

David H. Bundy
DAVID H. BUNDY, P.C.
310 K Street Suite 200
Anchorage, AK 99501
(907) 248-8431
Attorney for Debtor

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ALASKA**

In Re:)
)
JAMES W. HALLIDAY, JR., DMD, LLC,) Case No. A-16-00088
d/b/a Cook Inlet Dental,)
)
Debtor.)
_____)

DEBTOR’S FIRST AMENDED DISCLOSURE STATEMENT, November 14, 2016

Table of Contents

I. Introduction2
A. Purpose of this Document2
B. Deadlines for Voting and Objecting2
II. Background3
A. Description and History of the Debtor’s Business3
B. Insiders of the Debtor3
C. Management of the Debtor Before and During the Bankruptcy4
D. Events Leading to Chapter 11 Filing4
E. Significant Events During the Bankruptcy Case4
F. Projected Recovery of Avoided Transfers 5
G. Claims Objections5
H. Current and Historical Financial Conditions5
III. Summary of the Plan of Reorganization6
A. Purpose of the Plan6
B. Unclassified Claims6
C. Classes of Claims and Equity Interests8
D. Means of Implementing the Plan11
E. Risk Factors11
F. Executory Contracts11
G. Tax Consequences of Plan12
IV. Confirmation Requirements and Procedures12
A. Who May Vote or Object12
B. Votes Necessary to Confirm the Plan14
C. Liquidation Analysis14
D. Feasibility14

V.	Effect of Confirmation of the Plan	15
A.	Discharge of Debtor	15
B.	Modification of the Plan	16
C.	Final Decree	16

I. **INTRODUCTION**

This is the first amended disclosure statement (the “Disclosure Statement”) in the small business chapter 11 case of James W. Halliday, Jr., DMD, LLC. This Disclosure Statement contains information about the Debtor and describes the First Amended Plan of Reorganization (the “Plan”) filed by the Debtor on November 14, 2016. A full copy of the Plan is attached to this Disclosure Statement as Exhibit A. ***Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.***

The proposed distributions under the Plan are discussed at pages 6 through 9 of this Disclosure Statement. General unsecured creditors are classified in Class 3 and shall receive distributions totaling 100% of their allowed claims over four years from confirmation of the Plan.

A. **Purpose of This Document**

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case,
- How the Plan proposes to treat claims or equity interests of the type you hold (*i.e.*, what you will receive on your claim or equity interest if the plan is confirmed),
- Who can vote on or object to the Plan,
- What factors the Bankruptcy Court (the “Court”) will consider when deciding whether to confirm the Plan,
- Why the Debtor believes the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation, and
- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

B. **Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. *Time and Place of the Hearing to Finally Approve This Disclosure Statement and] Confirm the Plan*

The hearing at which the Court will determine whether to finally approve this Disclosure Statement and confirm the Plan will take place on January 18, 2017, at 9:30 am, in the Historical

Courtroom at the U. S. Bankruptcy Court, 605 West Fourth Avenue, Anchorage AK 99501.

2. *Deadline For Voting to Accept or Reject the Plan*

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot in the enclosed envelope to the Debtor's attorney, David H. Bundy, 310 K. Street, Suite 200, Anchorage AK 99501. See section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by [insert date] or it will not be counted.

. *Deadline For Objecting to the [Adequacy of Disclosure and] Confirmation of the Plan*

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court and served upon the Debtor's attorney and the Office of the United States Trustee at 700 Stewart Street, Suite 5103, c/o Kathryn Perkins, Seattle, WA 98101 by [insert date] in the case of an objection to the Disclosure Statement and [insert date] in the case of an objection to the Plan.

4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact the Debtor's attorney, David H. Bundy, 310 K. Street, Suite 200, Anchorage AK 99501. Telephone (907) 248-8431; email dhb@alaska.net

C. **Disclaimer**

The Court has conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted. The Court's approval of this Disclosure Statement is subject to final approval at the hearing on confirmation of the Plan. Objections to the adequacy of this Disclosure Statement may be filed until _____

II. **BACKGROUND**

A. **Description and History of the Debtor's Business**

The Debtor is a limited liability company formed under Alaska law in 2007. The LLC owns the assets used by its owner in his practice of dentistry in Kenai, Alaska. It also owns the office building where the practice is located and the home where the owner and his family live. When this bankruptcy case was filed, the Debtor also owned a rental triplex and a rental duplex in Kenai, Alaska. The triplex has been returned to the mortgage holder by deed in lieu of foreclosure and the Debtor has agreed that the mortgage holder on the duplex may foreclose on that property non-judicially.

