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UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ALASKA

In Re:	)	
	)	
HOOK LINE & SINKER, INC.,	)	Case No. A-17-00415
	)	Chapter 11
	)	
Debtor.	)	
	)	

DEBTOR'S SECOND AMENDED DISCLOSURE STATEMENT
DATED NOVEMBER 5, 2018

Table of Contents

I. INTRODUCTION.

This is the Second Amended Disclosure Statement (the "Disclosure Statement") in the chapter 11 case of Hook Line& Sinker, Inc. ("HLS" or the "Debtor"). This Disclosure Statement contains information about the Debtor and describes the Second Amended Plan of Reorganization (the "Plan") filed by the Debtor on November _____, 2018. In the case of any inconsistency between this Disclosure Statement and the Plan, the language of the Plan shall control.

A full copy of the Plan is attached to this Disclosure Statement as Exhibit 1.

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 11 to 20 of this Disclosure Statement. General unsecured creditors (non-insider claims over $10,000) are classified in Class 1, and, if the Debtor's projections prove accurate will receive a distribution estimated at 100% of their allowed claims over the term of the Plan. Claims of $10,000 or less will receive one payment of 75% of their claims but may elect to be treated in Class 1 instead.

A. Purpose of This Document

This Disclosure Statement describes:

- The history of 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 under the Plan compares to what you would receive on your claim 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.*

The hearing at which the Court will determine whether to approve this Disclosure Statement will take place on _____ at _____ a.m. at the U. S. Bankruptcy Court, 605 West Fourth Avenue, Anchorage, AK 99501. If you cannot attend the hearing in person, you may call the U. S. Bankruptcy Court in-Court Deputy Clerk at (907) 271-2640, at least three (3) days in advance of the hearing to request telephonic attendance

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

If you are entitled to vote to accept or reject the plan, then along with this Disclosure Statement then you have received a ballot to vote to approve or reject the Plan. Assuming the Disclosure Statement is approved at the hearing on _____, the Court will then hold a hearing on confirmation (approval) of the Plan of Reorganization. You should return the ballot to the Debtor's attorney David H Bundy PC, 310 K Street, Suite 200, Anchorage AK 99501 not later than _____. See section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by the deadline _____or it will not be counted.

3. *Deadline for Objecting to the Adequacy of Disclosure Statement and to Confirmation of the Plan*

Objections to this Disclosure Statement and to confirmation of the Plan must be filed with the Court and served upon the Debtor's attorney

David H Bundy PC 310 K Street Suite 200 Anchorage AK 99501	and	The Office of the United States Trustee 700 Stewart Street Suite 5103 Seattle, WA 98101-1271

and the attorney for the Unsecured Creditors' Committee

Michelle L. Boutin
Landye, Bennett Blumstein LLP
701 West Eighth Avenue Suite 1200
Anchorage AK 99501

by _____, 2018

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

If you want additional information about the Plan, you should contact the Debtor's attorney.

C. **Disclaimer**

The Court has not approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. After the Disclosure Statement has been approved, the fact that the Court has approved the Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted.

II. BACKGROUND

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

Humpy's History

The Debtor owns and operates Humpy's Great Alaskan Alehouse, a bar and restaurant at 610 West Sixth Avenue in Anchorage, Alaska. Humpy's opened in June 1994. The theme was a 'little bar and grill' that focused on craft beer – a new concept in Alaska at the time. Downtown had very little nightlife at the time. The original owners were William Opinsky (20%) Gordon Thompson (40%) and Diane Thompson (40%).

In 2001 ownership changed to William Opinsky (40%), James Maurer (34%) and Michael Malouf (26%).

The report filed January 30, 2012 shows Opinsky and Maurer with 34% each, and Dylan Buchholdt, Robert Jurasek and James Pentlarge with 10.67% each. In 2016 Pentlarge's ownership was divided between Buchholdt and Jurasek, so that the current ownership is Opinsky and Maurer, 34% each, Buchholdt and Jurasek, 16% each.

Maurer and Opinsky remodeled the location and set up the bar and restaurant, hired the staff and were the on-site operators and management. Their guiding philosophy was "for beer lovers, by beer lovers," and the restaurant's atmosphere, Alaska-based menu, events, local music

and craft beer selection made the 7000-square-foot bar and restaurant with a patio successful. Humpy's catered to city workers by day and beer-loving Alaskans by night.

