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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

ZLOOP, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 15-11660 (KJC)

(Jointly Administered)

Related Docket No. 315

DISCLOSURE STATEMENT FOR THE DEBTORS' JOINT PLAN OF LIQUIDATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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Dated: February 10, 2016

Wilmington, Delaware

¹ The Debtors in these Chapter 11 Cases, and the last four digits of each Debtor's federal tax identification number, are: ZLOOP, Inc. (2960); ZLOOP Nevada, LLC (7516); and ZLOOP Knitting Mill, LLC (7098). The location of the Debtors' headquarters and the service address for each of the Debtors is 816 13th Street NE, Hickory, NC 28601.

DISCLAIMER

IF YOU ARE ENTITLED TO VOTE TO APPROVE THE PLAN, YOU ARE RECEIVING A BALLOT WITH YOUR NOTICE OF THIS DISCLOSURE STATEMENT. THE PLAN IS A PROPOSAL BY THE DEBTORS' CHIEF RESTRUCTURING OFFICER, ON BEHALF OF THE DEBTORS, WHO URGES YOU TO VOTE TO ACCEPT THE PLAN.

EACH HOLDER OF AN ALLOWED CLAIM AGAINST THE DEBTORS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN SHOULD READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING. NO SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND BANKRUPTCY CODE SECTION 1125. NO HOLDER OF A CLAIM SHOULD RELY ON ANY INFORMATION RELATING TO THE DEBTORS, THEIR PROPERTY OR THE PLAN OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE ATTACHED EXHIBITS.

THIS DISCLOSURE STATEMENT IS THE ONLY DOCUMENT AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE PLAN AND SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN. NO SOLICITATION FOR VOTING ON THE PLAN MAY BE MADE EXCEPT THROUGH THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. ALTHOUGH THE CRO BELIEVES AND HAS MADE EVERY EFFORT TO ENSURE THAT THIS SUMMARY PROVIDES ADEQUATE INFORMATION WITH RESPECT TO THE PLAN, IT DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED TO THE EXTENT IT DOES NOT SET FORTH THE ENTIRE TEXT OF THE PLAN. IF THERE IS ANY INCONSISTENCY BETWEEN THE PLAN AND THE SUMMARY OF THE PLAN CONTAINED IN THIS DISCLOSURE STATEMENT, THE PLAN SHALL CONTROL. ACCORDINGLY, EACH HOLDER OF A CLAIM SHOULD REVIEW THE PLAN IN ITS ENTIRETY.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH BANKRUPTCY CODE SECTION 1125 AND BANKRUPTCY RULE 3016 AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS, OTHER APPLICABLE NONBANKRUPTCY LAW OR ACCOUNTING OR AUDITING RULES OR STANDARDS. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING CLAIMS AGAINST THE DEBTORS SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED. THIS DISCLOSURE STATEMENT SHALL NOT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE LIQUIDATION OF THE DEBTORS UNDER THE PLAN AS TO HOLDERS OF CLAIMS AGAINST THE DEBTORS.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE

STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF CLAIMS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF CLAIMS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

THIS DISCLOSURE STATEMENT WAS NOT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE AUTHORITY AND NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT OR UPON THE MERITS OF THE PLAN. NEITHER THIS DISCLOSURE STATEMENT NOR THE SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY STATE OR JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED.

THIS DISCLOSURE STATEMENT MAY CONTAIN "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS CONSIST OF ANY STATEMENT OTHER THAN A RECITATION OF HISTORICAL FACTS AND CAN BE IDENTIFIED BY THE USE OF FORWARD LOOKING TERMINOLOGY SUCH AS "MAY," "EXPECT," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. THE READER IS CAUTIONED THAT ALL FORWARD LOOKING STATEMENTS ARE NECESSARILY SPECULATIVE AND THERE ARE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE REFERRED TO IN SUCH FORWARD LOOKING STATEMENTS.

ALL OF THE PROJECTED RECOVERIES TO CREDITORS ARE BASED UPON THE ANALYSES PERFORMED BY THE CRO, ON BEHALF OF THE DEBTORS, AND DEBTORS' PROFESSIONALS. ALTHOUGH THE CRO AND DEBTORS' PROFESSIONALS HAVE MADE EVERY EFFORT TO VERIFY THE ACCURACY OF THE INFORMATION PRESENTED HEREIN AND IN THE EXHIBITS ATTACHED HERETO, THE CRO AND DEBTORS' PROFESSIONALS CANNOT MAKE ANY REPRESENTATIONS OR WARRANTIES REGARDING THE ACCURACY OR COMPLETENESS OF THE INFORMATION.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS THE CRO'S STATEMENT OF THE STATUS OF THE RESPECTIVE MATTER. ALL CAUSES OF ACTION, WHETHER OR NOT IDENTIFIED, DISCLOSED, ASSERTED, OR DISCUSSED IN THE PLAN OR IN THIS DISCLOSURE STATEMENT ARE PRESERVED.

THE CRO, ON BEHALF OF THE DEBTORS, RECOMMENDS THAT CREDITORS SUPPORT AND VOTE TO ACCEPT THE PLAN. IT IS THE OPINION OF THE DEBTORS' CRO THAT THE TREATMENT OF CREDITORS UNDER THE PLAN SHOULD RESULT IN A GREATER RECOVERY THAN THAT WHICH IS LIKELY TO BE ACHIEVED UNDER ANY OTHER FEASIBLE ALTERNATIVE FOR THE REORGANIZATION OR LIQUIDATION OF THE DEBTORS. ACCORDINGLY, THE DEBTORS' CRO BELIEVES THAT CONFIRMATION OF THE PLAN IS IN THE BEST INTERESTS OF CREDITORS.

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SUMMARY

The following is a summary of the *Debtors' Joint Plan of Liquidation Under Chapter 11 of the Bankruptcy Code*, dated as of February 10, 2016, of ZLOOP, Inc.; ZLOOP Nevada, LLC; and ZLOOP Knitting Mill, LLC, the debtors and debtors in possession in these Chapter 11 Cases. This Disclosure Statement² describes the Plan and the distributions contemplated thereunder for each of the Debtors. Unless the context requires otherwise, reference to "we," "our," and "us" are to the Debtors

The Debtors commenced the Chapter 11 Cases on August 9, 2015. If you are entitled to vote to accept or reject the Plan, the Ballot for acceptance or rejection of the Plan is enclosed with this Disclosure Statement.

THE DEBTORS' CRO BELIEVES THAT THE PLAN WILL ENABLE THE DEBTORS TO ACCOMPLISH A TIMELY, EFFICIENT AND COST-EFFECTIVE LIQUIDATION AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THEIR CREDITORS. THE DEBTORS' CRO ON BEHALF OF THE DEBTORS URGES ALL CREDITORS AND INTEREST HOLDERS ENTITLED TO VOTE ON THE PLAN TO ACCEPT THE PLAN.

ARTICLE I.

INTRODUCTION

The Debtors' CRO on behalf of the Debtors submits this Disclosure Statement pursuant to section 1125 of title 11 of the Bankruptcy Code to Holders of Interests in and Claims against the Debtors in connection with (i) the solicitation of acceptances of the Plan filed by the Debtors with the Bankruptcy Court and (ii) and the Confirmation Hearing.

A Ballot for the acceptance or rejection of the Plan is enclosed with this Disclosure Statement mailed to the Holders of Claims and Interests that the Debtors believe may be entitled to vote to accept or reject the Plan.

On _____, 2016, after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order, approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable a hypothetical investor of the relevant classes to make an informed judgment whether to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order, a copy of which is annexed hereto as **Exhibit D**, sets forth in detail, among other things, the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan, the record date for voting

² Capitalized terms used, but not otherwise defined, herein shall have the meanings ascribed to them in the Plan.

purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each Holder of a Claim entitled to vote on the Plan should read this Disclosure Statement, the Plan, the Disclosure Statement Order and the instructions accompanying the Ballots in their entirety before voting on the Plan. Further, each Holder of a Claim entitled to vote on the Plan should consult with their own legal, accounting, tax and other professionals and advisers as such Holder deems appropriate. These documents contain important information concerning the classification of Claims and Interests for voting purposes and the tabulation of votes. No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code.

A. HOLDERS OF CLAIMS ENTITLED TO VOTE

In accordance with the provisions of the Bankruptcy Code, only Holders of allowed claims in classes of claims or interests in classes of interests that are impaired and that are not deemed to have rejected the proposed plan are entitled to vote to accept or reject a proposed plan. Classes of claims or interests in which the holders of claims or interests are unimpaired under a chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. For a detailed description of the treatment of Claims and Interests under the Plan, see Article VI.B of this Disclosure Statement.

<u>Class No.</u>	<u>Claims Included In Class</u>	<u>Impairment</u>	<u>Voting</u>
1	Secured Governmental Unit Claims	Not Impaired	Not Entitled to Vote
2	Mosing Secured Claim	Not Impaired	Not Entitled to Vote
3	ERS Secured Claim	Not Impaired	Not Entitled to Vote
4	REI Secured Claim	Not Impaired	Not Entitled to Vote
5	Eagle Group Secured Claim	Not Impaired	Not Entitled to Vote
6	Other Secured Claims	Not Impaired	Not Entitled to Vote
7	Priority Claims	Not Impaired	Not Entitled to Vote
8	General Unsecured Claims	Impaired	Entitled to Vote
9	ERS Unsecured Claim	Impaired	Entitled to Vote
10	KBM Unsecured Claim	Impaired	Entitled to Vote
11	REI Unsecured Claim	Impaired	Entitled to Vote
12	General Convenience Claims	Impaired	Entitled to Vote
13	Frisbey Convenience Claim	Impaired	Entitled to Vote
14	Mosing Subordinated Unsecured Claims	Impaired	Entitled to Vote
15	Interests in Zloop Knitting Mill, LLC	Impaired	Entitled to Vote
16	Interests in Zloop Nevada, LLC	Impaired	Entitled to Vote
17	Interests in Zloop, Inc.	Impaired	Entitled to Vote

The Bankruptcy Code states parameters for “acceptance” of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan. For a more detailed description of the requirements for confirmation of the Plan, see Article VIII of this Disclosure Statement and section 1129 of the Bankruptcy Code.

If a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtors reserve the right to amend the Plan or request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. Section 1129(b) of the Bankruptcy Code permits the confirmation of a plan, notwithstanding the rejection of a plan by one or more impaired classes of claims or interests. Under that section, a plan may be confirmed by a bankruptcy court if it satisfies the requirements under section 1129(a), other than subsection (a)(10), and does not “discriminate unfairly” and is “fair and equitable” with respect to each rejecting class. For a more detailed description of the requirements for confirmation of a nonconsensual plan, see Article VIII.A.3 of this Disclosure Statement and section 1129(b) of the Bankruptcy Code.

B. VOTING PROCEDURES

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. If you hold Claims in more than one Class and you are entitled to vote Claims in more than one Class, you will receive separate Ballots, which must be used to vote with respect to each separate Class of Claims. The Voting Agent will assist in the solicitation process by, among other things, answering questions, providing additional copies of all solicitation materials, and generally overseeing the solicitation process. The Voting Agent will also process and tabulate Ballots for each of the respective Classes that are entitled to vote to accept or reject the Plan and will file a voting report as soon as practicable after the deadline to submit Ballots and before the Confirmation Hearing.

MORE DETAILED INSTRUCTIONS REGARDING HOW TO VOTE ON THE PLAN ARE CONTAINED IN THE DISCLOSURE STATEMENT ORDER AND ON THE BALLOTS DISTRIBUTED TO HOLDERS OF CLAIMS THAT ARE ENTITLED TO VOTE ON THE PLAN. TO BE COUNTED, A HARD PAPER VERSION OF YOUR COMPLETED AND SIGNED BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN WITH ORIGINAL SIGNATURES MUST BE RECEIVED BY THE VOTING AGENT BY THE VOTING DEADLINE, AT THE ADDRESS LISTED ON THE BALLOT. ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR A REJECTION OF THE PLAN SHALL BE COUNTED AS AN ACCEPTANCE OF THE PLAN. ANY EXECUTED BALLOT RECEIVED THAT INDICATES BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN SHALL NOT BE COUNTED. Subject to the terms of the Disclosure Statement Order, any Claim in an Impaired Class as to which an objection or request for estimation is pending, is not entitled to vote unless the Holder of such Claim has obtained an order of the Bankruptcy Court allowing, temporarily or otherwise, such Claim for the purpose of voting on the Plan; *provided, however*, that if the Debtors object to a Claim on a reduced and allowed basis, the Holder of such Claim may, absent a Resolution Event (as defined below), vote such Claim at the amount asserted by the Debtors. Additionally, subject to the terms of the Disclosure Statement Order, any Claim in an Impaired Class that is listed on the Schedules as unliquidated, disputed or contingent is not entitled to vote unless the Holder of such Claim has timely filed a proof of Claim and no objection has been filed to such proof of Claim or if an objection is filed with respect to such proof of Claim a Resolution Event has occurred; *provided, however*, that if the Debtors object to a Claim on a reduced and Allowed basis the Holder may, absent a Resolution Event, vote such Claim at the amount asserted by the Debtors. For purposes of this section, a “Resolution Event” is defined as: (a) entry of an order of the Bankruptcy Court allowing a Claim pursuant to section 502(b) of the Bankruptcy Code, after notice and a hearing;

(b) entry of an order of the Bankruptcy Court temporarily allowing a Claim for voting purposes only pursuant to Bankruptcy Rule 3018(a), after notice and a hearing; (c) execution of a stipulation or other agreement between the Holder of such Claim and the Debtors resolving any objection and allowing such Claim in an agreed upon amount; (d) execution of a stipulation or other agreement between the Holder of a Claim and the Debtors temporarily allowing the Holder of such Claim to vote its Claim in an agreed upon amount; or (e) the Debtors' voluntary withdrawal of a pending objection to a Claim.

Pursuant to the Disclosure Statement Order, the Bankruptcy Court set the Disclosure Statement Hearing date as the Record Date for Holders of Claims entitled to vote on the Plan. Accordingly, only Holders of record as of the Record Date that otherwise are entitled to vote under the Plan will receive a Ballot and may, subject to the terms of the Disclosure Statement Order, vote on the Plan.

If you are a Holder of a Claim entitled to vote on the Plan and you did not receive a Ballot, received a damaged Ballot or lost your Ballot or if you have any questions concerning this Disclosure Statement, the Plan or the procedures for voting on the Plan, please contact the Voting Agent or Debtors' counsel.

C. CONFIRMATION HEARING

Pursuant to section 1128 of the Bankruptcy Code, the Confirmation Hearing will be held on _____, 2016 at __:___.m. (prevailing Eastern time) before the Honorable Kevin J. Carey, Courtroom #5, at the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan must be served and filed so that they are received on or before _____, 2016 at 4:00 p.m. (prevailing Eastern time) in the manner described below in Article VIII.A of this Disclosure Statement. The Confirmation Hearing may be adjourned from time to time without further notice except for a notice of the adjournment date filed on the docket of the Chapter 11 Cases or the announcement of the adjournment made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED ON THE RECORD, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION STATED SINCE THE DATE HEREOF OR OTHER APPLICABLE DATE. HOLDERS OF CLAIMS SHOULD CAREFULLY READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY, INCLUDING THE PLAN, AND CONSULT WITH YOUR PROFESSIONAL ADVISORS PRIOR TO VOTING ON THE PLAN.

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND

NOTHING STATED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING OR RELATING TO THE DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, BY NATURE, ARE FORWARD-LOOKING AND CONTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES.

ALL HOLDERS OF CLAIMS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK FACTORS SET FORTH IN ARTICLE VII OF THIS DISCLOSURE STATEMENT BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS OR PENDING LITIGATION REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY, REFERENCE TO THE FULL TEXT OF THE APPLICABLE AGREEMENT, INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT, OR THE DOCKET OF ANY SUCH LITIGATION AND THE PLEADINGS ON FILE THEREIN.

THE DEBTORS THROUGH THEIR CRO BELIEVE THAT THE PLAN WILL ENABLE THEM TO ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 THROUGH A TIMELY, EFFICIENT AND COST-EFFECTIVE LIQUIDATION AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS, THEIR ESTATES AND THEIR CREDITORS. THE DEBTORS' CRO ON BEHALF OF THE DEBTORS URGES ALL CREDITORS ENTITLED TO VOTE ON THE PLAN TO ACCEPT THE PLAN.

ARTICLE II.

OVERVIEW OF THE PLAN

The Plan contemplates the Sale of substantially all of the Debtors' assets, before, on or following the Effective Date. Since November of 2015, the CRO has been working to ready the Debtors and their assets for Sale as a going concern in order to maximize value for the Debtors' Estates. The Plan is in furtherance of the CRO's Sale process. The Debtors contemplate that substantially all of their assets located in Hickory, North Carolina will be sold under the Plan, but the CRO, on behalf of the Debtors, reserves the right to file one or more motions to establish Sale procedures for an auction, to name a stalking horse and grant a stalking horse standard bidder protections and to seek the entry of an order approving a Sale other than the Confirmation Order.

Further, the Plan contemplates that the Estates' Causes of Action will all be preserved and vest in a Liquidating Trust, except those that may be the subject of a judgment or release, approved by the Bankruptcy Court prior to the Effective Date. The Liquidating Trustee will continue to investigate the Causes of Action and prosecute the Estates' Causes of Action to

judgment and collection, or settlement in each case in the Liquidating Trustee's business judgment on maximizing the recovery of Holders of Allowed Claims and Allowed Interests.

