and amount of all distributions to holders of Allowed Class Seven Claims*.**

Class Eight. Should Class Seven vote to approve the Plan as currently constituted, then the equity interests represented by Class Eight shall remain unchanged. As such, Class Eight would be unimpaired and not entitled to vote for or against the Plan.

If Class Seven rejects the Plan, then the Debtor will look to certain provisions of the Bankruptcy Code to seek confirmation of the Plan notwithstanding such rejection. More specifically, Section 1129(b)(2)(B)(ii) of the Bankruptcy Code permits a plan to be confirmed if a class of unsecured creditors (here, Class Seven) votes against the plan as long as all Classes of claims and/or interests junior to the dissenting class receive no payment on account of their claims or interests.

In this case, if Class Seven were to vote against the Plan, then the Debtor would cancel the only class junior to it -- Class Eight -- which represents all membership interests in the Debtor. In conjunction with any such cancellation of existing membership interests, United Ventures would be issued new membership interests in the Debtor in exchange for an equity investment of up to $250,000 in cash. Those membership interests would constitute 100% of the equity in and to the Debtor, and such membership interests would be deemed fully paid and non-assessable upon investment of said sum of up to $250,000 in accordance with this Plan.

This equity investment constitutes “new value” for purposes of Section 1129(b)(2)(B)(ii) and the Debtor believes that it would reflect the fair value of the reorganized Debtor. This would allow the Debtor to obtain approval of the Plan under the “cram down” provision of the Bankruptcy Code, Section 1129(b)(2)(B)(ii). In this situation, the Class Eight Claims would be impaired under the Plan and the holders of such Claims would be entitled to vote as a class to accept or reject this Plan.

[27] The Liquidating Trust’s activities, including but not limited to the costs of the Trustee and his counsel, shall be funded by the Plan Revenue Disbursements, as well as any proceeds of the Chapter 5 Causes of Action. After those expenses have been satisfied, the remaining amounts shall be distributed *pro rata* to the holders of Allowed Class 7 Claims in such amounts and on such schedule as the Liquidating Trustee deems appropriate in his or her sole discretion.

VII. MEANS FOR EXECUTION OF THE PLAN

A. Financing of Plan Obligations.

The Debtor shall implement the Plan, and shall make Plan Distributions and other payments as set forth therein from the following sources:

(1) the aforementioned new equity investment from United Ventures in the amount of $250,000 (pursuant to the term sheet that the Debtor has received from United Ventures pertaining to this investment (a copy of which is annexed hereto as ***Exhibit 4***)). The Debtor's current projections show that this amount will be required in order to fund the Debtor's performance of the Plan. Under the term sheet provided by United Ventures, it is a necessary condition for the receipt of the same that United Ventures, all of its members and all affiliates thereof (including, but not limited to, the various affiliated entities that may have made loans to the Debtor on behalf of United Ventures or its members) be released of any claims or causes of action, of any kind or nature, that the Debtor and any person or party claiming by, through or under the Debtor (including, but not limited to, the Liquidating Trust and/or the Liquidating Trustee) may have against United Ventures and/or its members and their affiliates (including, but not limited to Chapter 5 Causes of Actions[28]));

(2) net income generated by the Debtor's business operations;

(3) borrowing ability arising from the Debtor's lending arrangements with the Bank (the Debtor has received a term sheet from the Bank proposing terms on which their commercial relationship could continue beyond the expiration of the DIP Financing; the Debtor continues to negotiate the terms of that proposed financing and will provide the same to parties-in-interest upon request once finalized);