Its first year, Humpy's did $1.9 million in sales. "Open just over a month … the bar and restaurant is more popular than its owners had imagined," food critic Kim Severson wrote in the Anchorage Daily News in 1994. "Even though the place seats 166, the crowds are as thick as the foam on a good stout. Lines wrap around the building on Friday and Saturday nights, and it can take up to a half hour to get in."

Humpy's was featured in television programs such as "Man vs Food" and the ABC series "Lost." The company won many awards and accolades for its customer service and spirit.

Over two decades the company grew from 50 employees to more than 100, gross revenues increased from $1.9 million in 1994 to more than $10 million in 2015.

In 2009, the owners decided to start a similar operation on the Big Island of Hawaii, Big Island Alehouse, LLC ("BIA"). In 2012 the Hawaii operation was expanded with the formation of Kohola, LLC, which operates as Laverne's. The ownership of both entities was Maurer and Opinsky, 33.33% each and Buchholdt and Jurasek 16.67% each. The Maurers moved to Hawaii to launch the new restaurants there. Opinsky traveled back and forth between the two states.

Hawaii is known as one of the most difficult places in the country to operate a restaurant; partly because of remote geography and cultural challenges. Establishing BIA and making it successful took several years. BIA's and Kohola's combined revenue in 2017 was $5,681,302 with profits of $362,295.

The owners in Alaska started Williwaw in 2014. Williwaw is a bar and restaurant across F Street from Humpy's, owned by a separate entity, Fish or Cut Bait, LLC ("FOCB"). The original ownership in FOCB was Buchholdt and Jurasek, 30% each, Maurer and Opinsky, 20% each.

An additional entity, Gorbuscha, LLC, was formed in 2007. It owns the 6th Avenue portion of the Humpy's building in Anchorage and leases that property to the Debtor. Gorbuscha's current owners are Opinsky and Maurer, 34% each, Buchholdt and Jurasek, 16% each, the same as the Debtor and the Hawaii companies.

The Debtor currently owns and operates two additional bars at the Humpy's location: Bootlegger's 8 Star Saloon and Flattop Pizza. All three operations share the same kitchen and personnel, as needed. The Bootlegger's operation was started more than ten years ago. Flattop took the place of Humpy's old gift shop, remodeled in about 2012. Both were funded out of regular operating income. The Flattop and Bootleggers bars are located on the ground floor of an adjacent and contiguous structure owned by an unrelated entity, Pioneers of Alaska, Igloo 15. The two bars have entrances on F Street, around the corner from the Humpy's entrance, but all three operations are accessible from each other without leaving the buildings and the three operations share a common kitchen.

James Pentlarge acquired a 10.67% interest in HLS in 2012; he acquired 11.12% of BIA in 2010, 11.12% of Kohola in 2013, and 10.66% of Gorbuscha in 2012. In 2015 Pentlarge acquired 10% of Williwaw (FOCB) from each of Buchholdt and Jurasek. In 2016 he sold his interests in all five entities to Buchholdt and Jurasek for $600,000, of which $100,000 was allocated to his Williwaw ownership. Williwaw's tenant improvements and operations were financed from a number of sources. Salamatof Native Association, Inc., FOCB's landlord, loaned $1.9 million; Carl Brady and Collin Szymanski loaned $400,000 each. HLS co-signed or guaranteed each of these loans even though it received very little of the loan proceeds. The records show that HLS received $125,000 of the Brady loan, and about $207,000 of the Salamatof loans, but retained the Salamatof funds for about two months before turning those funds over to FOCB. The four individual shareholders also personally guaranteed the Salamatof, Brady and Szymanski loans. These guarantees tied the fortunes of the disparate entities together and exposed the Debtor to FOCB's start-up expenses and operating losses. FOCB has not been profitable since it opened. It lost $648,000 in the fifteen months ending March, 2018. Because of the cross-guarantees, HLS management allowed FOCB to borrow a net amount of $1.45 million from HLS between November 2015 and February 2018, while HLS in turn borrowed a net $645,711 from BIA.