The Sale proceeds will be used first to pay the direct costs of such Sale and to satisfy any Liens attached to the property to be sold that relate to and to the extent of such Allowed Secured Claims, and which Liens are valid, enforceable, perfected and not avoidable. The net Sale proceeds will then be available to pay the Allowed Claims in the order of priority established by the Bankruptcy Code and other applicable law.

A brief summary of the Classes established under the Plan, including the treatment and voting rights of Allowed Claims or Allowed Interests in each Class, is set forth below. A complete description of the treatment of Allowed Claims or Allowed Interests in each Class is set forth in Article III of the Plan and Article VI of this Disclosure Statement. Parties should refer to those sections for a complete description of the proposed treatment for Allowed Claims or Allowed Interests in each Class. The fact that the Plan identifies a Class of Claims or Interests does not constitute an admission that there are Claims, Allowed Claims, Interests or Allowed Interests in such Class, but merely the possibility that a Claim or Interest described as belonging to such Class may be asserted, without regard to whether such Claim or Interest is entitled to vote in such Class.

<u>Class No.</u>	<u>Claims Included In Class</u>	<u>Impairment</u>	<u>Voting</u>
1	Secured Governmental Unit Claims	Not Impaired	Not Entitled to Vote
2	Mosing Secured Claim	Not Impaired	Not Entitled to Vote
3	ERS Secured Claim	Not Impaired	Not Entitled to Vote
4	REI Secured Claim	Not Impaired	Not Entitled to Vote
5	Eagle Group Secured Claim	Not Impaired	Not Entitled to Vote
6	Other Secured Claims	Not Impaired	Not Entitled to Vote
7	Priority Claims	Not Impaired	Not Entitled to Vote
8	General Unsecured Claims	Impaired	Entitled to Vote
9	ERS Unsecured Claim	Impaired	Entitled to Vote
10	KBM Unsecured Claim	Impaired	Entitled to Vote
11	REI Unsecured Claim	Impaired	Entitled to Vote
12	General Convenience Claims	Impaired	Entitled to Vote
13	Frisbey Convenience Claim	Impaired	Entitled to Vote
14	Mosing Subordinated Unsecured Claims	Impaired	Entitled to Vote
15	Interests in Zloop Knitting Mill, LLC	Impaired	Entitled to Vote
16	Interests in Zloop Nevada, LLC	Impaired	Entitled to Vote
17	Interests in Zloop, Inc.	Impaired	Entitled to Vote

ARTICLE III.

GENERAL INFORMATION

A. OVERVIEW OF BANKRUPTCY LAW

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize or liquidate its business and assets for the benefit of its creditors and its interest holders. In addition to permitting the rehabilitation or liquidation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated interest holders with respect to the distribution of a debtor's assets. The commencement of a chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the Petition Date.

The consummation of a plan is the principal objective of a chapter 11 case. A plan sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan by the bankruptcy court binds the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or interest holder of a debtor. Subject to certain limited exceptions, the order approving confirmation of a plan discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

Certain holders of claims against and interests in a debtor are permitted to vote to accept or reject the plan. Prior to soliciting acceptances of the proposed plan, however, section 1125 of the Bankruptcy Code requires a debtor to prepare, and obtain bankruptcy court approval of, a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical investor of the relevant classes to make an informed judgment regarding the plan. The CRO, on behalf of the Debtors, is submitting this Disclosure Statement to Holders of Claims against and Interests in the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

B. OVERVIEW OF THE DEBTORS' BUSINESS

The Debtors are a 100% landfill-free eWaste³ recycling company headquartered in Hickory, North Carolina. ZLOOP was founded in 2012 to meet the growing problem of eWaste in the United States. Currently, it is estimated that the world creates 240 million tons of eWaste per year, of which only 10% actually gets recycled or reused. In the United States, eWaste is growing by 5 percent annually and accounts for 70 percent of overall toxic waste. Municipal recycling programs typically do not include eWaste services. As a result, over 80% of eWaste recycled in the United States is shipped to other countries for processing and landfill deposit. Landfills release the toxic heavy metals such as mercury, copper and lead, into the environment.

1. Services

The Debtors offer eWaste recycling and data destruction services through their Hickory, NC Super Center location. The Super Center was designed to handle the anticipated volume of eWaste in a 300 mile radius. The Debtors provide all levels of government, corporations, and

³ eWaste is an ubiquitous term used to cover almost all types of electrical and electronic equipment (EEE) that has or could enter the waste stream. Examples include TVs, computers, mobile phones, iDevices, stereo systems, toys, small and large appliances (white goods) – almost any household or business item with circuitry or electrical components with power cords or battery supply.

consumers with secure, fast and audited data destruction services, as well as end-of-life recycling of outdated or out-modeled electronics of all types.

The Debtors provide three types of services: (i) end of life recycling for electronics and electrical equipment; (ii) on-site and off-site secure and audited data destruction; and (iii) pre-consumer, post-consumer, and mixed plastics recycling. The Debtors are 100% Landfill Free™, which means that all produced non-salable, including waste dust and tailings, are disposed of or destroyed by incineration per federal, state and local regulations. The Debtors own 8 registered trademarks, 4 pending trademarks, and 1 provisional process patent.

i. End of Life Recycling

The Debtors provide end-of-life recycling services that eliminate all downstream environmental and other liabilities for their customers. Utilizing a unique array of machines, ZLOOP is able to domestically transform all electronics into feeder-stock commodities and is 100% Landfill Free™. Commodities reclaimed in the recycling process include copper, silver, gold, platinum, palladium, nickel, lead, steel, stainless steel, plastics, green boards, processors and memory chips.

Copper Wire is the Debtors' secondary focus. Their wire processing machines are able to remove and separate the copper wire from plastic and other sheathing, producing #1 and #2 copper scrap. Wire is recovered from demolition and construction sites, automotive salvage yards, as well as in bulk from Africa, Europe and Asia. Each machine is capable of running 1,500 pounds per hour. Copper Aluminum Radiators are the Company's tertiary focus. The same machines that "clean" copper wire for scrap are also capable of separating the aluminum from the copper in radiators. The source feed is commercial and residential cooling units, automotive and refrigerators found in scrap yards. Each machine is capable of running 1,500 pounds per hour.

Utilizing real-time weight measurements from every output conveyor the Debtors are able to provide real-time mass balancing as well as 24/7 access to audit reports via their proprietary customer portal. Additionally, utilizing Samsung's iPolis camera technology, the Debtors are able to provide customers visual access when their product is running. Scales audit 100% of the input and output in terms of weight.

ii. Data Destruction

The Debtors' data destruction system reduces media to unrecognizable separated commodities, providing customers with zero landfill and zero downstream liability. The information destruction methods are in complete compliance with HIPAA, FACTA, Gramm-Leach-Bliley, Sarbanes-Oxley Act and various other state, federal, and corporate compliance measures. The data is irretrievable.

The Debtors ensure that the chain of custody is secure from the customer's location to the off-site recycling center. For clients who desire in-person verification of data destruction, the Debtors also provide mobile on-site services. First, all electronics are inventoried by serial number and tagged with a proprietary ZLOOP Centers bar code for easy identification and tracking. Next, all electronic data is rendered irretrievable by data destruction methods that meet

or exceed HIPAA, FACTA, Gramm-Leach-Bliley and various other state and federal compliance measures. Additional security protocols, such as degaussing (magnetically erasing data), can be executed based upon each client's approved data destruction plan. Asset tags are then removed, and the materials are shredded to a 10mm particle size using an industrial hammer mill. Upon completion, the Debtors provide the customer with a report listing the serial number and services performed for each device, as well as a Certificate of Data Destruction, which is backed by data liability insurance.

iii. Plastics Recycling

Plastics represent the most landfilled or shipped-abroad commodity of recycling eWaste. The Debtors offer the following pre-consumer, post-consumer, and mixed plastics recycling services:

- Plastic Separation – The Debtors utilize sorting technology that uses both mechanical and hand selection of plastics of different types and colors.
- Metal Detection – The Debtors utilize metal detection equipment prior to granulating as another step of ensuring a premium commodity stream.
- Granulation – The Debtors use state-of-the-art granulators reducing materials to 3/8 of an inch.
- Dusters – Each granulator uses de-dusting technology ensuring a premium commodity stream.
- Ready To Ship – The Debtors package each box separately sealed in a plastic bag so there is no chance for contamination.

2. Consumer Outreach and Education

One of ZLOOP's goals was to educate consumers about eWaste to effect change in consumer attitudes toward recycling eWaste. Currently, the world tosses 20 to 50 million metric tons of eWaste each year, recycling only about 10 to 18%, most of which is shipped overseas to be dumped in landfills. In order to meet this need, ZLOOP developed an educational program, *eWaste is Serious Waste. Recycle.*[®] In furtherance of ZLOOP's education and marketing plans, ZLOOP sought to take advantage of NASCAR, the largest sports base in the country. NASCAR races are big events. ZLOOP provided track-side displays and provided fans with grand stand tickets in return for dropping off eWaste at the track. Taking advantage of NASCAR's fan base, ZLOOP relied on partnering with racing from the very beginning. In its very first franchisee prospectus from December of 2012, ZLOOP explained its plan to market through branding with NASCAR.

C. ORGANIZATIONAL STRUCTURE OF THE DEBTORS

ZLOOP, Inc., a Delaware corporation, holds 100% of the membership interests in Debtors ZLOOP Nevada, LLC and ZLOOP Knitting Mill, LLC. ZLOOP, Inc. also holds 100% of the membership interests of ZLOOP International, Ltd., a Belize limited liability company.

Robert M. Boston and Robert S. LaBarge each hold approximately 48.54% of the issued and outstanding common stock of ZLOOP, Inc., with certain other individual non-debtors holding the remaining approximately 2.93% stock in ZLOOP, Inc. Upon information and belief, ZLOOP International, Ltd. holds no assets, conducts no business and has no liabilities.

The Debtors were originally organized to raise capital through the sale of regional eWaste collection franchises. In 2012 and 2013, the Debtors sold 15 franchises: 3 in North Carolina, 8 in Texas, 3 in Louisiana, and 1 in West Virginia. Of the 15 franchises, 11 (8 in Texas, 3 in Louisiana) were ultimately purchased by Mosing.

In the Spring of 2014 following the Hickory, NC plant becoming operational with an investment banking firm engaged by the Debtors to assist in raising additional capital, the Debtors converted from a limited liability company to a Delaware corporation, agreed to rescind or repurchase all franchises and were engaged in soliciting additional capital. By May 1, 2014, the Debtors had entered into agreements with all franchisees, most of which agreed to convert their interests into equity and Mosing agreed to recover payment.

D. THE DEBTORS' PREPETITION CAPITAL STRUCTURE

As of the Petition Date, the Debtors' unaudited consolidated balance sheet⁴ reflects total assets of approximately \$25 million, including the land and improvements, but excluding certain commodity inventories that are the output of eWaste recycling,⁵ and total liabilities of approximately \$32 million. The Debtors' material debt obligations include a disputed approximate \$10 million debt claimed by Mosing arising out of the franchise rescission agreement, a disputed \$14 million claim asserted by Mosing, and approximately \$578,000.00 in trade debt.

1. Unsecured Debt

As of the Petition Date, ZLOOP is the defendant in two actions commenced by Mosing. The first was initiated in Louisiana and seeks to assert damages in the approximate amount of \$28 million, on account of both Mosing's claim for payment under the rescission agreement and the Mosing Patriot Claim, subject to an asserted right of treble damages. The second is an action commenced in Texas, but is limited solely to the Mosing Patriot Claim. The litigation is described in greater detail below. The General Bar Date for Mosing's Claims was extended to February 3, 2016.

As of the Petition Date, the Debtors had approximately \$578,000.00 of unsecured trade debt and other outstanding operating expenses, including approximately \$187,000.00 in contract labor expenses and approximately \$160,000.00 in equipment setup expenses. Twenty-three proofs of Claim have been filed in the total amount of \$6,536,411.61: asserted secured Claims and priority Claims comprise \$14,476,797.45 and \$58.46, respectively. The proofs of Claim increase the amount of asserted Claims that are subject to reconciliation.

⁴ The Debtors did not maintain separate books and records pre-petition.

⁵ The CRO believes that the Debtors' assets may have been overstated on their books and records.

2. Interests

ZLOOP, Inc. has a total of 100,000.00 authorized shares, of which 10,069.54 shares are issued and outstanding. Robert M. Boston and Robert S. LaBarge each hold 4,887.47 shares. The remaining 294.60 shares are held by the individuals listed on **Exhibit C**. An additional 889.54 shares are unissued and reserved for issuance under warrants to purchase common stock.

Since the appointment of the CRO, the CRO has directed an investigation of various transactions and a review of the Debtors' books and records as they existed as of the Petition Date. The CRO has determined that the Petition Date books and records are not reliable as they appear to reflect many material mischaracterized entries and omissions. Based on information discovered to date, the CRO filed interim amended Schedules on January 28, 2016.

The CRO is conducting an investigation into the transactions prior to the Petition Date. The CRO's analysis is ongoing and subject to confirmation of the Plan, will pass the investigation to the Liquidating Trust.

ARTICLE IV.

**KEY EVENTS LEADING TO THE
COMMENCEMENT OF THE CHAPTER 11 CASES**

A. CONSTRUCTION ISSUES

ZLOOP was introduced to ERS, a broker for German and Italian recycling equipment manufacturers, by REI. REI solicited ZLOOP's business and represented itself to be experienced in the recycling business. After gaining ZLOOP's confidence, REI introduced ZLOOP to ERS. Together REI and ERS represented that they had the experience and expertise to assist ZLOOP in the design, installation, training, maintenance and operation of highly efficient eWaste recycling production lines.

In September 2012, ZLOOP began contractual negotiations with ERS for the purchase of a new eWaste System and two Wire Processing Systems. ZLOOP entered into two separate agreements with ERS in November 2012: the eWaste Agreement and the Wire Processing Agreement. In addition, ZLOOP acquired the exclusive rights to the configuration of the Systems in the United States for one year. ZLOOP agreed to pay a total of \$6,215,600: \$4,763,600 for the eWaste System, and \$1,452,000 for the Wire Processing Systems.

After entering into the eWaste Agreement and the Wire Processing Agreement, ZLOOP began marketing efforts targeting potential franchisees and investors, and as a result, a number of franchisees entered into franchise agreements with ZLOOP. ZLOOP's customer marketing efforts were also successful, resulting in several eWaste processing relationships. For example, ZLOOP entered into a \$7 million agreement to recycle millions of Keurig brand coffee brewer units.

ERS began piecemeal delivery of the components of the eWaste System and Wire Processing Systems in May 2013, and test runs of parts of the eWaste System and Wire Processing Systems began in the fall of 2013. The eWaste System and Wire Processing Systems

that ERS delivered were damaged, missing parts and components, used, of inferior quality, and failed to meet contractual specifications. As such, they could not be properly installed and failed to function properly (or, in some cases even operate at all) as an integrated system. For example, ERS guaranteed that the Wire Processing Systems would process 4,000 pounds of wire per hour; however, the Wire Processing System at the Hickory plant can run only 1,500 pounds per hour, and the second Wire Processing System, intended for the Fernley plant, was never operational. Similarly, the eWaste System cannot process 20,000 pounds of eWaste per hour on a consistent basis. The Debtors expended considerable resources and efforts to make the eWaste System and Wire Processing Systems, as delivered, operational.

The condition of the eWaste System and Wire Processing Systems caused ZLOOP over a nine month delay and negatively impacted ZLOOP's production, revenue, and customer reputation. On May 30, 2014, ZLOOP filed suit against ERS commencing the ERS Litigation, asserting claims for breach of contract, unfair and deceptive trade practices, negligent misrepresentation, fraud, fraudulent inducement, and tortious interference with contract.

Further, on July 31, 2015, ZLOOP commenced an action against REI commencing the REI Litigation, asserting claims for breach of contract, unfair and deceptive trade practices, negligent misrepresentation, fraud, fraudulent inducement, and tortious interference with contract.

B. MOSING FRANCHISES AND CONTRIBUTIONS

In or about August 2011, Boston and LaBarge began working with Janes in connection with their chemicals and tank cleaning businesses at Port Fourchon, Louisiana. Boston and LaBarge's company, United Brands, consulted with Janes and ultimately became an interest holder of PATCS. Through United Brands' efforts, PATCS received valuable contracts. In or about 2012, Boston and LaBarge agreed to sell to Mosing a portion of United Brands' interests in PATCS. United Brands sold a portion of its interest in PATCS to Mosing for \$300,000, which United Brands distributed to Boston and LaBarge, and which funds Boston and LaBarge used to capitalize ZLOOP and in May, 2012, purchased the real estate owned by ZLOOP, Inc., and on December 7, 2012, purchased the real estate owned by ZLOOP Knitting Mill, LLC.

Beginning in or about the Spring of 2012, ZLOOP began discussions with Janes about ZLOOP's business. Janes was interested in getting involved, and through Delta-Omega Technologies, Inc., a public corporation controlled by Janes, Janes committed to ZLOOP to raise capital for ZLOOP and make the public company shell of Delta-Omega Technologies, Inc. available to assist ZLOOP, Boston, LaBarge and Janes in tapping the public capital markets to support the growth of ZLOOP. To that end, on September 21, 2012, ZLOOP and Delta-Omega Technologies, Inc. executed a letter of intent.