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[28] The Debtor has investigated the payments made to the members of United Ventures (or affiliates of such members) during the relevant Chapter 5 look-back periods and, except as noted below, does not believe that these payments are recoverable as avoidable transfers for the following reasons. First (and as described above), the Debtor entered into security agreements with various members of United Ventures or their affiliates in exchange for loans of cash totaling $486,450. The loans were secured by accounts receivable of the Debtor as to which the Bank had released its senior lien, thus placing the members in the senior position. The loans were repaid when these accounts were collected. Because loan payments were made on account of secured debt and from the proceeds of the same collateral securing the debt, the Debtor does not believe that the payments are recoverable. The Committee has suggested other theories for recovery of these payments, such as equitable subordination or breach of fiduciary duty. The Debtor has considered these theories, but believes that the likelihood of success on these theories, combined with the cost and delay of recovery, make it imprudent to pursue these kinds of claims in lieu of receiving the necessary equity injection for the Debtor. Finally, certain members of United Ventures or their affiliates also received interest-only payments totaling $20,785 prior to the Petition Date on account of certain subordinated, unsecured loans. $7,722 of those interest payments (which payments were split among eight members) is not recoverable under Section 547 of the Bankruptcy Code as the aggregate interest payments to the any of the eight recipients was not greater than $5,850, the monetary threshold for a preference action (*see* 11 U.S.C. § 547(c)(9)). While that leaves $13,063 in interest payments that may be recoverable under Chapter 5 of the Bankruptcy Code, the Debtor believes that it is in the best interests of the estate and all of its creditors to forgo what would be, at best, a *de minimis* recovery in exchange for receiving a significant equity contribution from United Ventures

(4) assumption or rejection of certain contract and lease obligations;

(5) proceeds, if any, from the Debtor's prosecution of the United Healthcare Action; and

(6) the transfer of the Chapter 5 Causes of Action to the Liquidating Trust for prosecution and distribution to pay all Claims on the terms set forth in the Plan.

Attached hereto as ***Exhibit 5*** are the Debtor's projections of profit and loss, and cash flow for the one year period June 1, 2012 to May 31, 2012. These provide the Debtor's current best estimate of its expected revenues, expenses, net income and borrowing availability through this one-year period. As can be seen from reviewing the same, these projections demonstrate that the Debtor will be able to finance operations, pay its administrative expenses, and make the required and anticipated Plan Revenue Disbursements and other payments as set forth herein and in the Plan.

B. The Effective Date.

Under Article VI of the Plan, the Effective Date occurs upon the ninetieth (90th) day following the date upon which the Court enters the order confirming the Plan, unless such date is stayed by virtue of an appeal of the Confirmation Order and the entry of a stay by the Court.

VIII. EXECUTORY CONTRACTS

Under the Bankruptcy Code, the Debtor has the right to either reject or assume any contract that was "executory" on the Petition Date. While definitions of "executory" vary, the most widely accepted definition is that an executory contract is one where there is material performance remaining on the part of both the debtor and the other party to the contract as of the date of the Petition Date. The right of the Debtor to "assume" or "reject" means that the Debtor has three options: (i) to reject the contract, which dates such rejection to the moment before the Petition Date, with the consequence that the other party to the contract has the right to present an unsecured claim for the damages it incurs by reason of such rejection; (ii) to assume the contract, with the consequence that the contract continues in accordance with its terms with the debtor, all defaults are cured, and no damage claims are presented; or (iii) to assume the contract upon negotiated amended terms and provisions.

Under the Plan, unless an executory contract is the subject of a motion to assume it pending as of the Effective Date or is otherwise dealt with by an order of this Court entered on or prior to the Effective Date, any and all executory contracts and unexpired leases of the Debtor shall be deemed rejected as of the Effective Date, if not earlier rejected by other orders of the Bankruptcy Court.

The non-Debtor party to any such rejected contract or lease shall be required to assert a claim for damages from such rejection in accordance with Article VII, Section 7.2 of the Plan.

During the course of the Chapter 11 case, the Debtor rejected one of its executory contracts, namely a lease with Gebsco Realty Corp. ("Gebsco") that memorialized the terms under which the Debtor leased its Lakeville and Norwood, Massachusetts retail facilities. Following rejection of the lease, the Debtor vacated the Norwood location and remains a tenant at will at the Lakeville facility through the end of July, 2012 (by which time it anticipates having sold all of its remaining tangible Massachusetts assets). In addition, the Debtor is making weekly payments to Gebsco through the week of August 13, 2012, to pay an agreed-to administrative expense for use and occupancy of the two locations before rejection.