As outlined above, since the formation of the Debtor and its affiliate entities, the shareholder, officer and director composition of the companies have been rearranged among the four present owners several times. A table showing these changes and the current shareholders and officers is attached as Exhibit 2.

B. Events Leading to Chapter 11 and Business Changes Since Filing

James and Sandoz Maurer returned to Alaska in 2015. HLS was under considerable strain, partly due to increased competition in Downtown Anchorage, and also because of the funds loaned to FOCB. Payables increased and payroll tax deposits were not made in the 2nd quarter of 2017. An involuntary bankruptcy petition was filed against HLS in December, 2017. The three petitioning creditors were Carl Brady, Jr., Collin Szymanski and Arctic Refrigeration and AC Inc. After unsuccessful attempts at an out-of-court workout, HLS consented to the bankruptcy case and an order for relief was entered February 23, 2018.

Since filing the case HLS has implemented improved inventory and cost controls. Food costs are now at 37% of sales, as compared to 38% in 2017 and are projected to be down to 34% by the end of 2018. Beverage costs have come down from 29% of sales to 25%. Labor costs are now at 32% of sales, down from 42% in 2017. HLS is no longer providing any financial assistance to FOCB or borrowing from the Hawaii entities; all earnings will be used for operations, bankruptcy expenses and creditor repayments. The company now is projecting an operating profit of about $550,000 for 2018, some of which will be used to repay creditors, although the significant costs of operating in Chapter 11 will mean that repayments cannot begin in earnest until 2019, after the reorganization plan has been confirmed and implemented.

James Maurer, now directing operations, says: "We have learned a very hard lesson, and Billy [Opinsky] and I are determined to correct course and get Humpy's back to its core business. Humpy's has never had a problem making money; it still does not. For the last few

years, it's had a spending problem. We are changing that and will emerge a stronger company for this tough experience. We will get our creditors paid back, and this plan outlines how we will do that."

Claims Overview:

HLS does not have any secured debt other than a lien for the unpaid payroll taxes.

Unsecured Claims are estimated at $4,516,597, in several categories.

Priority tax claims of $217,600, plus penalties of $38,772 which are treated as general unsecured claims

Unsecured debt owed to suppliers: $378,716, of which $101,185 was incurred during the so-called "gap" period between the filing of the involuntary petition in December, 2017 and the order for relief February 23, 2018 and $18,328 was incurred within 20 days of the December 5, 2017 petition date. "Gap" claims are afforded a second priority payment status, behind administrative claims. Supplier claims incurred within 20 days of the petition date are treated as administrative claims.

Loans from non-insiders: $354,509

$800,000 owed to Carl Brady Jr. and Collin Szymanski being paid pursuant to a settlement of adversary proceeding 18-90017.

$1,900,000 owed to Salamatof Native Association.

Loans from and other debts owed to shareholders and affiliates, referred to in bankruptcy parlance as "insiders" $827,000. The largest debt in this category is $645,711.47 owed to Big Island Alehouse. That claim along with $50,000 owed to Kohola, LLC, has been assigned to Carl Brady, Jr. and Collin Szymanski in a settlement between those creditors and the shareholders of BIA on account of their personal guarantees of the loans made by Messrs. Brady and Szymanski to FOCB. The claims of Dylan Buchholdt and Gorbuscha, LLC, will not be paid

Status of Adversary Proceedings. At the outset of this case there was an estimated total of $2,900,000 in debts owed on guarantees of loans to FOCB. Salamatof Native Association filed a proof of claim for $1.9 million, and the Debtor filed adversary proceeding 18-90005 to determine whether this claim should be disallowed. Carl Brady Jr. and Collin Szymanski filed proofs of claim for $400,000 each and the Debtor filed adversary proceeding 18-90017 to determine whether these claims should be allowed. The Debtor sought a ruling that all of debts or most of them should be avoided as fraudulent transfers.

Settlement conferences on both cases were held August 28-29, 2018. As a result, the Brady/Szymanski claims were resolved by an agreement to allow them unsecured claims in

Class 1 of $55,000 each. The balances will be treated as subordinated claims and paid after Class 1 claims are paid. Some payments on the Brady/Szymanski subordinated claims will be made by BIA outside the plan in accordance with a separate agreement.