B. Insiders of the Debtor

Debtor's sole owner is James W. Halliday, Jr., a dentist licensed to practice in Alaska. He has been a full-time dentist in Kenai, Alaska since 2007. He first worked at Kenai Dental Clinic with the intent of becoming an owner, and he paid installments of the purchase price through 2009. However the clinic failed due to the conviction of the majority owner on tax evasion charges and Dr. Halliday lost his entire investment in the clinic. He began his current practice as Cook Inlet Dental in 2010. Dr. Halliday is also an officer in the U. S. Army National Guard. He is required to serve part-time throughout the year and is deployed for a two-week full time duty at least once annually. Dr. Halliday does not receive a salary from the Debtor; his personal and household expenses are covered by his military compensation.

C. Management of the Debtor Before and During the Bankruptcy

Since the Debtor was formed, Dr. Halliday has been the sole manager of the LLC, and he has continued in that capacity since the bankruptcy case was filed in April, 2016. Dr. Halliday's wife Tonya is the office manager. She is not compensated by the LLC. Although Dr. Halliday does not take a salary from the LLC, the LLC owns the Hallidays' residence and pays the debt service payments on that property.

The management of the Debtor will remain the same after confirmation of the Plan.

D. Events Leading to Chapter 11 Filing

The majority of the Debtor's patients are dependent for medical services on the Medicaid system for lower-income persons, so the Debtor receives payment from the State of Alaska (which administers Medicaid). In recent years Medicaid payments have been held up for long periods of time due to administrative difficulties and this made it very difficult to manage the Debtor's cash flow. Additional problems were due to problems in collecting accounts receivable from patients required to pay out of pocket.

The Debtor also invested in a rental duplex and a triplex in Kenai, but these proved difficult to rent and the income did not cover the required debt service, tax and maintenance costs.

The Debtor fell behind on required debt service for its office building loan and the creditor started non-judicial foreclosure; the defaults on this loan were cured twice but on the third default the creditor refused to accept a cure, so the only way to retain the building was to file this chapter 11 case.

Loss of the building would have forced the practice to relocate, an expensive and time-consuming process during which it would have been impossible to continue practice.

E. Significant Events During the Bankruptcy Case

- There have been no asset sales outside the ordinary course of business; there has been no debtor in possession financing and cash collateral orders have not

been needed.

- Debtor’s bankruptcy counsel, David H. Bundy, P. C. has been employed with court approval.
- There have been no adversary proceedings or other non-bankruptcy litigation.
- The triplex and duplex rentals have been surrendered to the deed of trust beneficiaries so the Debtor will no longer have the expenses for those properties. The Debtor does not expect that the surrender of these properties will result in any increase in unsecured debt.
- The Debtor’s bookkeeping and budgeting process has been improved.
- At the time of filing the bankruptcy case the Hallidays were delinquent in filing federal income tax returns for the years 2006 to date. The Debtor as a single member LLC reports its income and expenses on the Hallidays’ individual returns. The returns had not been filed because in the years 2007 – 2010 the Debtor had practiced jointly with another dentist who did not provide adequate records to the Debtor and was later prosecuted for tax offenses. All the delinquent returns were completed and filed in September, 2016. A second set was sent by certified mail with a receipt signed by the IRS office in Fresno California on October 22, 2016. The returns show the following income information, and resulting tax liabilities:

Year	Adjusted Gross Income	Taxable Income	Tax Liability	Balance Due (Overpayment)
2006	67,359	37,259	1,636	(330)
2007	98,582	70,882	7,566	7,482
2008	127,380	98,980	15,331	14,707
2009	(7,457)	0	0	(551)
2010	(55,713)	0	0	(722)
2011	132,670	102,569	16,042	15,258
2012	33,677	2,777	0	(981)
2013	89,212	57,512	4,736	(1,623)
2014	118,700	86,550	10,356	7,419
2015	62,963	30,363	1,634	(2,971)
Total				37,688

These returns have not been audited by the IRS; if there is an audit the balances due may change. Also, the Hallidays will owe interest on the unpaid balances and it is possible penalties may be assessed for late filing of the returns. The tax debts are not owed by the Debtor, which is a separate legal entity; however the revenue received by the Debtor from the dental practice may be used to pay the Hallidays taxes in installments.

F. Projected Recovery of Avoidable Transfers

The Debtor does not intend to pursue preference, fraudulent conveyance, or other

avoidance actions.