On October 15, 2012, just three weeks later, Mosing entered into three Louisiana Franchise Agreements with ZLOOP. The Louisiana Franchise Agreements granted Mosing the right to operate ZLOOP recycling businesses in assigned territories in Louisiana. Together the territories covered by the 3 franchises granted to Mosing control over the entire state of Louisiana.

On October 20, 2012, Mosing purchased from Boston and LaBarge a 1% membership in ZLOOP LLC for \$1 million, reflecting an \$100 million valuation. He purchased an additional 1% membership in ZLOOP on January 5, 2013, at the same price. On October 1, 2013, Mosing and ZLOOP entered into an Option Agreement for the purchase of franchises in Texas.

Mosing visited ZLOOP's North Carolina headquarters on various occasions, including on or about October 15, 2012; January 15, 2013; March 28, 2013; August 12, 2013, August 27, 2013, November 11 2013; November 14, 2013; December 19, 2014; January 6, 2014; and March 4, 2014; and served as an advisor to the board of ZLOOP, LLC and ZLOOP, Inc.

Mosing also made arrangements to be issued for the benefit of ZLOOP and agreed to provide security for the \$14 million Line of Credit from Patriot Bank in favor of ZLOOP. The Line of Credit was first evidenced by a promissory note dated December 17, 2013, in the amount of \$5 million, of which ZLOOP received \$4 million and Mosing received \$1 million⁶ as repayment of loans made to ZLOOP. The Note between ZLOOP, LLC and Patriot Bank dated April 29, 2014 refinanced the December 17, 2013 note and reflects that the Line of Credit was reissued in the increased amount of \$14 million to ZLOOP LLC, notwithstanding that ZLOOP converted to a corporation the prior month. As security for the Note, Mosing purportedly assigned as collateral a deposit account he maintained at Patriot Bank. The proceeds of the Line of Credit were used for additional infrastructure in the Hickory, NC Super Center, ZLOOP's motorsports marketing expenses, purchase of a small plane, and the purchase of the Fernley Property and the Hickory Property. Thereafter, Mosing received an additional \$300,000.00 from the Line of Credit. From the inception of the Line of Credit through August 11, 2014, ZLOOP made regular interest payments pursuant to the terms of the Note.

On January 2, 2014, Mosing exercised his right under the Option Agreement to purchase an additional eight ZLOOP franchises for \$10 million, which purchase was "funded" by (i) a note issued by Mosing in the principal amount of \$800,000 made in favor of ZLOOP; (ii) applying \$1 million previously paid for the Option on the Texas franchises; and (iii) converting all loans made by Mosing to ZLOOP in the amount of \$7.5 million, plus \$700,000 in accrued interest, to purchase price payment; following the consummation of the transaction, all obligations of ZLOOP to Mosing were extinguished. The majority of the loans, \$5.5 million, was evidenced by two unsecured promissory notes. As a result of their application toward the purchase of the Texas franchises, the notes were extinguished. Mosing executed eight separate Texas Franchise Agreements.

C. LOEB CAPITAL RAISE & FRANCHISE RESCISSION

On February 5, 2014, ZLOOP entered into an agreement with Loeb Partners to raise capital of between \$40-80 million for the national expansion of ZLOOP's business.

At Loeb Partners' recommendation, effective as of March 26, 2014, ZLOOP was converted from a Delaware LLC to a Delaware corporation. Loeb Partners further advised ZLOOP to rescind the franchises, because the franchise model of raising capital appeared to be

⁶ Debtors take no position in their Disclosure Statement respecting the proposed characterization of this transfer.

impeding Loeb's efforts to raise additional capital. ZLOOP followed Loeb Partners' advice and solicited rescission of all franchises. On or about March 27, 2014, ZLOOP sent all franchisees a written Offer to Repurchase Franchises, which provided each franchisee with the option to accept the Rescission Option or the Equity Option.

The solicitation was successful, and all franchise agreements were rescinded. Of the nine franchisees, six chose the Equity Option, two chose a mixed Rescission Option and Equity Option, and one – Mosing – chose the Rescission Option. In April 2014, Mosing and ZLOOP executed a termination agreement for Mosing's eleven franchises in Texas and Louisiana, on account of which ZLOOP would provide payment in the amount of \$10,989,179.00 by the earlier of December 31, 2014 and the closing on a \$20 million capital raise. Through the termination agreement Mosing “unconditionally and immediately” released ZLOOP, Boston, LaBarge and others, “from any and all claims, demands, obligations and liabilities whatsoever, known or unknown, whenever arising.”

D. MOSING LITIGATION

Notwithstanding that ZLOOP's obligations under the termination agreement did not mature until December 31, 2014, and that ZLOOP was in the middle of the Loeb Partners' capital raise, and notwithstanding that ZLOOP was not in default of the Patriot Bank Line of Credit, on August 28, 2014, Mosing filed the Louisiana Action, seeking to recover the obligations owing under the termination agreement and the funds pledged to Patriot Bank to secure the Line of Credit and damages for alleged securities laws violations.

At the time of filing of the Louisiana Action, ZLOOP's payments on the Line of Credit were current, and payment of the principal amount of the loan was not due for another twenty months. As a result of Mosing's filing suit to recover the funds, including the full amount pledged by Mosing to Patriot Bank, ZLOOP did not tender or pay two monthly payments of interest next due after the complaint was filed. On or about October 6, 2014, Patriot Bank commenced an action against Mosing, asserting claims sounding in fraud and upon information and belief in or about December 2014, the Patriot Bank claim and documents were transferred to Mosing, purportedly effective as of October 3, 2014.

On November 19, 2014, ZLOOP filed a Motion to Transfer the Louisiana Action to the United States District Court for the Western District of North Carolina pursuant to 28 U.S.C. § 1404(a), relying on the forum selection clauses in the franchise agreements. The Louisiana Franchise Agreements and accompanying disclosure documents included clearly stated and broadly worded North Carolina forum selection and choice of law clauses. The Magistrate Judge assisting the Louisiana District Court, recommended that the District Court grant the Motion to Transfer on June 25, 2015.

On December 15, 2014, Mosing filed the Texas Action against ZLOOP in the District Court of Harris County, Texas to recover the same \$14 million under the Line of Credit. The jurisdictional basis for the Texas Action was a forum selection clause in the Note. ZLOOP removed the case to the United States District Court for the Southern District of Texas, Houston Division, on the basis of diversity jurisdiction. Mosing sought remand on the grounds that ZLOOP had contractually waived its right of removal. On April 22, 2015, the Texas District Court

granted the motion to remand. Mosing subsequently filed a motion for summary judgment, which ZLOOP opposed, and which remained pending as of the Petition Date. ZLOOP filed a Motion to Stay the Texas Action pending further discovery, which also remains pending.

The Debtors filed motions to transfer both the Louisiana Action and the Texas Action to the Bankruptcy Court. The motion to transfer pertaining to the Texas Action was granted and the Texas Action is now pending before the Bankruptcy Court at Adversary Proceeding No. 15-51915 (KJC). The Louisiana Action and the Texas Action are stayed by virtue of the filing of these Chapter 11 Cases. When the Mosing Litigation proceeds, the Debtors anticipate that they will assert Causes of Action against Mosing for, among other things, breach of contract, interference with contracts and prospective contractual advantage, seek equitable remedies of subordination and recharacterization, and defenses, including the defense of *in pari delicto* respecting that portion of the Mosing Claims arising from the Line of Credit.

E. ERS LITIGATION

The ERS Litigation arises out of a business dispute between ZLOOP and ERS arising from ZLOOP's purchase of an eWaste System and two Wire Processing Systems from ERS. The eWaste System and Wire Processing Systems that ERS delivered to ZLOOP failed to meet contractual specifications and the warrantied performance capabilities. As a result of the deficient eWaste System and Wire Processing Systems, ZLOOP lost a significant amount of revenue, profits, and customer and franchise goodwill and incurred significant expense to repair, complete, retrofit and install the Systems.

On May 30, 2014, ZLOOP commenced the ERS Litigation against the ERS Defendants in the District Court for the Western District of North Carolina, where it was consolidated with *Recycling Equipment, Inc. v. E Recycling Systems, LLC*, Case No. 15:14-cv-56.⁷ ZLOOP has asserted claims for breach of contract, unfair and deceptive trade practices, negligent misrepresentation, fraud, fraudulent inducement, and tortious interference with contract.

On December 23, 2014, the ERS Defendants filed an answer and asserted counterclaims against ZLOOP, REI and Third Party Defendants Boston and LaBarge for breach of contract, damage to or alienation of property, misappropriation of trade secrets, and violations of North Carolina's Trade Secrets Protection Act.

On August 3, 2015, ZLOOP, Boston and LaBarge moved to dismiss these counterclaims for failure to state a claim. On August 6, 2015, ERS and REI filed a Joint Motion for Voluntary Dismissal stating that ERS and REI had settled all claims by and between them. The terms of this settlement have not been made public. The Western District of North Carolina granted the motion by text-only order on August 11, 2015.

On August 11, 2015, ERS filed a partial motion to dismiss, without prejudice, its claims against ZLOOP for misappropriation of trade secrets, and violations of North Carolina's Trade Secrets Protection Act. The Western District of North Carolina granted the motion by text-only

⁷ ZLOOP's complaint was originally docketed as Case No. 5:14-cv-87, which was administratively closed after the proceeding was consolidated with Case No. 5:14-cv-56.

order on August 18, 2015. On August 31, 2015, ERS filed amended and restated counterclaims against Boston and LaBarge alleging violations of North Carolina's Trade Secrets Protection Act. On September 21, 2015, Boston and LaBarge moved to strike the amended and restated counterclaims pursuant to Rules 12(f) and 15(a) of the Federal Rules of Civil Procedure, which motion remains pending before the Western District of North Carolina.

F. REI LITIGATION

On July 31, 2015, ZLOOP commenced the REI Litigation, asserting claims for negligent misrepresentation, fraud, breach of contract, conspiracy to defraud, and violations of North Carolina's Unfair and Deceptive Trade Practices Act. On August 28, 2015, the REI Defendants and ZLOOP each filed a Notice of Removal to the Western District of North Carolina. ZLOOP then moved to transfer the case to the District of Delaware for automatic reference to the Bankruptcy Court.

On October 29, 2015, the Western District of North Carolina entered an Order staying the REI Litigation until January 31, 2016. The REI Defendants' answer is due February 15, 2016.

G. KBM LITIGATION

On August 7, 2015, KBM filed a complaint against ZLOOP, Justin Boston, and Justin Boston Racing, LLC in the General Court of Justice, Superior Court Division, Iredell County, North Carolina, asserting damages in the approximate amount of \$4 million arising out of an alleged breach of contract. The defendants removed the case to the District Court for the Western District of North Carolina and filed a motion to transfer the KBM Litigation to the District of Delaware for automatic reference to the Bankruptcy Court. In response to the motion to transfer, KBM moved the Western District of North Carolina to abstain from hearing the case and to remand the KBM Litigation back to the General Court of Justice, Superior Court Division, Iredell County.

Further, on October 30, 2015, Justin Boston and Justin Boston Racing, LLC filed an answer and motion to dismiss asserting various defenses and counterclaims, including KBM's prior material breach excusing ZLOOP, Justin Boston, and Justin Boston Racing, LLC from their performance obligations under the contract with KBM.

On January 7, 2016, the Western District of North Carolina ordered the KBM Litigation parties to submit supplemental briefing on the motion to transfer and motion to abstain and remand. The ZLOOP's motion to transfer venue, KBM's motion to abstain and remand, and Justin Boston and Justin Boston Racing, LLC's motion to dismiss remain pending before the Western District of North Carolina.

ARTICLE V.

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASES

A. RETENTION OF PROFESSIONALS BY THE DEBTORS

On September 14, 2015, the Bankruptcy Court authorized the Debtors to retain DLA Piper as their attorneys pursuant to section 327(a) of the Bankruptcy Code in connection with these Chapter 11 Cases nunc pro tunc to August 9, 2015 [D.I. 90]. Additionally, the Bankruptcy Court authorized the Debtors to retain Miller Coffey Tate LLP as accountants and bankruptcy and litigation consultants nunc pro tunc to August 9, 2015 [D.I. 88]; Getzler Henrich & Associates, LLC to provide the Debtors with a Chief Restructuring Officer and certain additional personnel nunc pro tunc to September 24, 2015 [D.I. 134]; Miller Industrial Properties, LLC as real estate broker [D.I. 96]; and Keen-Summit Capital Partners LLC as real estate consultant and advisor [D.I. 195]. On November 16, 2015, the Court entered an order authorizing the Debtors to designate William H. Henrich as their CRO [D.I. 134].

B. FORMATION OF THE CREDITORS' COMMITTEE

The Office of the United States Trustee formed the Creditors' Committee on September 2, 2015 [D.I. 59]. The Creditors' Committee members are ERS, REI and Carolina Metals Group. The Creditors' Committee retained Cole Schotz P.C. as counsel [D.I. 155] and Goldin Associates, LLC as financial advisors [D.I. 162].

C. CASH COLLATERAL

The Debtors assert that no Creditor or party in interest holds a Lien on or security interest the Debtors' Cash and depository accounts. The Debtors have asserted, therefore, that they are entitled to use their Cash without approval by the Bankruptcy Court or the consent of any party. Out of an abundance of caution, the Debtors nevertheless filed a motion seeking the Bankruptcy Court's approval of their use of cash collateral in order to have sufficient Cash to operate their businesses while in bankruptcy. On August 11, 2015, the Bankruptcy Court entered the Interim Cash Collateral Order [D.I. 20]. The Court found that neither Mosing nor ERS were entitled to adequate protection in connection with the Debtors' use of cash collateral, and authorized the Debtors to use their cash for the duration of the chapter 11 cases. A final hearing is presently scheduled for February 24, 2016.

D. ASSET SALES

1. Surplus Equipment

On November 3, 2015, the Debtors filed a motion [D.I. 173] seeking authorization to sell seven (7) 53' utility trailers through a private sale. On November 9, 2015, the Bankruptcy Court approved the sale of the trailers to US Trailer for a total purchase price of \$154,000.00 [D.I. 181]. In connection with the sale of the trailers and as directed by the order approving such motion, the Debtors funded an escrow in the amount of \$40,247.20 in order to adequately protect REI's asserted security interest in the trailers. The escrow is held by REI's counsel.

2. Fernley, Nevada Property

Since prior to the Petition Date, the Debtors were marketing their real estate and other assets located in Fernley, NV for sale. The Debtors continued these efforts early in these chapter 11 cases through their retention of Miller Industrial Properties, LLC as real estate broker, and sought to enhance their marketing and sale efforts through their retention of Keen-Summit

Capital Partners LLC as real estate consultant and advisor. Through these efforts, as of the date of this Disclosure Statement, the CRO, on behalf of the Debtors, is engaged in negotiations with a prospective stalking horse Purchaser for the sale of the Fernley Property in consideration of a Cash purchase price in an amount sufficient to satisfy the Liens on such property and yield significant net Sale proceeds to the Debtors. The CRO reserves the right to file a motion seeking to establish procedures and dates, and authority to sell the Debtors' assets located in Fernley, NV under section 363 of the Bankruptcy Code.

3. Hickory Commercial Property

On November 13, 2015, the Debtors filed the Hickory Commercial Sale Motion seeking to approve a settlement agreement with Hickory Commercial, LLC, an Entity owned by Boston and LaBarge and to approve the sale of the Debtors' interest in the Hickory Commercial Property. The Bankruptcy Court granted the Hickory Commercial Sale Motion on November 24, 2015 [D.I. 207]. Following the entry of the order, the CRO received a higher offer and, after consulting with the Creditors' Committee and Mosing, accepted the higher bid. On December 21, 2015, the Bankruptcy Court entered a final order granting the Hickory Commercial Sale Motion, approving the sale of the Hickory Commercial Property to Prime Materials Recovery, Inc. [D.I. 236] for a purchase price of \$900,000.00. The sale transaction closed on December 28, 2015 and the Debtors' Estates recovered in excess of \$200,000 from the sale.

4. Going Concern Sale Process

In or about November, 2015, the CRO commenced marketing the Debtors' business for sale as a going concern. The CRO compiled a list of in excess of 100 strategic and financial potential interested parties, as well as equipment liquidators. During November and December, the CRO disseminated a one page non-confidential teaser, and as a result of these efforts, 28 parties executed and returned non-disclosure agreements. Beginning in January, 2016, the Debtors entertained management meetings and site visits with 5 interested parties. This sale process is ongoing and the CRO expects that the Debtors will seek to sell the Debtors' business as a going concern under the Plan, but reserves the right to file one or more motions seeking to establish procedures and dates, and authority to sell the Debtors' business and assets located in Hickory, NC under section 363 of the Bankruptcy Code.

E. EAGLE GROUP FINANCE, L.P. – FERNLEY, NV PROPERTY

On November 30, 2015, Eagle Group filed its Motion for Entry of an Order Determining that Debtor's [ZLOOP Nevada, LLC] Real Property Constitutes Single Asset Real Estate that is Subject to 11 U.S. C. §362(d)(3) [D.I. 213]. Based on the consent of the Debtors and Eagle Group, on January 19, 2016, the Bankruptcy Court entered an Order granting Eagle Group's Motion [D.I. 279]. ZLOOP Nevada LLC asserts the Plan constitutes a plan under Section 362(d)(3)(A) of the Bankruptcy Code; therefore, the automatic stay shall continue in effect as to Eagle Group Finance, L.P., pending further order of the Court.