The adversary proceeding against Salamatof has also been settled. The Plan provides for payment of the Salamatof claim and if the Plan is confirmed the adversary proceeding against Salamatof will be dismissed. Salamatof will be allowed an unsecured claim in Class 1 of $110,000. The balance will be treated as a subordinated claim and paid after Class 1 claims are paid. See pages 16 – 19, below for the details of payment and other agreements relating to this claim.

A schedule of filed and scheduled claims and their proposed treatment is Exhibit 3 to this disclosure statement. The amounts listed on Exhibit 3 are estimates and not a determination of whether a claim will be allowed in the amount stated or whether an objection may be filed to the claim. Unless clearly stated in the Plan, confirmation of the Plan will not finally allow or disallow any claim.

C. Significant Events During the Bankruptcy Case

1. Bankruptcy Proceedings

- **Asset Sales.** There have been no asset sales.

- **Appointment of Professionals.**

  The Debtor has employed a number of professionals with the approval of the Bankruptcy Court:

  David H. Bundy, P.C. as its bankruptcy counsel;

  Nigel Guest, CPA as accountants to prepare income tax returns and assist with financial reporting and analysis, as well as preparing some of the exhibits to this statement;

  The United States Trustee has appointed an Unsecured Creditors' Committee to advance the interests of the unsecured creditors, generally. The committee members appointed were Teya Technologies, LLC, Southern Glazers Wine & Spirits of Alaska, and Carl Brady, Jr. Subsequently, Mr. Brady resigned from the committee.

  The Committee has retained Michelle Boutin of the Anchorage law firm Landye Bennet Blumstein LLP as its attorney and Russ Minkemann as its accountant.

D. **Projected Recovery of Avoidable Transfers**.

As mentioned above, HLS filed adversary proceedings (civil actions in Bankruptcy Court) against Salamatof Native Association (case 18-90005), and Carl Brady, Jr. and Collin Szymanski (case 18-90017), asking the Court to avoid (cancel) HLS' obligations to these creditors. HLS signed as guarantor or co-debtor in favor of those creditors on their loans which were made for the benefit of FOCB. The theory is that HLS received no benefit or equivalent value for these obligations, which should therefore be avoided as fraudulent transfers pursuant to Sections 544 and 548 of the Bankruptcy Code, 11 U.S.C. §§ 544 and 548. As described above, the Brady/Szymanski adversary proceeding has been settled contingent on confirmation of the plan which incorporates the settlement terms. This adversary cases will be dismissed when the plan is effective. The Salamatof claim will be paid as described at pages 16 -17 below.

There is also a $245,000 obligation to the Frank Dahl Revocable Trust which was incurred to purchase a liquor license for Williwaw (Fish or Cut Bait, LLC). The Debtor received no value for this obligation and scheduled it as contingent claim. No proof of claim was filed for this claim so it will not be allowed.

The loan from Patrick Flynn ($75,000) was made for the benefit of Williwaw and was also scheduled as contingent. No proof of claim was filed so it will not be allowed.

There were about $170,000 in loan repayments in the period between September 5 and December 5, 2017 which could be avoided as preferential transfers. Avoiding a preference and recovering the cash would make more money available for creditor payments but would also add additional creditors as well as the expense of avoidance proceedings, so it is not clear that avoiding preferences is worthwhile at this point, especially as the Debtor is now projecting a 100% payment to large unsecured claims over time. The Debtor will continue examining this issue.

E. **Claims Objections**

A list of all filed and scheduled claims is attached as Exhibit 3. 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 listed on Exhibit 3 and 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.

F. **Current and Historical Financial Conditions**

The Debtor's financial statements for 2015 – 2017 show the following:

	Receipts	Cost of Goods Sold	Expenses	Other Income	Other Expenses	Net Income
2015	8,752,064	2,694,839	5,879,096	86, 458	206,264	58,323
2016	7,677,717	2,382,894	5,423,515	86,674	155,126	(197,144)

2017	6,949,762	2,282,092	4,696,019	75,500	206,645	(160,094)

The Debtor's unaudited statements for 2015 – 2017 are attached as Exhibits 4 – 6.