G. Claims Objections

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

H. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in Exhibit B. Real estate is valued at the tax assessed value used by the Kenai Peninsula Borough; personal property (primarily office equipment) is valued at the Debtor's best estimate. Accounts receivable are listed at face value if due from the Medicaid system; other accounts are discounted for age and likely non-collectability.

The payments to creditors in this Chapter 11 case will be made from the income of the dental practice after expenses. The practice income and operating expenses are reported on Schedule C of the form 1040 return. The following data are taken from Schedule C of the Hallidays' income tax returns for 2013 – 2015:

Year	Revenue	Interest	Other Expenses	Net	Net profit plus interest
2013	275,188	32,255	99,954	142,978	175,233
2014	287,253	26,475	99,032	161,476	187,951
2015	245,701	26,892	114,727	104,383	131,275

A summary of the Debtor's periodic operating reports filed since the commencement of the Debtor's bankruptcy case is set forth in Exhibit D.

III. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Plan of Reorganization?

As required by the Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

Exhibit B is a summary of all claims against the bankruptcy estate.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required

by the Code. As such, the Plan Proponent has *not* placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses are costs or expenses of administering the Debtor’s chapter 11 case which are allowed under § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtor’s estimated administrative expenses, and their proposed treatment under the Plan:

Type	Estimated Amount Owed	Proposed Treatment
Expenses Arising in the Ordinary Course of Business After the Petition Date	\$12,000	Paid in full on the effective date of the Plan, or according to terms of obligation if later (this is approximately one month’s operating expenses)
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	\$0	Paid in full on the effective date of the Plan, or according to terms of obligation if later
Professional Fees, as approved by the Court.	\$25,000	Paid from funds in trust on approval of fee application; balance paid in quarterly installments of \$2,500
Clerk’s Office Fees	\$0	Paid in full on the effective date of the Plan
Other administrative expenses	\$0	Paid in full on the effective date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	\$975	Paid in full on the effective date of the Plan
TOTAL	\$33,475	

2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a)(8) of the Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

Alaska Department of Labor

Debtor owes about \$2,500 in unemployment taxes to the State of Alaska. This will be paid in five quarterly installments of \$500 each commencing July 1, 2018.

Kenai Peninsula Borough

Debtor may owe about \$2,500 in sales taxes to the Kenai Peninsula Borough. This will be paid in five quarterly installments of \$500 each commencing July 1, 2018.

Internal Revenue Service

The Hallidays have an estimated income tax liability of \$60,000 including interest, but the Debtor is not liable for this payment. The Debtor is liable for payroll taxes which are estimated at less than \$10,000. These will be paid in quarterly installments of \$1,000 each starting July 1, 2018 with the entire balance paid by December 31 2021.

C. Classes of Claims and Equity Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

1. *Classes of Secured Claims*

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under § 506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim, unless a deficiency claim is prohibited by Alaska law.

Property Retained by the Debtor. The two secured prepetition claims on the property retained by the Debtor will receive the following treatment under the Plan:

Class 3: Integrated Account Management, Inc. ("IAMI") holds a deed of trust on the Debtor's office building at 908 Highland Avenue, Kenai, Alaska. The balance on the bankruptcy filing date was \$357,113.59. On the effective date the balance will be approximately \$364,000. The promissory note bears interest at the annual rate of 8.0% and requires monthly payments of \$4,319.55 plus reserves of \$319 to cover real estate taxes. The note requires a balloon payment of the balance on December 1, 2023.

IAMI shall retain its lien on its collateral, Tract B-4, NISSEN SUBDIVISION, MALSTON-BRAUN ADDITION 1983, according to the official plat thereof, filed under Plat No. 83-99, Records of the Kenai Recording District, Third Judicial District, State of Alaska. The collateral is commonly known as 908 Highland Ave., Kenai, Alaska (the Highland Office Building).

A. Monthly installment payments at the Deed of Trust Note rate of \$4,319.55 plus a monthly reserve amount sufficient to cover real estate taxes. The current monthly reserve amount for taxes is \$319 and will be adjusted at least annually depending on the amount of taxes assessed on the property by the Kenai Peninsula Borough.

B. Additional monthly installment payments on pre-petition arrears and post-petition attorney costs and fees of IAMI totaling \$48,427.50 will be made on the first of each month in the amount of \$1,786.00 for a period of 30 months. The payments will be applied first to costs and fees, then to interest, and last to principal.

The two payments outlined above will be made by the Debtor on the first day of each month in the required amount and the interest rate of eight (8) percent per annum will not be changed. The balance of all sums due under the Deed of Trust Note, including any additional and ongoing post-confirmation costs and attorney fees incurred will be made on or before the maturity date of December 1, 2023.