F. BAR DATE

On August 11, 2015, the Debtors filed a motion to fix a deadline to file all proofs of claim against the Debtors with respect to any prepetition claims including claims asserted under

section 503(b)(9) of the Bankruptcy Code [D.I. 23]. On September 22, 2015, the Bankruptcy Court entered the Bar Date Order establishing November 16, 2015 at 5:00 p.m. (prevailing Eastern Time) as the Bar Date as to non-governmental entities, and February 5, 2016, at 5:00 p.m. (prevailing Eastern Time) as the Bar Date for Governmental Units [D.I. 107].

ARTICLE VI.

THE PLAN OF LIQUIDATION

A. INTRODUCTION

The Debtors believe that (i) through the Plan, Holders of Allowed Claims will receive a greater recovery from the Estates than the recovery that they would receive in a liquidation of the Debtors under chapter 7 of the Bankruptcy Code and (ii) the Plan will afford the Debtors the opportunity and ability to liquidate their businesses and assets in a timely and efficient manner to preserve value for the Estates.

The Plan is annexed hereto as **Exhibit A** and forms a part of this Disclosure Statement. The summary of the Plan set forth below is qualified in its entirety by reference to the provisions of the Plan.

Statements as to the rationale underlying the treatment of Claims and Interests under the Plan are not intended to, and shall not, waive, compromise or limit any rights, Claims or Causes of Action in the event the Plan is not confirmed.

B. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS UNDER THE PLAN OF LIQUIDATION

One of the key concepts under the Bankruptcy Code is that only claims and interests that are “allowed” may receive distributions under a chapter 11 plan. This term is used throughout the Plan and the descriptions below. In general, an “allowed” claim or “allowed” interest simply means that the Debtors agree, or in the event of a dispute, that the Bankruptcy Court determines, that the claim or interest, and the amount thereof, is in fact a valid obligation of or ownership interest in ZLOOP, Inc., as ZLOOP, Inc. is the sole Interest Holder in the other Debtors. Section 502(a) of the Bankruptcy Code provides that a timely filed claim or interest is automatically “allowed” unless a debtor or other party in interest objects. However, section 502(b) of the Bankruptcy Code specifies certain claims that may not be “allowed” in bankruptcy even if a proof of claim is filed. These include, but are not limited to, claims that are unenforceable under the governing agreement between a debtor and the claimant or applicable non-bankruptcy law, claims for unmatured interest, asserted secured claims in excess of the debtor’s equity in the property purportedly securing such claim, claims for services that exceed their reasonable value, real property lease and employment contract rejection damage claims in excess of specified amounts, late-filed claims and contingent claims for contribution and reimbursement. Additionally, Bankruptcy Rule 3003(c)(2) prohibits the allowance of any claim or interest that either is not listed on the debtor’s schedules or is listed as disputed, contingent or unliquidated, if the holder has not filed a proof of claim or interest before the established deadline. Finally, section 502(d) of the Bankruptcy Code provides that the Bankruptcy Court shall disallow any

Claim of an Entity from which property is recoverable or which is liable to turn over property to the Estate and has not done so.

The Bankruptcy Code requires that, for purposes of treatment and voting, a chapter 11 plan divide the different claims against, and interests in, the debtor into separate classes based upon their legal nature. Claims of a substantially similar legal nature are usually classified together, as are interests of a substantially similar legal nature. The debtor may separately classify claims for a business purpose. Section 1122(b) of the Bankruptcy Code allows the debtor to designate for “administrative convenience” a separate class of claims under a certain amount. Because an entity may hold multiple claims and/or interests, which give rise to different legal rights, the “claims” and “interests” themselves, rather than their holder, are classified. Further, the plan may classify claims that may be asserted, even if the debtor disputes the security or priority of such claim and if such dispute is sustained, there may be no claim that is actually included in any such class.

Under a chapter 11 plan, the separate classes of claims and interests must be designated either as “impaired” (affected by the plan) or “unimpaired” (unaffected by the plan). If a class of claims is “impaired,” the Bankruptcy Code affords certain rights to the holders of such claims, such as the right to vote on the plan, and the right to receive, under the chapter 11 plan, no less value than the holder would receive if the debtor were liquidated in a case under chapter 7 of the Bankruptcy Code. Under section 1124 of the Bankruptcy Code, a class of claims or interests is “impaired” unless the plan (i) does not alter the legal, equitable and contractual rights of the holders or (ii) irrespective of the holders’ acceleration rights, cures all defaults (other than those arising from the debtor’s insolvency, the commencement of the case or nonperformance of a non-monetary obligation), reinstates the maturity of the claims or interests in the class, compensates the holders for actual damages incurred as a result of their reasonable reliance upon any acceleration rights and does not otherwise alter their legal, equitable and contractual rights. Typically, this means that the holder of an unimpaired claim will receive whatever recovery is provided for in the plan on the later of the consummation date or the date on which amounts owing are actually due and payable. Thus, other than its right to accelerate the debtor’s obligations, the holder of an unimpaired claim will be placed in the position it would have been in had the debtor’s case not been commenced.

Pursuant to section 1126(f) of the Bankruptcy Code, holders of unimpaired claims or interests are “conclusively presumed” to have accepted the Plan. Accordingly, their votes are not solicited.

Under certain circumstances, a class of claims or interests may be deemed to reject a plan of reorganization. For example, a class is deemed to reject a plan of reorganization under section 1126(g) of the Bankruptcy Code if the holders of claims or interests in such class do not receive or retain property under the plan on account of their claims or interests. The Plan is a liquidating plan that contemplates the distribution of proceeds of property of the Estates to Holders of senior priority Claims in full before any value is distributed to junior classes, in respect of the “Absolute Priority Rule.” Accordingly, since it is possible that sufficient proceeds will be recovered in order to make a distribution to Holders of Allowed Interests, there is no class under the Plan that is to receive or retain no property and therefore, no class that is conclusively presumed to reject the Plan.

Consistent with these guidelines, the Plan divides the Claims against, and Interests in, the Debtors into the following Classes:

Class No.	Claims Included In Class	Impairment	Voting
1	Secured Governmental Unit Claims	Not Impaired	Not Entitled to Vote
2	Mosing Secured Claim	Not Impaired	Not Entitled to Vote
3	ERS Secured Claim	Not Impaired	Not Entitled to Vote
4	REI Secured Claim	Not Impaired	Not Entitled to Vote
5	Eagle Group Secured Claim	Not Impaired	Not Entitled to Vote
6	Other Secured Claims	Not Impaired	Not Entitled to Vote
7	Priority Claims	Not Impaired	Not Entitled to Vote
8	General Unsecured Claims	Impaired	Entitled to Vote
9	ERS Unsecured Claim	Impaired	Entitled to Vote
10	KBM Unsecured Claim	Impaired	Entitled to Vote
11	REI Unsecured Claim	Impaired	Entitled to Vote
12	General Convenience Claims	Impaired	Entitled to Vote
13	Frisbey Convenience Claim	Impaired	Entitled to Vote
14	Mosing Subordinated Unsecured Claims	Impaired	Entitled to Vote
15	Interests in Zloop Knitting Mill, LLC	Impaired	Entitled to Vote
16	Interests in Zloop Nevada, LLC	Impaired	Entitled to Vote
17	Interests in Zloop, Inc.	Impaired	Entitled to Vote

1. Unclassified

In accordance with section 1123(a)(1) of the Bankruptcy Code, the Debtors have not classified Administrative Expense Claims or Priority Tax Claims.

2. Classified

a. Secured Governmental Unit Claims (Class 1).

i. *Classification:* Class 1 consists of Secured Governmental Unit Claims.

ii. *Treatment:* Except to the extent a Holder of an Allowed Secured Governmental Unit Claim agrees to different treatment, each Holder of an Allowed Secured Governmental Unit Claim shall be paid in respect of such Claim in full in Cash, in the discretion of the Disbursing Agent (i) by the later of five (5) Business Days (or as soon as practicable) after (a) the Effective Date or (b) the date on which such Claim becomes an Allowed Secured Governmental Unit Claim, or (ii) will be paid in full or, as provided under 11 U.S.C. § 1129(a)(9)(C), in equal monthly payments commencing no later than the first day of the first month which is thirty (30) days after entry of the Confirmation Order. To the extent such

payments are paid over time, such payments shall be calculated to result in payment in full of the Allowed Secured Governmental Unit Claim with all accrued interest no later than the fifth anniversary of the Petition Date.

iii. *Voting:* Class 1 is Unimpaired and, therefore, the Holders of Secured Governmental Unit Claims are deemed to have accepted the Plan.

b. Mosing Secured Claim (Class 2).

i. *Classification:* Class 2 consists of the Allowed Secured Claims held by Mosing and Zloop LA, LLC.

ii. *Treatment:* On account of the Allowed Mosing Secured Claim, Mosing shall receive in the discretion of the Disbursing Agent by the later of five (5) Business Days (or as soon as practicable) after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Secured Claim, either (y) the property on which Mosing holds a Lien securing and to the extent of the Allowed Mosing Secured Claim, or (z) payment in full in Cash the amount of such Allowed Secured Claim.

iii. *Voting:* Class 2 is Unimpaired and, therefore, the Holder of the Mosing Secured Claim is deemed to have accepted the Plan.

c. ERS Secured Claim (Class 3).

i. *Classification:* Class 3 consists of the Allowed Secured Claims held by ERS.

ii. *Treatment:* On account of the Allowed ERS Secured Claim, ERS shall receive in the discretion of the Disbursing Agent by the later of five (5) Business Days (or as soon as practicable) after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Secured Claim, either (y) the property on which ERS holds a Lien securing and to the extent of the Allowed ERS Secured Claim, or (z) payment in full in Cash the amount of such Allowed Secured Claim.

iii. *Voting:* Class 3 is Unimpaired and, therefore, the Holder of the ERS Secured Claim is deemed to have accepted the Plan.

d. REI Secured Claim (Class 4).

i. *Classification:* Class 4 consists of the Allowed Secured Claims held by REI.

- ii. *Treatment:* On account of the Allowed REI Secured Claim, REI shall receive in the discretion of the Disbursing Agent by the later of five (5) Business Days (or as soon as practicable) after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Secured Claim, either (y) the property on which REI holds a Lien securing and to the extent of the Allowed REI Secured Claim, or (z) payment in full in Cash the amount of such Allowed Secured Claim.
 - iii. *Voting:* Class 4 is Unimpaired and, therefore, the Holder of the REI Secured Claim is deemed to have accepted the Plan.
 - e. Eagle Group Secured Claim (Class 5).
 - i. *Classification:* Class 5 consists of the Allowed Secured Claim held by Eagle Group.
 - ii. *Treatment:* On account of the Allowed Eagle Group Secured Claim, Eagle Group shall receive in the discretion of the Disbursing Agent by the later of five (5) Business Days (or as soon as practicable) after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Secured Claim, either (y) the property on which Eagle Funding holds a Lien securing and to the extent of the Allowed Eagle Group Secured Claim, or (z) payment in full in Cash the amount of such Allowed Secured Claim.
 - iii. *Voting:* Class 5 is Unimpaired and, therefore, the Holder of the Eagle Group Secured Claim is deemed to have accepted the Plan.
 - f. Other Secured Claims (Class 6).
 - i. *Classification:* Class 6 consists of all Other Secured Claims.
 - ii. *Treatment:* Except to the extent that a Holder of an Allowed Other Secured Claim agrees to a different treatment, in the discretion of the Disbursing Agent by the later of five (5) Business Days (or as soon as practicable) after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Secured Claim, either (y) the property on which the Holder of such Allowed Other Secured Claim holds a Lien securing and to the extent of such Allowed Other Secured Claim, or (z) payment in full in Cash the amount of such Allowed Secured Claim.
 - iii. *Voting:* Class 6 is Unimpaired and, therefore, Holders of Other Secured Claims are deemed to have accepted the Plan.
 - g. Priority Claims (Class 7).

- i. *Classification:* Class 7 consists of all Priority Claims.
 - ii. *Treatment:* Except to the extent a Holder of an Allowed Priority Claim agrees to different treatment, each Holder of an Allowed Priority Claim shall be paid in respect of such Claim the full amount thereof, in Cash, by the later of five (5) Business Days (or as soon as practicable) after (i) the Effective Date, or (ii) the date on which such Claim becomes an Allowed Priority Claim.
 - iii. *Voting:* Class 7 is Unimpaired and, therefore, Holders of Priority Claims are deemed to have accepted the Plan.
- h. General Unsecured Claims (Class 8).
 - i. *Classification:* Class 8 consists of all General Unsecured Claims.
 - ii. *Treatment:* In full satisfaction, settlement and discharge of General Unsecured Claims the Holder of each Allowed General Unsecured Claim shall receive its pro-rata share of Cash Distributions from the General Unsecured Fund, with an initial Distribution to be paid (subject to Reserves for Disputed Unsecured Claims) by the later of sixty (60) days after the later of (i) the Effective Date, or (ii) ten (10) Business Days after the date an order, which becomes a Final Order, declares that such Claim is an Allowed General Unsecured Claim. The Disbursing Agent is authorized to make interim Distributions from time to time in its business judgment and to reserve sufficient funds to result in all Holders of Allowed Claims treated in Classes 8, 9, 10, and 11 receiving the same percentage Distribution in Cash, without regard to time or interest; provided, however, in the event that upon any Distribution of the General Unsecured Fund or a portion of the General Unsecured Fund to the Holders of Allowed Claims treated in Classes 8, 9, 10, and 11, such Holders would receive in excess of 100% of the Allowed amount of their respective Allowed Claims, any Cash remaining in the General Unsecured Fund shall be distributed to the Holder of the Allowed Mosing Subordinated Unsecured Claim until the Allowed Mosing Subordinated Unsecured Claim is paid in full in Cash, and any Cash then remaining shall be distributed pro rata to the Holders of the Interests in Zloop, Inc. in Class 15 as soon as practicable; and provided, however, that upon all Holders of Allowed Claims treated in Classes 8, 9, 10, 11 and 12 being paid in full the Face Amount of such Allowed Claims, the Debtors, their Estates and the Disbursing Agent shall have no further obligation to make any Distributions to such Holders.

- iii. *Voting:* Class 8 is Impaired and Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.
- i. ERS Unsecured Claim (Class 9).
 - i. *Classification:* Class 9 consists of all ERS Unsecured Claims.
 - ii. *Treatment:* In full satisfaction, settlement and discharge of the ERS Unsecured Claims ERS shall receive its pro-rata share of Cash Distributions from the General Unsecured Fund, with an initial Distribution to be paid (subject to Reserves for Disputed Unsecured Claims) by the later of sixty (60) days after the later of (i) the Effective Date, or (ii) ten (10) Business Days after the date an order, which becomes a Final Order, declares that such Claim is an Allowed ERS Unsecured Claim. The Disbursing Agent is authorized to make interim Distributions from time to time in its business judgment and to reserve sufficient funds to result in all Holders of Allowed Claims treated in Classes 8, 9, 10, and 11 receiving the same percentage Distribution in Cash, without regard to time or interest; provided, however, in the event that upon any Distribution of the General Unsecured Fund or a portion of the General Unsecured Fund to the Holders of Allowed Claims treated in Classes 8, 9, 10, and 11, such Holders would receive in excess of 100% of the Allowed amount of their respective Allowed Claims, any Cash remaining in the General Unsecured Fund shall be distributed to the Holder of the Allowed Mosing Subordinated Unsecured Claim until the Allowed Mosing Subordinated Unsecured Claim is paid in full in Cash, and any Cash then remaining shall be distributed pro rata to the Holders of the Interests in Zloop, Inc. in Class 15 as soon as practicable; and provided, however, that upon all Holders of Allowed Claims treated in Classes 8, 9, 10, 11 and 12 being paid in full the Face Amount of such Allowed Claims, the Debtors, their Estates and the Disbursing Agent shall have no further obligation to make any Distributions to such Holders.
 - iii. *Voting:* Class 9 is Impaired and ERS is entitled to vote to accept or reject the Plan.
- j. KBM Unsecured Claim (Class 10).
 - i. *Classification:* Class 10 consists of all KBM Unsecured Claims.
 - ii. *Treatment:* In full satisfaction, settlement and discharge of the KBM Unsecured Claims KBM shall receive its pro-rata share of Cash Distributions from the General Unsecured Fund, with an initial Distribution to be paid (subject to Reserves for Disputed

Unsecured Claims) by the later of sixty (60) days after the later of (i) the Effective Date, or (ii) ten (10) Business Days after the date an order, which becomes a Final Order, declares that such Claim is an Allowed KBM Unsecured Claim. The Disbursing Agent is authorized to make interim Distributions from time to time in its business judgment and to reserve sufficient funds to result in all Holders of Allowed Claims treated in Classes 8, 9, 10, and 11 receiving the same percentage Distribution in Cash, without regard to time or interest; provided, however, in the event that upon any Distribution of the General Unsecured Fund or a portion of the General Unsecured Fund to the Holders of Allowed Claims treated in Classes 8, 9, 10, and 11, such Holders would receive in excess of 100% of the Allowed amount of their respective Allowed Claims, any Cash remaining in the General Unsecured Fund shall be distributed to the Holder of the Allowed Mosing Subordinated Unsecured Claim until the Allowed Mosing Subordinated Unsecured Claim is paid in full in Cash, and any Cash then remaining shall be distributed pro rata to the Holders of the Interests in Zloop, Inc. in Class 15 as soon as practicable; and provided, however, that upon all Holders of Allowed Claims treated in Classes 8, 9, 10, 11 and 12 being paid in full the Face Amount of such Allowed Claims, the Debtors, their Estates and the Disbursing Agent shall have no further obligation to make any Distributions to such Holders.

iii. *Voting:* Class 10 is Impaired and KBM is entitled to vote to accept or reject the Plan.

k. REI Unsecured Claim (Class 11).

i. *Classification:* Class 11 consists of all REI Unsecured Claims.

ii. *Treatment:* In full satisfaction, settlement and discharge of the REI Unsecured Claims, REI shall receive its pro-rata share of Cash Distributions from the General Unsecured Fund, with an initial Distribution to be paid (subject to Reserves for Disputed Unsecured Claims) by the later of sixty (60) days after the later of (i) the Effective Date, or (ii) ten (10) Business Days after the date an order, which becomes a Final Order, declares that such Claim is an Allowed REI Unsecured Claim. The Disbursing Agent is authorized to make interim Distributions from time to time in its business judgment and to reserve sufficient funds to result in all Holders of Allowed Claims treated in Classes 8, 9, 10, and 11 receiving the same percentage Distribution in Cash, without regard to time or interest; provided, however, in the event that upon any Distribution of the General Unsecured Fund or a portion of the General Unsecured Fund to the Holders of Allowed Claims treated

in Classes 8, 9, 10, and 11, such Holders would receive in excess of 100% of the Allowed amount of their respective Allowed Claims, any Cash remaining in the General Unsecured Fund shall be distributed to the Holder of the Allowed Mosing Subordinated Unsecured Claim until the Allowed Mosing Subordinated Unsecured Claim is paid in full in Cash, and any Cash then remaining shall be distributed pro rata to the Holders of the Interests in Zloop, Inc. in Class 15 as soon as practicable; and provided, however, that upon all Holders of Allowed Claims treated in Classes 8, 9, 10, 11 and 12 being paid in full the Face Amount of such Allowed Claims, the Debtors, their Estates and the Disbursing Agent shall have no further obligation to make any Distributions to such Holders.