An unaudited statement for January 1 – September 30, 2018 is Exhibit 7, showing:

Receipts	COGS	Expenses	Other Income	Other Expenses	Net Income
5,288,815	1,576,328	3,070,878	50,816	52,554	639,871

Since the order for relief in this bankruptcy case the monthly reports filed by the Debtor show the following:

Month	Revenues	Expenses	Net
March 2018	435,857	401,823	34,034
April 2018	406,163	495,574	10,589
May 2018	546,200	538,095	8,104
June 2018	872,113	637,195	235,918
July 2018	908,454	688,546	219,908
August 2018	876,804	638,835	237,269
September 2018	579,511	558,928	20,583

(July expenses included $50,531.50 in bankruptcy-specific expenses.)

The Debtor does not own any real estate. The restaurant and bar premises are leased from two separate landlords: Gorbuscha, LLC and Pioneers of Alaska, Igloo 15. Gorbuscha, owner of the building that fronts on 6th Avenue, leases 4,827 square feet to the Debtor on a month-to-month lease for $11,000 per month. When the plan of reorganization becomes effective a new lease for ten years, plus four five-year renewal optional terms, will go into effect with Gorbuscha, LLC. The material terms of that lease are attached as Exhibit 8.

The contiguous Flattop Pizza and Bootleggers bars (5,725 square feet) on F Street are leased from the Pioneers for a remaining term ending December 31, 2019 with an option to extend for three years. The rent is $11,900 per month increasing $200 per month each year. The Debtor filed a motion to assume and continue that lease which the Court granted on August 24, 2018. The kitchen which serves these to bars as well as the principal Humpy's location is partly in this space and partly in the area leased from Gorbuscha LLC

The Debtor has an agreement with Host International to franchise the Humpy's name and format so Host can operate a Humpy's bar at the Anchorage Airport. The Debtor is paid a fee equal to 3% of gross sales at the franchised location. The Debtor received $69,609 from this source in 2016 and $58,067 in 2017. Franchise revenue in 2018 should be about $70,000. The franchise agreement runs through February 2023 with options to renew for two additional five year terms.

On December 1, 2011, the Debtor leased 2,600 inside and outdoor square feet of off-premises warehouse space from Nick Jurasek at a monthly rental of $2,150. The lease was scheduled to run through December 2, 2021. The Debtor has not assumed this lease and has vacated the premised. The landlord is the brother of one of the Debtor's shareholders.

The Debtor has signed a new lease for warehouse space, and this lease was approved by the Bankruptcy Court on August 15, 2018. The landlord is M&D Investments; the lease is month to month at an initial rent of $1,000. The space is 2,500 square feet at 425 East Fifth Avenue in Anchorage.

The Debtor owns its kitchen and other restaurant equipment and furnishings, as well as inventory and supplies. A list of the equipment and its estimated value is attached as Exhibit 9.

Inventory is generally between $140,000 and $150,000 depending on operational needs.

The Debtor's projected balance sheet as of the Effective Date of the Plan (estimated to be as of January 1, 2019) is Exhibit 10.

III. SUMMARY OF THE PLAN OF REORGANIZATION

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.

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 Debtor 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 Debtor's estimated administrative expenses and their proposed treatment under the Plan:

Expenses incurred in the ordinary course of business. These are the current expenses of operation, including food and beverages, payroll and payroll taxes, rent, maintenance and repairs, and other overhead expenses. The total is between $450,000 and $650,000 per month with about $35,000 outstanding at the end of each month. These expenses will be paid when due.

Professional fees and costs owed to the Debtor's bankruptcy counsel and accountants and to the attorney and accountant retained to represent the Unsecured Creditors' Committee, estimated to total $120,000, will be paid on the effective date of the Plan or in accordance with separate agreements to be reached with each professional.

Fees to the United States Trustee, estimated at $18,770 will be paid on the Effective Date.

Administrative expenses also include claims under Bankruptcy Code § 503 (b)(9) for sales to the Debtor within 20 days of the bankruptcy petition date (November 15 – December 5, 2017). One proof of claim for $18,328.42 was filed in this category.