Upon entry of an order confirming the plan, the Debtor shall sign a deed in lieu and estoppel affidavit to be held in trust by Professional Escrow Services, Inc. Should default be made by the Debtor in payment of any installments described herein under Paragraphs A or B other than the final payment under the Deed of Trust Note due on December 1, 2023, or should default be made on or any other obligation of the Debtor as described in the Deed of Trust on the Highland Office Building, including but not limited to the obligation to maintain insurance on the property and to keep the property free and clear from encumbrances, and said default shall continue for a period of thirty (30) days, then IAMI may, at its sole discretion either 1) record the deed in lieu of foreclosure and estoppel affidavit signed by the Debtor and held in trust, in which case the Debtor shall have forty five (45) days from the date of the recording of the deed in lieu to vacate the Office Building, or 2) commence non-judicial foreclosure on its deed of trust pursuant to A.S. 34.20.070. Notice of default will be provided by IAMI to the debtor in writing at least 10 days before the thirtieth day of default. If default is made on the final payment under the Deed of Trust Note, due on December 1, 2023, then IAMI may proceed with foreclosure under A.S. 34.20.070 only. No order of relief or any other order of the Court shall be necessary before enforcement of default provisions as set out herein. There have been three prior recorded notices of default and sale on the Highland Office Building by IAMI and the Debtor's right to cure is governed by A.S. 34.20.070 and A.S. 34.20.070 is not modified by the bankruptcy petition filing.

This claim is impaired.

The balloon payment due in 2023, approximately \$70,000, will be made through a sale of the property or a refinancing of the debt.

Class 4: Kaplan Investments holds a deed of trust on the residence at 50286 Middleton Drive, Kenai, Alaska. The balance on the bankruptcy filing date was \$341,197. On the effective date the balance will be approximately \$340,000. The promissory note bears interest at the annual rate of 10.5% and requires monthly payments of \$2,822.72 plus reserves of \$566 to cover real estate taxes.

The Plan provides that the payments on this note will be made on the first day of each month in the amount of \$2,822.72 plus required reserves for taxes, and the interest rate will be reduced to 8%. All amounts which were delinquent on the bankruptcy filing date will be added to the principal balance. Payments will be made in the required amount until the balance is paid in full.

This claim is impaired.

Property to be Surrendered.

Class 5: The claim secured by the duplex at 53641 Izigan Avenue, Kenai Alaska shall be satisfied by allowing the deed of trust beneficiary to foreclose non-judicially. This claim is not impaired. According to the Debtor's schedules, the value of this property is about \$54,000 less than the secured debt. However Alaska law does not permit a deficiency claim following a non-judicial foreclosure. The Debtor does not expect an unsecured deficiency claim to be asserted as a result of this foreclosure.

The triplex at 50283 Middleton Drive, Kenai was returned to the mortgage holder by deed in lieu of foreclosure following a court order granting the creditor permission to foreclose on the property. The Debtor will not recover any value from this transfer.

2. Classes of Priority Unsecured Claims

Certain priority claims that are referred to in §§ 507(a)(1), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a claim receive cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment.

There are no priority unsecured claims.

3. Classes of General Unsecured Claims

General Unsecured Claims. General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code.

Class 1: Unsecured creditors will be paid 100% of their claims. A payment of 5% of the balance owed will be made on the first day of July, 2017 and on the first day of each succeeding calendar quarter until the balance has been paid in full, without interest. These claims are impaired.

Class 2: Alaska Department of Health and Social Services. The unsecured claim of the Alaska Department of Health and Social Services is being paid in accordance with a pre-petition agreement by offset of \$500 from each weekly payment the Debtor receives for patient treatment. This claim will be paid according to this formula until paid in full, which will take approximately 15 months. This claim is not impaired.

4. Class of Equity Interest Holders

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company ("LLC"), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

The Debtor's only equity holder is James W. Halliday, Jr. He will retain this interest and his claim is not impaired. Dr. Halliday must continue to own and operate the Debtor as his dental practice is the only source of the Debtor's income and the only method, other than liquidation of the Debtor's assets, from which creditors can be paid. He does not take a salary from the Debtor for his services so that there will be sufficient income after operating costs to pay the claims in this bankruptcy case. This uncompensated work justifies his continued ownership of the Debtor. Therefore his continued ownership is appropriate even if an impaired class of creditors does not accept the Plan.