- iii. *Voting:* Class 11 is Impaired and REI is entitled to vote to accept or reject the Plan.

l. Convenience Claims (Class 12).

- i. *Classification:* Class 12 consists of all Convenience Claims. The Convenience Claims are deemed Allowed Claims for purposes of the Plan.
- ii. *Treatment:* In full satisfaction, settlement and discharge of the General Convenience Claims, each Holder of a Convenience Claim shall receive its pro-rata share of Cash Distributions from the Convenience Fund no later than five (5) Business Days after the Effective Date. The Convenience Fund shall be funded with \$21,000.00 for Distribution to Holders of Convenience Claims. The Convenience Claims Class comprises approximately 32 Claims in the aggregate amount of approximately \$26,000. Upon Distribution of the Convenience Fund, it is anticipated that each Holder of a Convenience Claim will receive a Distribution equal to approximately 80% of the amount of its Allowed Claim.
- iii. *Voting:* Class 12 is Impaired and the Holders of Allowed General Convenience Claims are entitled to vote to accept or reject the Plan.

m. Frisbey Convenience Claim (Class 13).

- i. *Classification:* Class 13 consists of the Frisbey Convenience Claim.
- ii. *Treatment:* In full satisfaction, settlement and discharge of the Allowed Frisbey Convenience Claim, Frisbey shall receive a Cash Distribution equal to the percentage Distribution to be paid to the

Convenience Class, payable solely from the Frisbey Fund, no later than five (5) Business Days after the Effective Date.

- iii. *Voting:* Class 13 is Impaired and Frisbey is entitled to vote to accept or reject the Plan.
- n. Mosing Subordinated Unsecured Claim (Class 14).
 - i. *Classification:* Class 14 consists of all Mosing Subordinated Unsecured Claims.
 - ii. *Treatment:* In full satisfaction, settlement and discharge of the Mosing Subordinated Unsecured Claims, Mosing shall receive Cash Distributions from the General Unsecured Fund, with an initial Distribution to be paid (subject to Reserves for Disputed Unsecured Claims) by the later of sixty (60) days after the later of (i) the Effective Date, or (ii) ten (10) Business Days after the date an order, which becomes a Final Order, determines that such Claim is an Allowed Mosing Subordinated Unsecured Claim. The Disbursing Agent shall not make any Distribution to Mosing on account of an Allowed Mosing Subordinated Unsecured Claim until after the Holders of Allowed Claims treated in Classes 8, 9, 10, and 11 have received or the Disbursing Agent has reserved for payments in amount equal to 100% of the Face Amount of the Allowed amount of their respective Allowed Claims. Any Cash then remaining in the General Unsecured Fund or as may thereafter be deposited therein from time to time shall be distributed to the Holder of the Allowed Mosing Subordinated Unsecured Claim until the Allowed Mosing Subordinated Unsecured Claim is paid in full in Cash, and any Cash then remaining or as may thereafter be deposited therein from time to time shall be distributed pro rata to the Holders of the Interests in Zloop, Inc. in Class 17 as soon as practicable; and provided, however, that upon all Holders of Allowed Claims treated in Classes 8, 9, 10, 11 and 14 being paid in full the Face Amount of such Allowed Claims, the Debtors, their Estates and the Disbursing Agent and the Liquidating Trust shall have no further obligation to make any Distributions to such Holders.
 - iii. *Voting:* Class 14 is Impaired and Mosing is entitled to vote to accept or reject the Plan.
- o. Interests in Zloop Knitting Mill, LLC (Class 15).
 - i. *Classification:* Class 15 consists of Zloop, Inc.'s Interests in Zloop Knitting Mill, LLC.

- ii. *Treatment:* The assets of Zloop Knitting Mill, LLC shall be sold, transferred and assigned under a Sale to a Purchaser. Title to all assets of the Zloop Knitting Mill, LLC Estate that are not the subject of a Sale as of the Effective Date shall be deemed to transfer to the Liquidating Trust on the Effective Date, free and clear of all Claims and Liens. In such an event, the Disbursing Agent shall continue to market such assets for Sale, or if such assets are Causes of Action, to investigate such Causes of Action and in the Disbursing Agent's discretion, pursue to judgment and collection, or settlement, any such Causes of Action. The net Sale proceeds of Zloop Knitting Mill, LLC and the net proceeds of such Debtor's Causes of Action shall be distributed or deemed distributed to Zloop, Inc. and constitute net proceeds to be deposited first into the Plan Administration Fund and Professional Fee Reserve, and second into the General Unsecured Fund. The Disbursing Agent shall have no obligation to investigate or pursue any such Causes of Action that in the Disbursing Agent's sole discretion and business judgment would not be cost effective and not in the best interests of the Beneficiaries. As of the Effective Date, following the transfer of all assets of Zloop Knitting Mill, LLC to the Liquidating Trust, Zloop Knitting Mill, LLC shall be deemed to be dissolved under applicable non-bankruptcy law.
 - iii. *Voting:* Class 15 is Impaired and Zloop, Inc. is entitled to vote to accept or reject the Plan.
- p. Interests in Zloop Nevada, LLC (Class 16).
 - i. *Classification:* Class 16 consists of Zloop, Inc.'s Interests in Zloop Nevada, LLC.
 - ii. *Treatment:* The assets of Zloop Nevada, LLC shall be sold, transferred and assigned under a Sale to a Purchaser. Title to all assets of the Zloop Nevada, LLC Estate that are not the subject of a Sale as of the Effective Date shall be deemed to transfer to the Liquidating Trust on the Effective Date, free and clear of all Claims and Liens. In such an event, the Disbursing Agent shall continue to market such assets for Sale, or if such assets are Causes of Action, to investigate such Causes of Action and in the Disbursing Agent's discretion, pursue to judgment and collection, or settlement, any such Causes of Action. The net Sale proceeds of Zloop Nevada, LLC and the net proceeds of such Debtor's Causes of Action shall be distributed or deemed distributed to Zloop, Inc. and constitute net proceeds to be deposited first into the Plan Administration Fund and Professional Fee Reserve, and second into the General Unsecured Fund. The Disbursing Agent shall have no obligation to investigate or pursue any such Causes of

Action that in the Disbursing Agent's sole discretion and business judgment would not be cost effective and not in the best interests of the Beneficiaries. As of the Effective Date, following the transfer of all assets of Zloop Nevada, LLC to the Liquidating Trust, Zloop Nevada, LLC shall be deemed to be dissolved under applicable non-bankruptcy law.

- iii. *Voting*: Class 16 is Impaired and Zloop, Inc. is entitled to vote to accept or reject the Plan.
- q. Interests in Zloop, Inc. (Class 17).
- i. *Classification*: Class 17 consists of the Holders' Interests in Zloop, Inc.
 - ii. *Treatment*: The assets of Zloop, Inc. shall be sold, transferred and assigned under a Sale to a Purchaser. Title to all assets of the Zloop, Inc. Estate that are not the subject of a Sale as of the Effective Date shall be deemed to transfer to the Liquidating Trust on the Effective Date, free and clear of all Claims and Liens. In such an event, the Disbursing Agent shall continue to market such assets for Sale, or if such assets are Causes of Action, to investigate such Causes of Action and in the Disbursing Agent's discretion, pursue to judgment and collection, or settlement, any such Causes of Action. The net Sale proceeds of Zloop, Inc.'s assets and the net proceeds of such Debtor's Causes of Action shall constitute net proceeds to be deposited first into the Plan Administration Fund and Professional Fee Reserve, and second into the General Unsecured Fund. The Disbursing Agent shall have no obligation to investigate or pursue any such Causes of Action that in the Disbursing Agent's sole discretion and business judgment would not be cost effective and not in the best interests of the Beneficiaries. As of the Effective Date, following the transfer of all assets of Zloop, Inc. to the Liquidating Trust, Zloop, Inc. shall be deemed to be dissolved under applicable non-bankruptcy law.

The Disbursing Agent shall not make any Distribution to the Holders of Interests in Zloop, Inc. on account of such Allowed Interests until after the Holders of Allowed Claims treated in Classes 8, 9, 10, 11 and 14 have received or the Disbursing Agent has reserved for payments in an amount equal to 100% of the Face Amount of the Allowed amount of their respective Allowed Claims. Any Cash remaining in the General Unsecured Fund or as may be deposited therein from time to time shall be distributed pro rata to the Holders of Allowed Interests in Zloop, Inc. as soon as practicable; and provided, however, that upon all Holders of

Allowed Claims treated in Classes 8, 9, 10, 11 and 14 being paid in full the Face Amount of such Allowed Claims, the Debtors, their Estates and the Disbursing Agent shall have no further obligation to make any Distributions to such Holders.

- iii. *Voting*: Class 17 is Impaired and the Holders of Interests in Zloop, Inc. are entitled to vote to accept or reject the Plan.

3. Special Provision Governing Unimpaired Claims

Except as otherwise provided in the Plan, nothing under the Plan shall affect the Debtors' rights with respect to any Unimpaired Claim, including, without limitation, all rights in respect of legal and equitable defenses to or setoffs or recoupments against any such Unimpaired Claim.

4. Nonconsensual Confirmation

If any Impaired Class of Claims entitled to vote does not accept the Plan by the requisite statutory majority provided in section 1126 of the Bankruptcy Code, the Debtors reserve the right to amend the Plan or to undertake to have the Bankruptcy Court confirm the Plan under section 1129(b) of the Bankruptcy Code, or both. With respect to an Impaired Class that is deemed to reject the Plan, the Debtors intend to request that the Bankruptcy Court confirm the Plan pursuant to section 1129(b) of the Bankruptcy Code notwithstanding the deemed rejection of the Plan by such Class.

C. MEANS FOR IMPLEMENTATION OF THE PLAN

1. Implementation of Plan

The Debtors propose to implement and consummate the Plan on and after the Effective Date through the Sale of their assets under the Plan; provided, however, the Debtors reserve the right to file one or more motions with the Bankruptcy Court seeking approval of sale procedures, setting dates, including for an auction and Sale hearing other than the Confirmation Hearing, approval of bidder protections and approval of the Sale of any or all assets other than under the Plan.

The Plan is premised upon the substantive consolidation of the Debtors for all purposes related to the Plan, including for purposes of voting, confirmation and Distributions under the Plan. Substantive consolidation shall not affect the obligation of each Debtor to file separate operating reports and to pay quarterly fees under 28 U.S.C. § 1930 until their cases are converted, closed or dismissed.

2. Plan Funding

The Debtors' Effective Date Cash on hand, net Sale proceeds and net proceeds of the Causes of Action shall be used *pro tanto* (i) first, to pay or reserve in full in Cash all Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Priority Claims and Accrued Professional Compensation approved by the Bankruptcy Court, (ii), second, to fund the

Plan Expense Reserve, Professional Fee Reserve and (iii) third, to fund the General Unsecured Fund, the Convenience Fund, and the Frisbey Fund.

All net proceeds derived from subsequent Sales of assets that are not encumbered by a Lien and all net proceeds derived from Causes of Action shall be deposited into the General Unsecured Fund and the Plan Expense Reserve.

The Allowed Secured Claims in Classes 1, 2, 3, 4, 5 and 6 (in the event the collateral is not returned to the Holder of such Allowed Secured Claim) shall be paid or reserved for in full in Cash at closing on the respective Sale from such Sale proceeds. In the event any property is encumbered by a Lien relating to a Disputed Claim or Disputed Lien, such Disputed Lien shall continue to encumber such property to the extent of the Disputed Claim asserted by such Holder, whether titled in a Debtor or the Liquidating Trust, notwithstanding anything in the Plan to the contrary, until such property is sold. At the closing on the Sale of such property encumbered by a Disputed Claim or a Disputed Lien (i) such Disputed Lien shall transfer to the proceeds of Sale to the same extent, validity and priority such Lien enjoyed in the sold property and (ii) any Sale proceeds in excess of the extent of such Disputed Lien shall be free and clear of such Liens and available otherwise to fund the Plan. Upon the Bankruptcy Court's entry of an order that becomes a Final Order determining either that a Holder of a Disputed Claim or Disputed Lien (i) holds an Allowed Secured Claim to the extent of such Allowed Secured Claim, such encumbered Sale proceeds shall be paid to such Holder from the Disputed Reserve, or (ii) does not hold an Allowed Secured Claim at which time such encumbered Sale proceeds (and any excess in the event a Disputed Claim or Disputed Lien becomes an Allowed Secured Claim in an amount less than the amount asserted by such Holder) shall be free and clear of such Liens and available otherwise to fund the Plan.

The General Unsecured Fund on each Distribution Date shall be Distributed to Holders of Allowed General Unsecured Claims on a pro rata basis after payment in full of all fees and expenses of the Disbursing Agent, including the fees and expenses of any professionals retained by the Disbursing Agent in accordance with the terms of the Plan in the event the Plan Expense Reserve is first exhausted.

3. Rights and Powers of the Disbursing Agent

The Disbursing Agent shall be deemed the Estates' representative in accordance with section 1123 of the Bankruptcy Code and shall have all the rights, powers and privileges set forth in the Plan, the Bankruptcy Code and applicable law.

The Disbursing Agent shall be authorized and empowered as a representative of the Estates to institute, prosecute, settle, compromise, abandon or release any or all Causes of Action. The Disbursing Agent shall be authorized and empowered as a representative of the Estates and shall have the powers of a trustee under sections 704 and 1106 of the Bankruptcy Code and Bankruptcy Rule 2004, including, without limitation, the right to: (i) effect all actions and execute all agreements, instruments and other documents necessary to implement the provisions of the Plan; (ii) liquidate any assets; (iii) make Distributions to holders of Allowed Claims in accordance with the Plan; (iv) object to Disputed Claims and Disputed Liens and prosecute, settle or otherwise resolve such objections and related Causes of Action; (v) establish

and administer any necessary reserves for such Disputed Claims that may be required; (vi) perform administrative services related to implementation of the Plan, (vii) prepare and file post-confirmation reports with the U.S. Trustee and pay any post-confirmation fees owing to the U.S. Trustee; (viii) employ and compensate professionals, which professionals may include Professionals that have represented the Debtors in these Chapter 11 Cases, and other agents necessary for the aforementioned tasks; and (ix) complete and file the federal, state and local tax returns, and pursuant to section 505(b) of the Bankruptcy Code, request an expedited determination of any unpaid tax liability of such Debtor or its Estate for any tax incurred during the administration of such Debtor's Chapter 11 Case, as determined under applicable tax laws. The Disbursing Agent shall be permitted to pay any reasonable expenses incurred, including compensation of professionals employed by the Disbursing Agent, in accordance with the Plan, including from the General Unsecured Fund, without seeking Court approval.

The Disbursing Agent, or any successor Disbursing Agent, shall serve until payment of final Distributions of all proceeds of all property of the Estates and Liquidating Trust or the abandonment of any such property and Causes of Action. In the event the Disbursing Agent dies, is terminated, or resigns for any reason, a successor shall be designated by the Holders of the Class 15 Allowed Interests, subject to approval of the Bankruptcy Court.

The salient terms of the Disbursing Agent's retention agreement and the Liquidating Trust Agreement shall be set forth in the Plan Supplement and approved by the Confirmation Order. The Disbursing Agent shall be authorized to retain professionals necessary to carry out its duties. The Disbursing Agent's fees and expenses, and the fees and expenses of any professionals retained by the Disbursing Agent, will be paid from the Plan Expense Reserve and General Unsecured Fund, other than from the initial funding amount of \$250,000.00 of the General Unsecured Fund.