2. Unsecured "Gap" Claims

Unsecured claims incurred in the ordinary course of business between the bankruptcy petition date, December 5, 2017 and the date of the order for relief, February 23, 2018, total is approximately $101,000, as shown on Exhibit 3. Note that the same creditor may hold a priority "gap" claim as well as a general unsecured claim and a § 503 (b)(9) claim. All Allowed Gap Claims will be paid on the effective date of the Plan except to the extent that the holder of a specific gap claim agrees to a different treatment.

3. *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.

Payroll taxes owed to the IRS ($192,036). The IRS Priority Tax Claim shall be paid in forty-nine equal monthly installments beginning on the Effective Date (estimated January 2, 2019). The payments shall amortize the claim with interest at 5% per annum, by December 31, 2022. The claim shall include interest at 5% from the date of assessment, and any penalty for late payment shall be an allowed unsecured claim.

Payroll taxes owed to the State of Alaska ($24,693) shall be paid in forty-nine equal monthly installments beginning on the Effective Date (estimated January 2, 2019). The payments shall amortize the claim with interest at 5% per annum, by December 31, 2022. The claim shall

include interest at 5% from the date of assessment, and any penalty for late payment shall be an allowed unsecured claim.

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.

Class 6 – IRS tax lien Impaired

The IRS filed a federal tax lien to secure its claim for payroll and withholding taxes. The claim will be paid as a priority unsecured claim and IRS will retain the right to enforce its tax liens in the event of default in payment. See paragraph B 3, above. The Debtor believes that the liquidation value of the property subject to the tax lien is lower than the amount of the IRS claim.

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. The Debtor has not identified any claims to be classified under these provisions. As of this filing the Debtor has not identified any priority wage claims as the Court authorized payment of priority wages at the outset of the case. If any priority wage claims are identified, they will be paid in full on the Effective Date with interest at 6% from February 23, 2018. This class is not impaired.

3. *Classes of 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.

This is the Plan's proposed treatment of Class 1 (which contains general unsecured claims against the Debtor), Class 2 (unsecured claims of $10,000 or less), Class 3 (Insider Claims), Class 4 (subordinated claims of Carl Brady, Jr. and Collin Szymanski) and Class 5 (subordinated claim of Salamatof Native Association, Inc.):

Class 1 General Unsecured Claims
Impaired

Class 1 unsecured claims may elect Option (a) or Option (b). Creditors in Class 1 who make no election will be treated under Option (b).

Creditors electing Option (a) will be treated as though they had claims in Class 2, and will receive a single lump sum payment of 75% of the allowed claim, or $7,500, whichever is less, which shall be paid within 30 days of the Effective Date of the Plan.

Creditors electing Option (b) will receive semi-annual payments, commencing on June 30, 2019 and continuing on December 31, 2019 and on June 30 and December 31 of each succeeding calendar year, the Debtor shall pay to each creditor such creditor's pro-rata share of $100,000.

In addition to the payments of $100,000 each, on December 31, 2019 and on each succeeding December 31, the Debtor shall make an additional distribution to the holders of Allowed Claims in Class 1. This distribution shall be the difference (if positive) between the Debtor's cash on hand and the total of (a) $200,000, (b) the required $100,000 distribution, (c) the estimated amount needed to distribute to shareholders to pay their income tax liabilities attributed to the Debtor's income for the current year, and (d) all accounts payable then owed by the Debtor. These distributions will allow unsatisfied claim holders to share in accumulated operating earnings, if available, as long as the Debtor retains sufficient working capital to operate during the slower winter months.

No payments shall be made after the payments due December 31, 2023, or after all Class 1 claimholders have received cash equal to 100% of their allowed claims, without interest, whichever first occurs. If the Debtor's projections prove accurate payments to Class 1 should be completed by December 31, 2021, but this is not guaranteed.

Each creditor's prorata share of any distribution shall be determined by multiplying such distribution by a fraction, the numerator of which is the creditor's allowed claim, and the denominator of which is the total of all allowed claims in Class 1. If any claims are subject to dispute at the time of a distribution, the amount due to such claim, if allowed, will not be distributed but will be transferred to a separate account for such creditor and retained by the Debtor until such claim is finally allowed or disallowed at which time the amount due shall be recalculated and distributed, and any amount allocated to the disallowed portion of the claim shall be included in the next semi-annual distribution to the holders of allowed claims in this class.