IX. ALLOWANCE OF CLAIMS AND INTERESTS

The Bankruptcy Code provides for pre-petition claims to be asserted in two ways. First, a creditor may file a proof of claim with the bankruptcy court on the appropriate official form. Notice was mailed to all known creditors of the Debtor stating that, except for certain types of claims specified in the notice, a deadline of May 12, 2010, the Bar Date, was established for filing proofs of claim. Second, a creditor is excused from the requirement of filing a proof of claim if the creditor's claim is listed in the schedule of liabilities filed by the Debtor with the Bankruptcy Court, if it is not listed therein as an obligation that is disputed, unliquidated or contingent, and the creditor agrees with the scheduled amount and nature of the Claim.

Holders of Administrative Claims entitled to priority under the Bankruptcy Code arising before the Confirmation Date and still outstanding 60 days thereafter will be required to file proof of claim or an application for compensation with the Bankruptcy Court on or before such 60th day (the "Post-Petition Bar Date"). Administrative Claims by a professional person for compensation and/or reimbursement of expenses, a Fee Claim, must submit to the Bankruptcy Court an application for compensation on or before the Post-Petition Bar Date.

Once a Claim (other than a Fee Claim) has been properly asserted, it will automatically be Allowed unless an objection is timely filed by an interested party, usually the Debtor himself, who has a fiduciary duty to all creditors to challenge improper Claims. If an objection is filed against your Claim, you will be sent a copy of the objection. You will have an opportunity to submit a reply and, if appropriate, to be heard by the Bankruptcy Court. Fee Claims will be allowed only by a Bankruptcy Court order. The Plan provides that no distribution will be made on account of any Claim as to which an objection is filed until the objection is resolved.

In general, bankruptcy courts strictly enforce deadlines for the assertion of Claims. Therefore, if you are required to file a proof of claim by the Bar Date or an application for compensation or proof of claim with regard to an Administrative Claim before the Post-Petition Bar Date, but fail to do so, your Claim may be disallowed and may not be paid even if the claim would otherwise have been entitled to payment.

X. PROJECTED RECOVERY OF AVOIDABLE TRANSFERS

As was discussed above (*see* Article IV, § D), the Chapter 5 Causes of Action will be transferred to the Liquidating Trust for prosecution by the Liquidating Trustee. The Plan and Liquidating Trust Agreement vest exclusive responsibility for the evaluation and prosecution of those Causes of Action in the Liquidating Trustee for the benefit of holders of Allowed Class Seven claims.

XI. INJUNCTION AND STAY

Under the Plan, the entry of the Confirmation Order will constitute an injunction applicable to all persons, staying and enjoining the enforcement or attempted enforcement by any means of all liens, Claims and debts discharged pursuant to the Plan. In the event of default under the Plan, which default is not cured in accordance with any applicable grace period, and unless the Bankruptcy Court orders otherwise, such injunction shall be deemed dissolved without further Order of the Bankruptcy Court.

XII. DISCHARGE

Pursuant to 11 U.S.C. §1141(d), Confirmation of the Plan will discharge the Debtor from all of its Pre-Petition debts, except to the extent that the Plan provides for payment of such debts.

XIII. ACCEPTANCE AND CONFIRMATION OF THE PLAN

A. Acceptance by Impaired Classes.

The Bankruptcy Code provides that any class of creditors or stockholders whose rights are "impaired" (in general terms, not fully honored) under a proposed Plan of reorganization has the right to vote, as a class, to accept or reject the Plan. Under the Plan, Claims that have been objected to and not allowed shall have no right to vote with respect to the acceptance or rejection of the Plan, except as otherwise ordered by the Bankruptcy Court. A class of creditors accepts the Plan if more than one-half of the ballots that are timely received from members of the class, representing at least two-thirds of the dollar amount of claims for which ballots are timely received, are cast in favor of the Plan. If a Plan impairs any class of claims, then, among other requirements, at least one class of claims must vote to accept the Plan in order for it to be confirmed.