4. Transfer and Vesting of Property

On the Effective Date, to the extent all of the Debtors' properties are not the subject of a Sale that is closing contemporaneously with the Effective Date, all of the Debtors' right, title and interests in their properties, whether real or personal, tangible or intangible, including, without limitation, the Causes of Action and Reserves, shall be transferred to and vest in the Liquidating Trust, free and clear of all Claims and Liens, except as otherwise provided in the Plan; provided, however, that the General Unsecured Fund, including any portion thereof designated by the Disbursing Agent as the initial General Unsecured Fund, shall be transferred to a bank account designated and controlled by and shall vest in the Liquidating Trust, but be segregated and available only to be distributed to the Holders of Allowed Claims in Classes 8, 9, 10 and 11, then any such funds remaining to be distributed to the Holders of Allowed Claims in Class 14.

5. Substantive Consolidation; Closing of Certain of the Chapter 11 Cases

The Plan shall serve as a motion of the Debtors seeking entry of a Bankruptcy Court order approving the substantive consolidation of the Debtors' Estates as provided for herein. As such, upon the Effective Date, without the need for further order of the Bankruptcy Court or motion of, or notice from, the Debtors or the Disbursing Agent, the chapter 11 Estates of the Debtors shall be substantively consolidated. After the Effective Date, the Disbursing Agent shall

make arrangements with the Clerk of the Bankruptcy Court to close the Chapter 11 Cases of the Debtors without further order of the Bankruptcy Court. Notwithstanding the substantive consolidation of the Debtors under the Plan, each Debtor shall remain obligated to pay quarterly fees to the Office of the U.S. Trustee until the earliest of that particular Debtor's case being closed, dismissed or converted to a case under Chapter 7 of the Bankruptcy Code.

D. PROVISIONS GOVERNING VOTING AND DISTRIBUTIONS

1. Voting of Claims

Each Holder of an Allowed Claim in an Impaired Class of Claims that is entitled to vote on the Plan pursuant to Articles II and III of the Plan shall be entitled to vote separately to accept or reject the Plan, as provided in such order as is entered by the Bankruptcy Court establishing procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan, or any other order or orders of the Bankruptcy Court.

2. Distribution Dates

Distributions to Holders of Claims shall be made as provided in Articles II and III of the Plan. In the event that any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day but shall be deemed to have been completed as of the required date.

3. Disbursing Agent

All Distributions under the Plan shall be made by the Disbursing Agent. The Disbursing Agent shall be empowered to (1) effect all actions and execute all agreements, instruments and other documents necessary to perform its duties under the Plan, (2) make all Distributions contemplated by the Plan, (3) employ professionals to represent it with respect to its responsibilities and (4) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions of the Plan.

The Disbursing Agent shall only be required to act and make Distributions in accordance with the terms of the Plan and shall have no liability for actions taken in accordance with the Plan or in reliance upon information provided to it in accordance with the Plan or obligation or liability for Distributions under the Plan to any party who does not hold an Allowed Claim at the time of Distribution or who does not otherwise comply with the terms of the Plan.

Except as otherwise ordered by the Bankruptcy Court, any reasonable fees and expenses incurred by the Disbursing Agent (including, without limitation, reasonable attorneys' fees and expenses) on or after the Effective Date shall be paid in Cash from the Plan Expense Reserve in the ordinary course of business without Bankruptcy Court approval.

4. Initial Distribution Date

On the Initial Distribution Date or as soon thereafter as is reasonably practicable, the Disbursing Agent shall make, or shall make adequate reserves for, the Distributions required to be made under the Plan to Holders of Allowed Unsecured Claims treated in Classes 8, 9, 10 and 11. All other Distributions to Holders of Allowed Claims shall be made pursuant to the terms of Section 3.2 of the Plan.

5. Disputed Reserve

a. Establishment of the Disputed Reserve

On or after the Effective Date, the Disbursing Agent shall establish a Disputed Reserve for Disputed Claims and Disputed Liens. The Disbursing Agent shall fund the Disputed Reserve, in Cash or other property, on each Distribution Date an amount equal to the sum of the pro rata share of each such Distribution on account of such Disputed Claims and Disputed Liens, then remaining, based upon the asserted amount of the Disputed Claims and Disputed Liens (or such lesser amount as may be estimated by the Bankruptcy Court in accordance with Section 6.4 of the Plan). At such time as any Disputed Claim or Disputed Lien shall become an Allowed Claim or Allowed Lien in accordance with a Final Order, then as soon as practicable thereafter, the Disbursing Agent shall Distribute to such Holder the funds on deposit in the Disputed Reserve on account of such Disputed Claim or Disputed Lien the amount of such Allowed Claim or Allowed Lien and to the extent such funds on deposit exceed the amount of such Allowed Claim or Allowed Lien, then the balance shall be returned to the General Unsecured Fund for Distribution.

b. Maintenance of the Disputed Reserve

To the extent that the property placed in the Disputed Reserve consists of Cash, that Cash shall be deposited in an account with a view of preserving the corpus of the Disputed Reserve at the Disbursing Agent's sole discretion. The Disbursing Agent shall hold property in the Disputed Reserve, severally, in trust for and on account of each Holder of a Disputed Claim ultimately determined to be Allowed. The Disputed Reserve shall be closed by the Disbursing Agent when all Distributions and other dispositions of Cash or other property required to be made under the Plan will have been made in accordance with the terms of the Plan and all Disputed Claims on account of which the Disputed Reserve was created and funded shall be deemed extinguished upon the last such Disputed Claim becoming Allowed or disallowed by a Final Order of the Bankruptcy Court. Upon a determination of each Disputed Claim being an Allowed or not Allowed, the Allowed amount shall be distributed to such Holder and any excess funded into the Disputed Reserve on account of each such Disputed Claim shall be transferred to the General Unsecured Fund and upon the closure of the Disputed Reserve, all Cash (including any earnings) or other property held in the Disputed Reserve shall be deposited into the General Unsecured Fund.

6. Plan Expense Reserve

On the Effective Date, the Disbursing Agent shall establish a reserve from funds available to fund the Plan as described in Section 4.2 of the Plan for the payment of the fees and

expenses of the Disbursing Agent and any professionals the Disbursing Agent has or anticipates hiring in order to carry out the duties of the Disbursing Agent. The Disbursing Agent may increase such reserves from the General Unsecured Fund or decrease such reserve as the Disbursing Agent deems appropriate in its business judgment in accordance with the terms of its retention agreement and the Liquidating Trust Agreement. Any funds remaining in such expense reserve after payment or reserve of all such expenses shall be deposited into the General Unsecured Fund.

7. Subsequent Distributions

Any Distribution that is not made on the Initial Distribution Date or on any other date specified herein because the Claim that would have been entitled to receive that Distribution is not an Allowed Claim on such date, shall be distributed as soon as practicable, and in accordance with the terms of the Plan, after such Claim is Allowed by a Final Order of the Bankruptcy Court. In the event that upon Distribution of the General Unsecured Fund to the Holders of Allowed Unsecured Claims in Classes 8, 9, 10 and 11, such Holders have received 100% of the Allowed amount of their Allowed Unsecured Claims, any Cash remaining in the General Unsecured Fund shall be distributed to the Holders of the Allowed Mosing Subordinated Unsecured Claims, if such Holders have received 100% of the Allowed amount of their Allowed Mosing Subordinated Unsecured Claims, the remaining balance shall be distributed pro rata to the Holders of Allowed Interests in Class 15.

8. Delivery of Distributions

a. General Provisions; Undeliverable Distributions

Subject to Bankruptcy Rule 9010 and except as otherwise provided herein, Distributions to the Holders of Allowed Claims shall be made by the Disbursing Agent, at (i) the address of each Holder as set forth in the Schedules, unless superseded by the address set forth on proofs of Claim Filed by such Holder or (ii) the last known address of such Holder if no proof of Claim is Filed or if the Disbursing Agent has been notified in writing of a change of address. If any Distribution is returned as undeliverable, the Disbursing Agent may, in its discretion, but is under no obligation to, make such efforts to determine the current address of the Holder of the Allowed Claim with respect to which the Distribution was made as the Disbursing Agent deems appropriate, but no Distribution to any Holder shall be made unless and until the Disbursing Agent has determined the then-current address of the Holder, at which time the Distribution to such Holder shall be made to the Holder without interest. Amounts in respect of any undeliverable Distributions made by the Disbursing Agent shall be returned to, and held in trust by, the Disbursing Agent until the Distributions are claimed or are deemed to be unclaimed property under section 347(b) of the Bankruptcy Code as set forth below in Section 5.5.2. The Disbursing Agent shall have the discretion to determine how to make Distributions in the most efficient and cost-effective manner possible; *provided, however*, that such discretion may not be exercised in a manner inconsistent with any express requirements of the Plan.

b. Unclaimed Property

Except with respect to property not distributed because it is being held in the Disputed Reserve, Distributions that are not claimed by the expiration of one year from the original date of the attempted Distribution shall be deemed to be unclaimed property under section 347(b) of the Bankruptcy Code and the Allowed Claims with respect to which those Distributions are not distributed shall be automatically cancelled. After the expiration of that one-year period, the right of any Entity to those Distributions shall be deemed released, waived, discharged and forever barred. Nothing contained in the Plan shall require the Disbursing Agent to attempt to locate any Holder of an Allowed Claim. All funds or other property that relates to any such cancelled Allowed Claim pursuant to this Article shall be deposited by the Disbursing Agent in the General Unsecured Fund.

9. Manner of Cash Payments Under the Plan

Cash payments made pursuant to the Plan shall be in United States dollars by checks drawn on a domestic bank selected by the Disbursing Agent or by wire transfer from a domestic bank, at the option of the Disbursing Agent

10. Compliance with Tax Requirements

In connection with making Distributions under the Plan, to the extent applicable, the Disbursing Agent shall comply with all tax withholding and reporting requirements imposed on it by any Governmental Unit, and all Distributions pursuant to the Plan shall be subject to such withholding and reporting requirements. Each Holder of an Allowed Claim shall provide to the Disbursing Agent an executed IRS Form W-9 in advance of the Disbursing Agent becoming obligated to make a Distribution to such Holder. The Disbursing Agent may withhold the entire Distribution due to any Holder of an Allowed Claim until such time as such Holder provides the necessary information to comply with any withholding requirements of any Governmental Unit. Any property so withheld will then be paid by the Disbursing Agent to the appropriate Governmental Unit. If the Holder of an Allowed Claim fails to provide the information necessary to comply with any withholding requirements of any Governmental Unit within six months from the date of first notification to the Holder of the need for such information or for the Cash necessary to comply with any applicable withholding requirements, then such Holder's Distribution shall be treated as an undeliverable Distribution in accordance with Section 5.5 hereof.

11. No Payments of Fractional Dollars

Notwithstanding any other provision of the Plan to the contrary, no payment of fractional dollars shall be made pursuant to the Plan. Whenever any payment of a fraction of a dollar under the Plan would otherwise be required, the actual Distribution made shall reflect a rounding down of such fraction to the nearest whole dollar. The Disbursing Agent shall not be obligated to make any Distributions of less than \$100.

12. No Interest on Claims

Except as specifically provided for in the Plan or the Confirmation Order, interest shall not accrue on Claims and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim. Interest shall not accrue or be paid on any Claim, or portion thereof, that is a Disputed Claim in respect of the period from the Effective Date to the date such Disputed Claim, or portion thereof, becomes an Allowed Claim and Distributions are made on account thereof. Except as expressly provided in the Plan or in a Final Order of the Bankruptcy Court, no prepetition Claim shall be Allowed to the extent that it is for post-petition interest or other similar charges.

13. No Distribution in Excess of Allowed Amount of Claim

Notwithstanding anything to the contrary contained in the Plan, no Holder of an Allowed Claim shall receive in respect of that Allowed Claim any Distribution in excess of the Face Amount of that Allowed Claim.

14. Setoff and Recoupment

The Disbursing Agent may, but shall not be required to, setoff against, or recoup from, any Distribution to be made pursuant to the Plan, any Causes of Action that may be asserted against the Holder of any Claim. Neither the failure to do so nor the allowance of any Claim under the Plan or otherwise shall constitute a waiver or release by the Disbursing Agent on behalf of the Debtors, the Estates, the Liquidating Trust or the Disbursing Agent as a successor in interest of any right of setoff or recoupment that any of them may have against the Holder of any Claim.

15. United States Trustee Fees

All fees due and payable pursuant to section 1930 of Title 28 of the U.S. Code accruing prior to the Effective Date shall be paid by the Debtors from the Wind-Down Amount. The Disbursing Agent shall pay any and all such fees accruing after the Effective Date, when due and payable, and shall file with the Bankruptcy Court quarterly reports for each of the Debtors in a form reasonably acceptable to the U.S. Trustee. Notwithstanding the substantive consolidation of the Debtors under the Plan, each Debtor shall remain obligated to pay quarterly fees to the Office of the U.S. Trustee until the earliest of that particular Debtor's case being closed, dismissed or converted to a case under Chapter 7 of the Bankruptcy Code.

16. Withholding from Distributions

Any federal, state or local withholding taxes or other amounts required to be withheld under applicable law shall be deducted from Distributions made pursuant to the Plan. The Disbursing Agent may withhold from amounts distributable pursuant to the Plan to any Person or Entity any and all amounts, determined in the sole and reasonable discretion of the Disbursing Agent required to be withheld by any law, regulation, rule, ruling, directive or other governmental requirement.

17. No Distributions on Late-Filed Claims

Except as otherwise provided in a Final Order of the Bankruptcy Court, any Claim as to which a proof of Claim was required to be filed and was first filed after the later of (1) the applicable bar date in the Chapter 11 Cases, including, without limitation, the General Bar Date and any bar date established in the Plan or in the Confirmation Order and (2) the date that is ten (10) days prior to the Confirmation Date, shall automatically be deemed a late-filed Claim that is disallowed in the Chapter 11 Cases, without the need for (a) any further action by the Disbursing Agent or (b) an order of the Bankruptcy Court. The Disbursing Agent and his professionals have no obligation to reserve assets on account of such late-filed claims and shall incur no liability if available assets are inadequate to make a distribution on account of any late-filed claim allowed by the Bankruptcy Court. Nothing in this paragraph is intended to expand or modify the applicable bar dates or any orders of the Bankruptcy Court relating thereto.

E. DISPUTED CLAIMS

1. No Distribution Pending Allowance

Notwithstanding any other provision of the Plan, the Disbursing Agent shall not distribute any Cash or other property on account of any Claim that is Disputed unless and until such Claim or portion thereof becomes Allowed. Claims that are identified in the Plan as Disputed shall be deemed to be governed by this Article of the Plan, notwithstanding the absence of an objection or proceeding having been Filed and served.

2. Resolution of Disputed Claims

After the Effective Date, unless otherwise ordered by the Bankruptcy Court after notice and a hearing, the Disbursing Agent shall have the right to make and File objections to Claims. The costs of pursuing the objections to Claims shall be paid from the Plan Expense Reserve.

3. Objection Deadline

All objections to Disputed Claims, shall be filed and served upon the Holders of each such Claim not later than one hundred eighty (180) days after the Effective Date, unless otherwise extended by order by the Bankruptcy Court after notice and a hearing.

4. Estimation of Claims

At any time the CRO or the Disbursing Agent, as the case may be, may request that the Bankruptcy Court estimate any contingent or unliquidated Claim to the extent permitted by section 502(c) of the Bankruptcy Code, regardless of whether the Debtors or the Disbursing Agent previously objected to such Claim or whether the Bankruptcy Court ruled on any such objection, and the Bankruptcy Court shall have jurisdiction to estimate any Claim at any time during litigation concerning any objection to such Claim, including during the pendency of any appeal relating to any such objection. If the Bankruptcy Court estimates any contingent or unliquidated Claim, that estimated amount shall constitute either the Allowed amount of such Claim or a maximum limitation on the Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the Claim, the Disbursing Agent may elect to pursue supplemental proceedings to object to the ultimate allowance of the Claim. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and

not exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

F. TREATMENT OF EXECUTORY CONTRACTS

The Plan shall constitute a motion to reject all Executory Contracts other than those Executory Contracts designated for assumption and assignment to a Purchaser in an Executory Contract and Unexpired Lease Assumption and Assignment Schedule, which schedule shall be Filed with the Bankruptcy Court in connection with any Sale no fewer than five (5) Business Days before the Confirmation Hearing. The entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of all such rejections and assumptions and assignments pursuant to sections 365(a) and 1123 of the Bankruptcy Code, effective as of the Effective Date. In the event of any objection to the Cure Claim, the Debtors or the Disbursing Agent, as the case may be, shall seek to have such objection heard and determined by the Bankruptcy Court.