D. Means of Implementing the Plan

1. *Source of Payments*

Payments and distributions under the Plan will be funded by ongoing revenue of the Debtor from the dental practice.

2. *Post-confirmation Management*

James W. Halliday, Jr. will continue as manager of the Debtor, without compensation.

E. Risk Factors

The proposed Plan has the following risks:

The continued ability of James Halliday to practice dentistry. He is currently in good health and has no plans to cease practicing.

The possibility that the Medicaid system will be modified to reduce the current payment levels for dental services, or otherwise changed to the Debtor's disadvantage. Debtor has no information that any changes are in prospect.

Loss of population in the Kenai Alaska area. This is a possibility as employment is influenced by activity in the energy sector, which has recently been in decline.

Increased competition. This is also a possibility but Debtor has no information that more practitioners are likely to open offices in the Kenai/Soldotna area.

Longer mobilization. In the event of military necessity it is possible that Dr. Halliday could be required to serve on active duty for a longer than usual period. Debtor has no information which suggests that this is likely to occur.

F. Executory Contracts and Unexpired Leases

The Plan lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. Assumption means that the Debtor has elected to continue to perform the

obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any. The Plan also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults.

If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Court has set an earlier time.

All executory contracts and unexpired leases that are not listed in the Plan as being assumed will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

G. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.

The following are the anticipated tax consequences of the Plan: (1) The Debtor does not anticipate that the Plan will have tax consequences to the Debtor or the Hallidays; (2) Payments to unsecured creditors may be taxable income if the payment is on an account receivable or if the payment is in reimbursement for a debt which has previously been deducted as a bad debt for tax purposes.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that classes 1, 3 and 4 are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that classes 2 and 5 are unimpaired and that the holders of the claim in these classes, therefore, does not have the right to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on its schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline for filing a proof of claim in this case was August 17, 2016.

The deadline for filing a claim occurred at a time this case was temporarily dismissed by the Court. The Court subsequently vacated this dismissal. However in case any creditor did not file a claim as a result of the dismissal, the Debtor has agreed to extend the time for filing proofs of claim in this case to [insert date] or one week prior to the hearing on confirmation of the Plan. A creditor who disputes the amount for which the Debtor schedule the creditor's claim may wish to file a proof of claim; otherwise the claim will be paid the scheduled amount.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

3. *Who is **Not** Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;
- holders of other claims or equity interests that are not “allowed claims” or “allowed equity interests” (as discussed above), unless they have been “allowed” for voting purposes.
- holders of claims or equity interests in unimpaired classes;

- holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- administrative expenses.

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan and to the Adequacy of the Disclosure Statement.

4. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by “cram down” non-accepting classes, as discussed later in Section B.2.

1. *Votes Necessary for a Class to Accept the Plan*

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. *Treatment of Nonaccepting Classes*

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a “cram down” plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Code, does not discriminate unfairly, and is “fair and equitable” toward each impaired class that has not voted to accept the Plan.

You should consult your own attorney if a “cramdown” confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. A liquidation analysis is attached to this Disclosure Statement as Exhibit E.

D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

1. *Ability to Initially Fund Plan*

The Debtor believes that it will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date. Debtor expects to have not less than \$25,000 on hand on the effective date, which will be sufficient to pay the expenses that need to be paid at that time

2. *Ability to Make Future Plan Payments And Operate Without Further Reorganization*

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments.

The Plan Proponent has provided projected financial information. Those projections are listed in Exhibit F.

The Plan Proponent's financial projections show that the Debtor will have an aggregate annual average cash flow, after paying operating expenses and post-confirmation taxes, of \$150,000 from which creditor payments can be made. The final Plan payment is expected to be paid on by the fifth anniversary of the effective date.

You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections.

V. EFFECT OF CONFIRMATION OF PLAN

A. DISCHARGE OF DEBTOR

Discharge. On the effective date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the effective date, to the extent specified in § 1141(d)(1)(A) of the Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in § 1141(d)(6)(B). After the effective date of the Plan your claims against the

Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

B. Modification of Plan

The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or revoting on the Plan.

The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Court authorizes the proposed modifications after notice and a hearing.

C. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Plan Proponent, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

November 14, 2016

/s/ James W. Halliday, Jr.
James W. Halliday, Jr.

/s/ David H. Bundy
David H. Bundy

EXHIBITS

- A. Proposed Plan of Reorganization**
- B. Summary of Claims**
- C. Summary of Assets**
- D. Summary of Post-petition Operations**
- E. Liquidation Analysis**
- F. Projections**