If any impaired class of claims does not accept the Plan, the Court may still confirm the Plan at the request of the Debtor if the Plan "does not discriminate unfairly" and is "fair and equitable" as to the non-accepting class.

Under the Plan, Classes Two and Seven are impaired. Classes One, Three, Four, Five, and Six are unimpaired. Class Eight may be impaired, depending on whether Class Seven votes for or against the Plan.

B. Best Interest of Creditors Test.

To obtain confirmation of the Plan, the Debtor must also satisfy the so-called "best interest of creditors" test embodied in Section 1129(a)(7) of the Bankruptcy Code. This test requires that the Plan provide each non-accepting creditor or shareholder with at least as much value as would a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code. The Debtor believes that the Plan satisfies this test because, for the reasons described above, the Plan would provide to any non-accepting creditor a dividend significantly greater than the dividend (if any) such creditor would receive through liquidation of the Debtor's Assets.

C. *Analysis of Risks.*

There are, of course, certain risks that could potentially prevent the Debtor from fulfilling this Plan. For example, the Debtor's going-forward business model may not be as successful as the Debtor anticipates or the economy as a whole could continue to deteriorate to the detriment of the Debtor and the owners of other lumber mills. Further, the Liquidating Trustee may not realize a 25% rate of recovery on the Chapter 5 Causes of Action and the Debtor may be unsuccessful in prosecuting the United Healthcare Action. These risks are essentially unquantifiable and are not, in the Debtor's opinion, grounds for any creditor to vote against this Plan, especially since the alternative is a significantly smaller – or no -- recovery for holders of Allowed Unsecured Claims.

As things currently stand, the Debtor does not believe that these risk factors will undermine its ability to satisfy its obligations under the Plan. The Debtor has an established mill business that it believes, in light of the divestiture of its retail operations its and its present business model, will continue to provide the Debtor with income sufficient to satisfy the Plan requirements. In addition, the Debtor is confident that its litigation of the United Healthcare Action and the Liquidating Trustee's pursuit of the Chapter 5 Causes of Action will bear fruit and increase the dividend for holders of Allowed Unsecured Claims.

XIV. VOTING

Enclosed with this Disclosure Statement is a ballot for your use in voting to accept or reject the Plan. In order for your vote to count, and if you are a creditor of the Debtor, your properly completed and executed ballot must be received ***not later than 5:00 p.m. (Eastern Time) on ____________, 2012*** at the office of the Debtor's counsel:

c/o Holly C. Pelkey.
Bankruptcy Paralegal
Marcus, Clegg & Mistretta, P.A.
One Canal Plaza – Suite 600.
Portland, ME 04101

Submission of ballots by facsimile (fax) is not permitted; submission of ballots by e-mail is not permitted.

XV. MODIFICATION OF PLAN

The Debtor may propose amendments or modifications to the Plan as provided in section 1127 of the Code. If all parties adversely affected by any modifications consent to such modification, this Disclosure Statement shall be deemed adequate without modification and no further notice shall be required or given. In other cases, the Bankruptcy Court may require a new disclosure statement and/or re-voting under the Plan as amended or modified.

In addition, the Debtor may, with the approval of the Bankruptcy Court, modify or amend the Plan through the Bankruptcy Court's Order confirming the Plan. Notwithstanding anything to the contrary set forth herein, no amendment or modification which affects the treatment of Claims against the Debtor may be allowed or approved without the express written consent of the Debtor.

XVI. FEDERAL AND OTHER TAX CONSEQUENCES

Each holder of a Claim is strongly urged to consult a tax advisor for information regarding any federal, state, or local tax consequences of the treatment of such holder's Claim under the Plan.

XVII. CONCLUSION AND RECOMMENDATION

The Debtor believes that the Plan represents the best possible means of satisfaction of all creditor claims, and is fair and equitable to all parties. The Debtor hopes that all impaired creditors will vote to accept the Plan.

Dated: June 13, 2012

NEW ENGLAND BUILDING
MATERIALS, LLC
Debtor and Debtor-in-Possession

By: /s/George J. Marcus
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