G. CONDITIONS PRECEDENT TO THE EFFECTIVE DATE

1. Conditions Precedent to Effective Date

The following are conditions precedent to the Effective Date that must be satisfied or waived by the CRO:

- a. The Disclosure Statement Order has become a Final Order.
- b. The Confirmation Order has been entered.
- c. The Confirmation Order is not stayed.
- d. The Effective Date will occur on or before the first anniversary of the Confirmation Date.
- e. The appointment of the Disbursing Agent shall have been authorized, approved and confirmed by order of the Bankruptcy Court and such appointment accepted by the Disbursing Agent in such capacity and as Liquidating Trustee.
- f. The Estates shall as of the Effective Date hold Cash on hand or receive Cash net proceeds of Sale(s) or Causes of Action in an amount sufficient to fund in full the payments or reserves on account of Allowed Administrative Expense Claims, Allowed Accrued Professional Compensation, Allowed Priority Tax Claims, Allowed Priority Claims, Frisbey Fund, Convenience Fund, the initial funding of the General Unsecured Fund and the Plan Expense Reserve. In the event the Bankruptcy Court determines that all Claims classified in any Class for which a fund is to be funded on the Effective Date are not Allowed Claims, then such funds or reserves shall be sufficient without regard to such fund or reserve. For the avoidance of doubt, if for example the Frisbey Claim is not an Allowed Claim as of the Effective Date, then the

condition in Section 8.1.6 of the Plan may be satisfied without funding or reserving for the Frisbey Fund.

2. **Waiver**

Notwithstanding the foregoing, the CRO may waive the occurrence of any condition precedent to the Effective Date or modify any of the foregoing conditions precedent; provided, however, the CRO may not waive the condition set forth in Section 8.1.6 of the Plan except to waive the funding of the initial funding of the General Unsecured Fund in the event the Effective Date is based on the closing of the Sale of all remaining property of the Estates and the net proceeds of the Sale are insufficient only to the extent necessary to fund such initial funding of the General Unsecured Fund. Any such waiver of a condition precedent set forth in this Article may be effected at any time in writing, without notice, without leave or order of the Bankruptcy Court, and without any formal action other than proceeding to consummate the Plan. Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and no such action shall be deemed to have occurred prior to the taking of any other such action.

H. **INDEMNIFICATION, EXCULPATION, INJUNCTIVE AND RELATED PROVISIONS**

1. **Compromise and Settlement**

Pursuant to section 363 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the Distributions and other benefits provided under the Plan and Confirmation Order, the provisions of the Plan shall constitute a good faith compromise of all Claims and Interests. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all Claims and Interests, as well as a finding by the Bankruptcy Court that such compromise or settlement is fair, equitable, reasonable and in the best interests of the Debtors, the Estates and Holders of Claims and Interests.

2. **Exculpation**

Notwithstanding anything contained in the Plan to the contrary, the Exculpated Parties shall neither have nor incur any liability to any Person for any Claims or Causes of Action arising on or after the Petition Date, including any act taken or omitted to be taken in connection with, or related to, formulating, negotiating, preparing, disseminating, implementing, administering, confirming or consummating the Plan, the Disclosure Statement, or any other contract, instrument or other agreement or document created or entered into in connection with the Plan or Disclosure Statement or any other post-petition act taken or omitted to be taken in connection with or in contemplation of the Plan; provided, however, that the foregoing provisions of this Article VI.H.2. shall have no effect on the liability of any Exculpated Party that results from any such act or omission that is determined in a Final Order to have constituted gross negligence or willful misconduct; provided, further, that each Exculpated Party shall be entitled to rely upon the advice of counsel concerning its duties; provided, further, that the foregoing provisions of this Article VI.H.2. shall not apply to any Causes of Action accruing prior to the Petition Date.

3. Injunction

From and after the Effective Date, all Entities are permanently enjoined from commencing or continuing in any manner against the Debtors or the Liquidating Trust or the Disbursing Agent, their successors and assigns, and their assets and properties, as the case may be, any suit, action or other proceeding, on account of or respecting any Claim or Interest deemed settled and treated under the Plan or pursuant to the Plan or the Confirmation Order.

Except as otherwise expressly provided for in the Plan or in obligations issued pursuant to the Plan, from and after the Effective Date, all Entities shall be precluded from asserting against the Debtors, the Debtors in Possession, the Estates, the Liquidating Trust, the Disbursing Agent, the Exculpated Parties, their successors and assigns and their assets and properties, any other Claims or Interests based upon any documents, instruments, or any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date.

The rights afforded in the Plan and the treatment of all Claims and Interests in the Plan shall be in exchange for and in complete satisfaction of Claims and Interests of any nature whatsoever, against the Debtors or any of their assets or properties. On the Effective Date, all such Claims against, and Interests in, the Debtors shall be satisfied and released in full.

Except as otherwise expressly provided for in the Plan or in obligations issued pursuant to the Plan, all Persons are permanently enjoined, on and after the Effective Date, on account of any Claim or Interest satisfied and released hereby, from:

commencing or continuing in any manner any action or other proceeding of any kind against any Debtor, the Liquidating Trust, their successors and assigns and their assets and properties;

enforcing, attaching, collecting or recovering by any manner or means any judgment, award, decree or order against any Debtor, the Liquidating Trust, their successors and assigns and their assets and properties;

creating, perfecting or enforcing any encumbrance of any kind against any Debtor, the Liquidating Trust or the property or Estate of any Debtor or Liquidating Trust;

asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from any Debtor or against the property or Estate of any the Debtor or the Liquidating Trust, except to the extent a right to setoff, recoupment or subrogation is asserted with respect to a timely filed proof of Claim; or

commencing or continuing in any manner any action or other proceeding of any kind in respect of any Claim or Interest exculpated or settled hereunder.

4. Release of Liens

Except as otherwise provided in the Plan or in any contract, instrument, release or other agreement or document created pursuant to the Plan, on the Effective Date, all Liens shall be fully released and discharged and all of the right, title and the Debtors' interest in such property shall be distributed or transferred in accordance with the Plan free and clear of all Liens.

Any disposition of property during the term of and under the Plan shall be free and clear of any and all taxes, assessments and charges to the fullest extent permitted under section 1146(a) of the Bankruptcy Code..

I. RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall, after the Confirmation and after the Effective Date, retain such jurisdiction over the Chapter 11 Cases and all Entities with respect to all matters related to the Chapter 11 Cases, the Debtors, the Estates, all property of the Estates and the Plan as is legally permissible, including, without limitation, jurisdiction to:

- a. allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including the resolution of any request for payment of any Administrative Expense Claim, any legal or equitable relief that is the subject of any Cause of Action, and the resolution of any and all objections to the allowance or priority of Claims or Interests;
- b. grant, deny or otherwise resolve any and all applications of professionals or Persons retained in the Chapter 11 Cases for allowance of compensation or reimbursement of expenses authorized pursuant to the Bankruptcy Code or the Plan, for periods ending on or before the Effective Date;
- c. resolve any matters related to the assumption, assignment or rejection of any Executory Contract to which a Debtor was party or with respect to which a Debtor may be liable and to hear, determine and, if necessary, liquidate, any Claims arising therefrom;
- d. ensure that Distributions to Holders of Allowed Claims and Allowed Interests are accomplished pursuant to the provisions of the Plan;
- e. decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving a Debtor that may be pending on the Effective Date or instituted by the Disbursing Agent after the Effective Date, *provided, however*, the right of the Disbursing Agent to commence actions in all appropriate jurisdictions shall be fully reserved;
- f. enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all other contracts, instruments, releases, indentures and other agreements or documents adopted in connection with any Sale, the Plan or the Disclosure Statement;

- g. resolve any cases, controversies, suits or disputes that may arise in connection with the Effective Date, interpretation or enforcement of the Plan or any Entity's obligations incurred in connection with the Plan;
- h. issue injunctions, enforce them, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Entity with the Effective Date or enforcement of the Plan, except as otherwise provided in the Plan;
- i. enforce the provisions of Article IX of the Plan;
- j. enforce the Injunction set forth in Section 9.3 of the Plan;
- k. resolve any cases, controversies, suits or disputes with respect to the exculpation, injunction and other provisions contained in Article IX of the Plan, and enter such orders as may be necessary or appropriate to implement or enforce all such exculpation, injunctions and other provisions;
- l. enter and implement such orders as necessary or appropriate if the Confirmation Order is modified, stayed, reversed, revoked or vacated;
- m. resolve any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document adopted in connection with any Sale, the Plan or the Disclosure Statement; and
- n. enter an order and/or the decree contemplated in Bankruptcy Rule 3022 concluding the Chapter 11 Cases.

J. MISCELLANEOUS PROVISIONS

1. Modification of Plan

Subject to the limitations contained in the Plan: (i) the Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan prior to the entry of the Confirmation Order, including amendments or modifications to satisfy section 1129(b) of the Bankruptcy Code; and (ii) after the entry of the Confirmation Order, the Disbursing Agent may, upon order of the Bankruptcy Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan.

2. Revocation of Plan

The Debtors reserve the right to revoke or withdraw the Plan prior to the entry of the Confirmation Order, and to file subsequent chapter 11 plans. If the Debtors revoke or withdraw the Plan or if entry of the Confirmation Order or the Effective Date does not occur, then: (1) the Plan shall be null and void in all respects; (2) any settlement or compromise embodied in the

Plan, assumption or rejection of executory contracts effected by the Plan, and any document or agreement executed pursuant hereto shall be deemed null and void; and (3) nothing contained in the Plan shall: (a) constitute a waiver or release of any Claims by or against, or any Interests in, such Debtor or any other Entity; (b) prejudice in any manner the rights of the Debtors or any other Entity; or (c) constitute an admission of any sort by the Debtors or any other Entity.

3. Binding Effect

On the Effective Date, the provisions of the Plan shall bind any Holder of a Claim against, or Interest in, a Debtor and such Holder's respective successors and assigns, whether or not the Claim or Interest of such Holder is Impaired under the Plan, whether or not such Holder has accepted the Plan and whether or not such Holder is entitled to a Distribution under the Plan.

4. Successors and Assigns

The rights, benefits and obligations of any Entity named or referred to herein shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor or assign of such Entity.

5. Governing Law

Except to the extent that the Bankruptcy Code or Bankruptcy Rules apply, and subject to the provisions of any contract, instrument, release, indenture or other agreement or document entered into in connection herewith, the rights and obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the state of Delaware, including, without limitation, the provisions of section 303 of the Delaware General Corporate Law, without giving effect to the principles of conflict of laws thereof. Any inconsistency between the Plan and the Confirmation Order shall be construed in favor of and so as to give effect to the Confirmation Order. All exhibits and schedules to the Plan and the Plan Supplement shall be incorporated in the Plan by this reference, as though set forth at length herein.

6. Reservation of Rights

Except as expressly set forth herein, the Plan shall have no force or effect unless and until the Bankruptcy Court enters the Confirmation Order. Neither the filing of the Plan, any statement or provision contained herein, nor the taking of any action by the Debtors with respect to the Plan shall be or shall be deemed to be an admission or waiver of any rights of: (i) any Debtor with respect to the Holders of Claims or Interests or other parties-in-interest; or (ii) any Holder of a Claim or Interest or other party-in-interest prior to the Effective Date.

7. Section 1146 Exemption

Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property made pursuant to the Plan on or after the Confirmation Date shall not be subject to any stamp tax or other similar tax or governmental assessment in the United States, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation instruments

or other documents pursuant to such transfers of property without the payment of any such tax or governmental assessment.

8. Section 1125(e) Good Faith Compliance

Confirmation of the Plan shall act as a finding by the Bankruptcy Court that the Debtors and each of their respective Representatives have acted in “good faith” under section 1125(e) of the Bankruptcy Code.

9. Further Assurances

The Debtors, the Disbursing Agent, all Holders of Claims and Interests receiving Distributions hereunder and all other parties in interest shall, from time to time, prepare, execute and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan or the Confirmation Order.

10. Service of Documents

Any pleading, notice or other document required by the Plan to be served on or delivered to the Debtors shall be sent by first class U.S. mail, postage prepaid as follows:

DLA Piper LLP (US)
1201 North Market Street, Suite 2100
Wilmington, Delaware 19801
Attn: Stuart M. Brown, Esq.

11. Filing of Additional Documents

On or before the Effective Date, the Debtors may file with the Bankruptcy Court all agreements and other documents that may be necessary or appropriate to effectuate and further evidence the terms and conditions hereof.

12. No Stay of Confirmation Order

The Debtors shall request that the Bankruptcy Court waive stay of enforcement of the Confirmation Order otherwise applicable, including pursuant to Federal Rules of Bankruptcy Procedure 3020(e), 6004(h) and 7062.

ARTICLE VII.

CERTAIN FACTORS AFFECTING THE DEBTORS

A. CERTAIN BANKRUPTCY LAW CONSIDERATIONS

1. Risk of Non-Confirmation of the Plan of Liquidation

Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will

reach the same conclusion or that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate resolicitation of votes.

2. Non-Consensual Confirmation

In the event any impaired class of claims or interests does not accept a chapter 11 plan, a bankruptcy court may nevertheless confirm such plan at the proponent's request if at least one impaired class has accepted the plan (with such acceptance being determined without including the vote of any "insider" in such class), and as to each impaired class that has not accepted the plan, the bankruptcy court determines that the plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting impaired classes. The Debtors believe that the Plan satisfies these requirements.

3. Risk of Delay in Confirmation of the Plan

Although the Debtors believe that the Effective Date will occur soon after the Confirmation Date, there can be no assurance as to such timing. In addition, as with any judicial proceeding, there are risks of unavoidable delay with a chapter 11 proceeding and there are risks of objections from certain stakeholders. Any material delay in the confirmation of the Plan, or the threat of rejection of the Plan by the Bankruptcy Court, would add substantial expense and uncertainty to the process.

B. ADDITIONAL FACTORS TO BE CONSIDERED

1. The Debtors Have No Duty to Update

The statements contained in this Disclosure Statement are made by the Debtors as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. The Debtors have no duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

2. No Representations Outside This Disclosure Statement Are Authorized

No representations concerning or related to the Debtors, the Chapter 11 Cases or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement. Any representations or inducements made to secure your acceptance or rejection of the Plan that are other than as contained in, or included with, this Disclosure Statement should not be relied upon by you in arriving at your decision.

3. Projections and Other Forward-Looking Statements Are Not Assured, and Actual Results May Vary

Certain of the information contained in this Disclosure Statement is, by nature, forward looking and contains estimates and assumptions which might ultimately prove to be incorrect and projections which may be materially different from actual future experiences. There are uncertainties associated with any projections and estimates, and the projections and estimates

herein should not be considered assurances or guarantees of the amount of funds or the amount of Claims in the various Classes that might be allowed.

4. Debtors Could Withdraw the Plan

Under the Plan, the Debtors could withdraw the Plan at any time.

5. No Legal or Tax Advice Is Provided to You by This Disclosure Statement

The contents of this Disclosure Statement should not be construed as legal, business or tax advice. Each Creditor or Interest Holder should consult his, her or its own legal counsel and accountant as to legal, tax and other matters concerning his, her or its Claim or Interest.

This Disclosure Statement is not legal advice to you. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

6. No Admission Made

Nothing contained herein shall constitute an admission of, or be deemed evidence of, the tax or other legal effects of the Plan on the Debtors or on Holders of Claims or Interests.

ARTICLE VIII.

CONFIRMATION OF THE PLAN OF LIQUIDATION

A. CONFIRMATION HEARING

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to hold a hearing on confirmation of a plan of liquidation. The Bankruptcy Court has scheduled the Confirmation Hearing for _____, 2016 at __:__ __.m. (prevailing Eastern Time). The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the confirmation hearing or any subsequent adjourned confirmation hearing.

Any objection to confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules, must set forth the name of the objector, the nature and amount of Claims or Interests held or asserted by the objector against the Debtors' Estate(s) or property, the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court, together with proof of service thereof, and served upon (a) counsel to the Debtors: DLA Piper LLP (US), 1201 North Market Street, Suite 2100, Wilmington, DE 19801 (Fax: 302-394-2341) (Attn: Stuart Brown, Esq. (stuart.brown@dlapiper.com)); (b) counsel to the Official Committee of Unsecured Creditors: Cole Schotz P.C., 900 Third Avenue, 16th Floor, New York, NY 10022 (Attn: Daniel F.X. Geoghan, Esq. (dgeoghan@coleschotz.com)) and Cole Schotz P.C., 500 Delaware Avenue, Suite 1410, Wilmington, DE 19801 (Attn: David R. Hurst, Esq. (dhurst@coleschotz.com)); and (c) the U.S. Trustee: Office of the United States Trustee, J. Caleb Boggs Federal Building, 844 King Street, Suite 2207, Wilmington, Delaware, 19801 (Fax:

302-573-6497) (Attn: David L. Buchbinder, Esq. (david.l.buchbinder@usdoj.gov)), so as to be received no later than 4:00 p.m. (prevailing Eastern Time) on _____, _____.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

1. Best Interests Test

Each Holder of a Claim or Interest in an Impaired Class must either (i) accept the Plan or (ii) receive or retain under the Plan Cash or property of a value, as of the Effective Date of the Plan, that is not less than the value such Holder of a Claim or Interest would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. The Bankruptcy Court will determine whether the Cash and property issued under the Plan to each Class equals or exceeds the value that would be allocated to such Holders of Claims or Interests in a liquidation under chapter 7 of the Bankruptcy Code. The Debtors believe the Holders of Claims against and Interests in the Debtors will have an equal or greater recovery as a result of the liquidation of the Debtors' assets as discussed herein and under the Plan than could be realized in a chapter 7 liquidation.

The Plan is a liquidating plan and, therefore, is not seeking to require Creditors to accept non-Cash consideration so that the Estates could pursue going-concern value. Accordingly, the only question is whether the Creditors will have recovered more (or at least as much) under the Plan than they would recover through an asset liquidation by a chapter 7 trustee.

To determine the value that a Holder of a Claim or Interest in an Impaired Class would receive if the Debtors were liquidated under chapter 7, the Bankruptcy Court must determine the aggregate dollar amount that would be generated from the liquidation of the Debtors' assets if the Chapter 11 Cases had been converted to a chapter 7 liquidation case and the Debtors' assets were liquidated by a chapter 7 trustee. The liquidation value would consist of the net proceeds from the disposition of the Debtors' assets, augmented by Cash held by the Debtors and reduced by certain increased costs and Claims that arise in a chapter 7 liquidation case that do not arise in a chapter 11 reorganization case.

As explained below, the liquidation value available for satisfaction of Claims and Interests in the Debtors would be reduced by: (a) the costs, fees and expenses of the liquidation under chapter 7, which would include disposition expenses and the compensation of a trustee and his or her counsel and other professionals retained, (b) the fees of the chapter 7 trustee and (c) certain other costs arising from conversion of the Chapter 11 Cases to chapter 7.

In addition, converting the Chapter 11 Cases to a chapter 7 liquidation at this stage of the winddown would result in an immense waste of the Debtors' resources that were already expended in connection with the sale of the Debtors' assets and would delay converting the remaining assets to Cash. It would also result in substantial additional claims against the Estates.

Moreover, under the Plan, the Debtors will avoid the increased costs and expenses of a chapter 7 liquidation, including the fees payable to a chapter 7 trustee and his or her professionals. Although the Debtors have already incurred many of the expenses associated with

generating the proceeds, the Cash to be distributed to Creditors would be reduced by the chapter 7 trustee's statutory fee, which is calculated on a sliding scale from which the maximum compensation is determined based on the total amount of moneys disbursed or turned over by the chapter 7 trustee. Section 326(a) of the Bankruptcy Code permits reasonable compensation not to exceed 3% of the proceeds in excess of \$1 million distributable to creditors.⁸ The chapter 7 trustee's professionals, including legal counsel and accountants, would add substantial administrative expenses that would be entitled to be paid ahead of Allowed Claims. Moreover, these chapter 7 trustee fees would reduce the assets available for distribution to the Estates' Creditors from additional recoveries such as preferential payments, expunged administrative claims and the proceeds of successful Estate litigation or settlement. In contrast, the Disbursing Agent will be highly familiar with the Debtors' operations and the issues pertaining thereto and, therefore, the Estates will avoid the significant administrative burden associated with the familiarization process of a chapter 7 trustee and his or her legal and accounting professionals.

It is also anticipated that a chapter 7 liquidation would result in a significant delay in payments being made to creditors. Bankruptcy Rule 3002(c) provides that conversion of chapter 11 cases to chapter 7 will trigger a new bar date for filing claims against the Estates, and that the new bar date will be more than 90 days after the chapter 11 cases convert. Not only would a chapter 7 liquidation delay distribution to creditors, but it is possible that additional claims that were not asserted in the Chapter 11 Cases, or were filed late, could be filed against the Estates. The Debtors may receive, and Disbursing Agent will analyze, late-filed Claims, if any are received, and may file Claims objections in the near future. Reopening the Bar Date in connection with conversion to chapter 7 would provide these and other claimants an additional opportunity to timely file Claims against the Estates. Moreover, the Debtors would lose the benefit of having an established Administrative Claims Bar Date.

Attached hereto as **Exhibit B** is the Debtors' liquidation analysis and recovery summary.

For the reasons set forth above and in the liquidation analysis to be provided to the Bankruptcy Court, the Debtors believe that the Plan provides a superior recovery for Holders of Claims and Interests, and the Plan meets the requirements of the "best interests test."

2. Feasibility

The Bankruptcy Code requires a debtor to demonstrate that confirmation of a plan of reorganization is not likely to be followed by the liquidation or the need for further financial reorganization of a debtor unless so provided by the plan of reorganization. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their financial obligations as contemplated thereunder. These projections are based on the estimated Cash on hand as of March 15, 2016, including, without limitation, the \$40,247.20 held in escrow by REI's counsel as adequate protection of REI's asserted security interest in the trailers sold to US Trailer pursuant to the Court's Order dated November 9, 2015. The CRO and

⁸ Section 326(a) of the Bankruptcy Code permits a chapter 7 trustee to receive 25% of the first \$5,000 distributed to creditors, 10% of additional amounts up to \$50,000, 5% of additional distributions up to \$1 million and reasonable compensation up to 3% of distributions in excess of \$1 million.

his advisors believe the Debtors will be able to make all payments required to be made pursuant to the Plan.

3. Requirements of Section 1129(b) of the Bankruptcy Code

The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by a class of claims or interests if the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to such class.

No Unfair Discrimination. This test applies to classes of claims or interests that are of equal priority and are receiving different treatment under a plan of reorganization. The test does not require that the treatment be the same or equivalent, but that such treatment be “fair.”

Fair and Equitable Test. This test applies to classes of different priority (e.g. unsecured versus secured) and includes the general requirement that no class of claims receive more than 100% of the allowed amount of the claims in such class. As to the dissenting class, the test sets different standards, depending on the type of claims or interests in such class:

Unsecured Claims. Either (i) each holder of an impaired unsecured claim receives or retains under the plan property of a value equal to the amount of its allowed unsecured claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive or retain any property under the plan of reorganization.

Interests. Either (i) each interest holder will receive or retain under the plan of reorganization property of a value equal to the greater of (a) the fixed liquidation preference or redemption price, if any, of such stock and (b) the value of the stock or (ii) the holders of interests that are junior to the interests of the dissenting class will not receive or retain any property under the plan of reorganization.

The Debtors believe the Plan will satisfy both the “no unfair discrimination” requirement and the “fair and equitable” requirement, notwithstanding that Class 4 will receive no Distribution, because as to such Class, there is no Class of equal priority receiving more favorable treatment and no Class that is junior to such a dissenting Class will receive or retain any property on account of the Interests in such Class.

ARTICLE IX.

**ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF
THE PLAN OF LIQUIDATION**

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) liquidation of the Debtors under chapter 7 of the Bankruptcy Code and (ii) an alternative chapter 11 plan of liquidation.

A. LIQUIDATION UNDER CHAPTER 7

If no plan can be confirmed, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed to liquidate

the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in smaller distributions being made to creditors than those provided for in the Plan because of (i) the likelihood that the assets of the Debtors would have to be sold or otherwise disposed of in a less orderly fashion over a shorter period of time, (ii) additional administrative expenses involved in the appointment of a trustee and (iii) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations.

B. ALTERNATIVE PLAN

If the Plan is not confirmed, the Debtors (or if the Debtors' exclusive period in which to file a plan has expired, any other party in interest) could attempt to formulate a different chapter 11 plan of liquidation. With respect to an alternative plan, the Debtors have explored various alternatives in connection with the formulation and development of the Plan. The Debtors believe that the Plan, as described herein, enables creditors and Interest Holders to realize the most value under the circumstances.

ARTICLE X.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following is a summary of certain U.S. federal income tax consequences of the Plan to certain Holders of Claims and Interests. This summary is based on the Tax Code, Treasury Regulations thereunder, and administrative and judicial interpretations and practice, all as in effect on the date of this Disclosure Statement and all of which are subject to change, with possible retroactive effect. Due to the lack of definitive judicial and administrative authority in a number of areas, substantial uncertainty may exist with respect to some of the tax consequences described below. No opinion of counsel has been obtained, and the Debtors do not intend to seek a ruling from the IRS as to any of the tax consequences of the Plan discussed below. Events occurring after the date of the Disclosure Statement, including changes in law and changes in administrative positions, could affect the U.S. federal income tax consequences described herein. There can be no assurance that the IRS will not challenge one or more of the tax consequences of the Plan described below.

This summary does not apply to Holders of Claims or Interests that are otherwise subject to special treatment under U.S. federal income tax law (including, for example, banks, governmental authorities or agencies, financial institutions, insurance companies, pass-through entities, tax-exempt organizations, brokers and dealers in securities, mutual funds, small business investment companies, employees, persons who receive their Claims or Interests pursuant to the exercise of an employee stock option or otherwise as compensation, persons holding Claims or Interests that are a hedge against, or that are hedged against, currency risk or that are part of a straddle, constructive sale, or conversion transaction and regulated investment companies). The following discussion assumes that Holders of Allowed Claims hold such Claims as "capital assets" within the meaning of section 1221 of the Tax Code. Moreover, this summary does not purport to cover all aspects of U.S. federal income taxation that may apply to Holders of Allowed Claims based upon their particular circumstances. Additionally, this summary does not

discuss any tax consequences that may arise under any laws other than U.S. federal income tax law, including under state, local, or foreign tax law.

For purposes of this summary, a “U.S. Holder” means a Holder of Claims or Interests that, in any case, is, for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States; (ii) a corporation, or other Entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (x) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of such trust or (y) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

A “Non-US. Holder” means a Holder of Claims that is not a U.S. Holder and is, for U.S. federal income tax purposes, an individual, corporation (or other Entity treated as a corporation for U.S. federal income tax purposes), estate or trust.

If an Entity taxable as a partnership for U.S. federal income tax purposes holds Claims, the U.S. federal income tax treatment of a partner (or other owner) of the Entity generally will depend on the status of the partner (or other owner) and the activities of the Entity. Such partner (or other owner) should consult its tax advisor as to the tax consequences of the Entity’s ownership or disposition of Claims.

The U.S. federal income tax consequences of the Plan are complex. The following summary is for information purposes only and is not a substitute for careful tax planning and advice based on the particular circumstances of each Holder of a Claim or Interest. Each Holder of a Claim or Interest is urged to consult his, her, or its own tax advisors as to the U.S. federal income tax consequences, as well as other tax consequences, including under any applicable state, local, and foreign law, upon implementation of the Plan.

A. GENERAL CONSEQUENCES OF U.S. HOLDERS OF CLAIMS AND INTERESTS

1. Realization and Recognition of Gain or Loss, In General

The federal income tax consequences of the implementation of the Plan to a U.S. Holder of a Claim or Interest will depend, among other things, upon the origin of the Holder’s Claim, when the Holder receives payment in respect of such Claim or Interest, whether the U.S. Holder reports income using the accrual or cash method of tax accounting, whether the Holder acquired its Claim at a discount, and whether the U.S. Holder has taken a bad debt deduction or worthless security deduction with respect to such Claim or Interest. A U.S. Holder of an Interest should consult its tax advisor regarding the timing and amount of any potential worthless stock loss.

Generally, a U.S. Holder of an Allowed Claim will realize gain or loss on the exchange under the Plan of its Allowed Claim for Cash, in an amount equal to the difference between (i) the sum of the amount of any Cash and the fair market value on the date of the exchange of any other property received by the U.S. Holder, and (ii) the adjusted tax basis of the Allowed Claim exchanged therefor (other than basis attributable to accrued but unpaid interest previously

included in the U.S. Holder's taxable income). With respect to the treatment of accrued but unpaid interest and amounts allocable thereto.

When gain or loss is recognized as discussed below, such gain or loss may be long-term capital gain or loss if the Claim or Interest disposed of is a capital asset in the hands of the U.S. Holder and has been held for more than one year. Each U.S. Holder of an Allowed Claim or Interest should consult its own tax advisor to determine whether gain or loss recognized by such Holder will be long-term capital gain or loss and the specific tax effect thereof on such Holder.

2. Holders of Claims in All Classes

The Plan provides, in certain circumstances, for a distribution of Cash, as distributed from time to time (but in no instance to exceed the amount of the Allowed Claim) to each Allowed Claim against the Debtors. A U.S. Holder of an Allowed Claim in the foregoing Classes generally will realize gain or loss in an amount equal to the difference, if any, between (a) the amount of Cash and the fair market value of any other property received in the exchange (other than amounts allocable to accrued but unpaid interest) and (b) the U.S. Holder's adjusted tax basis in the Claim (other than in respect of accrued but unpaid interest). It is possible that any loss, or a portion of any gain, realized by a Holder of a Claim may have to be deferred until all of the distributions to such Holder are received.

As discussed in the next section, the amount of Cash or other property received in respect of Claims for accrued but unpaid interest will be taxed as ordinary income, except to the extent previously included in income by a U.S. Holder under such Holder's method of tax accounting.

3. Allocation of Consideration to Interest

All distributions in respect of Allowed Claims will be allocated first to the principal amount of the Allowed Claim (as determined for federal income tax purposes), with any excess allocated to accrued but unpaid interest (but solely to the extent that interest is an allowable portion of such Allowed Claim). However, there is no assurance that such allocation would be respected by the IRS for federal income tax purposes. In general, to the extent any amount received by a U.S. Holder of a debt instrument is received in satisfaction of accrued interest during its holding period, such amount will be taxable to the Holder as interest income (if not previously included in the Holder's gross income under the Holder's normal method of accounting). Conversely, a Holder generally recognizes a deductible loss to the extent any accrued interest claimed was previously included in its gross income and is not paid in full. Each U.S. Holder of an Allowed Claim is urged to consult its own tax advisor regarding the allocation of consideration and the taxation or deductibility of unpaid interest for tax purposes.

4. Market Discount

A U.S. Holder will be considered to have acquired a Claim at a market discount if its tax basis in the Claim immediately after acquisition is less than the sum of all amounts payable thereon (other than payments of qualified stated interest, as defined in the Tax Code) after the acquisition date, subject to a statutorily-defined "de minimis" exception. Market discount generally accrues on a straight line basis from the acquisition date over the remaining term of the obligation or, at the U.S. Holder's election, under a constant yield method. A U.S. Holder that

acquired a Claim at a market discount previously may have elected to include the market discount in income as it accrued over the term of the Claim.

A U.S. Holder that acquires a Claim at a market discount generally is required to treat any gain realized on the disposition of the instrument as ordinary income (instead capital gain) to the extent of accrued market discount not previously included in gross income by the Holder.

5. Bad Debt Deduction and Worthless Securities Deduction

A U.S. Holder of an Allowed Claim that is not a security for purposes of section 165(g) of the Tax Code who receives, pursuant to the Plan, an amount less than such Holder's tax basis in that Allowed Claim may be entitled in the year of receipt (or in an earlier year) to a bad debt deduction under section 166(a) of the Tax Code or may be entitled to a loss under section 165(a) in the year of receipt. A U.S. Holder of a security, the Allowed Claim with respect to which is wholly worthless, may be entitled to a worthless securities deduction under sections 165(g) and 165(a) of the Tax Code. A worthless securities deduction is generally treated as a loss from the sale or exchange of a capital asset. U.S. Holder's should consult their own tax advisers as to the appropriate tax year in which to claim a worthless securities deduction. The rules governing the timing and amount of deductions place considerable emphasis on the facts and circumstances of the Holder, the obligor and the instrument with respect to which a loss or deduction is claimed. Such loss or deduction would be limited to the U.S. Holders adjusted tax basis in the indebtedness underlying its Allowed Claim. U.S. Holders of Allowed Claims are urged to consult their own tax advisers with respect to their ability to take any loss or deduction described above.

6. Limitation on Use of Capital Losses

A U.S. Holder of a Claim who recognizes capital losses as a result of the distributions under the Plan or as a result of a deduction described in the preceding paragraph will be subject to limits on the use of such capital losses. For a non-corporate Holder, capital losses may be used to offset any capital gains (without regard to holding periods), and also ordinary income to the extent of the lesser of (1) \$3,000 (\$1,500 for married individuals filing separate returns) or (2) the excess of the capital losses over the capital gains. A non-corporate Holder may carry over unused capital losses and apply them against future capital gains and a portion of their ordinary income for an unlimited number of years. For corporate Holders, capital losses may only be used to offset capital gains. A corporate Holder that has more capital losses than may be used in a tax year may carry back unused capital losses to the three years preceding the capital loss year, but may carry over unused capital losses for the five years following the capital loss year.

B. INFORMATION REPORTING AND WITHHOLDING

Distributions under the Plan are subject to applicable tax reporting and withholding. Under federal income tax law, interest, dividends and other reportable payments may, under certain circumstances, be subject to "backup withholding" at then applicable rates (currently 28%). Backup withholding generally applies if the U.S. Holder (a) fails to furnish its social security number or other TIN, (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends or (d) under certain circumstances, fails to provide a certified statement, signed

under penalty of perjury, that the TIN it provided is correct and that it is a United States person that is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax, provided the required information is timely provided to the IRS. Certain persons are exempt from backup withholding, including, in most circumstances, corporations and financial institutions.

Treasury Regulations generally require a taxpayer to disclose certain transactions on its federal income tax return, including, among others, certain transactions that result in a taxpayer claiming a loss in excess of a specified threshold. Holders are urged to consult their tax advisors as to whether the transactions contemplated by the Plan would be subject to these or other disclosure or information reporting requirements. The foregoing summary is provided for informational purposes only. U.S. Holders of Claims are urged to consult their tax advisors concerning the federal, state, local and foreign tax consequences of the Plan.

ARTICLE XI.

CONCLUSION

The CRO on behalf of the Debtors believes that confirmation and implementation of the Plan is in the best interests of all creditors, and urges Holders of Impaired Claims in Classes 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17 to vote to accept the Plan and to evidence such acceptance by returning their ballots so that they will be received no later than 4:00 p.m. (prevailing Eastern Time) on _____, 2016.

Dated: February 10, 2016
Wilmington, Delaware

ZLOOP, Inc.

By: 

Name: William H. Henrich
Title: Chief Restructuring Officer

ZLOOP Nevada, LLC

By: 

Name: William H. Henrich
Title: Chief Restructuring Officer

ZLOOP Knitting Mill, LLC

By: 

Name: William H. Henrich
Title: Chief Restructuring Officer