Some of the claims in Class 1 are held by beverage suppliers who require a deposit (usually $50) for each keg delivered to the Debtor. When the empty keg is returned, the deposit is refunded. However certain suppliers providing beverages after the order for relief have not refunded the deposits; instead they have been crediting them to the pre-order for relief balances owed to the supplier. These supplies have thus received unauthorized post-petition transfers which the Debtor, as debtor-in-possession, may avoid under 11 U.S.C. § 549 (a). To achieve this avoidance, the suppliers' claims shall be allowed in the amounts

owed on the date of the order for relief and the Debtor shall deduct the amounts of such retained deposits from the distributions made to the affected creditors until the deposits are recaptured. Any deposits retained after the effective date of the plan shall be credited to subsequent distributions.

Payments to unsecured creditors in Class 1 have been calculated based on the Debtor's anticipated cash flow and considering the amount needed to pay the priority IRS claim and the priority "gap" claims. The total amount of unsecured creditor claims in Class 1 will be probably be about $900,000. As the Debtor is contributing a fixed amount to payment of unsecured claims, a reduction in any one claim will benefit the other claim holders and not the Debtor, unless the claims are reduced to the point at which the total is less than the Debtor's projected maximum payments to general unsecured creditors. It is likely that the payment to Class 1 claims will be at 100%.

Class 2 – Small Unsecured Claims

Impaired

Class 2 unsecured claims may elect Option (c) or Option (d). Creditors in Class 2 who make no election will be treated under Option (c). Creditor electing Option (c) will receive a single lump sum payment of 75% of the allowed claim, or $7,500, whichever is less, which shall be paid within 30 days of the Effective Date of the Plan. Class 2 claim holders treated under Option (c) will not receive any further distributions on account of their claims. If any of the Class 2 claims treated under Option (c) are held by beverage suppliers who have been paid more than 75% by retaining deposits after the order for relief, they shall not receive any further payments or apply any further deposits to the balance of their claims, and the Debtor reserves the right to recover any over-payment.

Class 2 claim holders electing Option (d) will be treated as Class 1 claim holders who have elected Option (b), above.

Class 3 – Insider Claims

Impaired

Insider claims are claims held by shareholders, officers, or directors of the Debtor or their family members. Insider claims are also claims held by entities owned by one or more individual insiders, or by owners, officers, directors of those entities or their family members. Insider claims are noted on the creditor listing attached as Exhibit 3. Even though the claims held by Big Island Alehouse, LLC and Kohola, LLC have been assigned to Carl Brady, Jr. and Collin Szymanski, they are still insider claims and will be treated as such, except that once the debts owed to Carl Brady, Jr. and Collin Szymanski under the settlement agreement in Alaska Superior Court case no 3AN-17-10414CI are paid in full no further payments shall be made on the insider claims of Big Island Alehouse, LLC and Kohola, LLC. Insider claims held by Dylan Buchholdt and Gorbuscha, LLC will be disallowed.

Class 3 insider claims will receive payments as follows: commencing on June 30 or December 31 next following the completion of payments to Class 1 and continuing on June

30 and December 31 of each succeeding calendar year, the Debtor shall pay to each creditor such creditor's pro-rata share of $100,000, until all insider claims are paid in full, without interest. The distributions shall be calculated in the same manner as for Class 1.

Class 4 – Claims of Carl Brady, Jr. and Collin Szymanski

Impaired

The claims filed by Carl Brady, Jr. and Collin Szymanski shall be treated as follows:

Brady and Szymanski shall have allowed unsecured claims in Class 1 of $55,000 each. The balance of their claims ($345,000 each) shall be treated as subordinated Class 3 claims and paid prorata with the subordinated claims of Big Island Alehouse, LLC and Kohola, LLC. Brady and Szymanski are also receiving payments under a settlement agreement in Alaska Superior Court case no 3AN-17-10414CI, which includes an agreement that payments by the Debtor on the BIA and Kohola claims will be assigned to Brady and Szymanski. Once all amounts owed under that settlement agreement are paid in full from whatever source no further payments shall be made by the Debtor on Brady and Szymanski's subordinated unsecured claims.

Class 5 – Claims of Salamatof Native Association

Impaired

The claim filed by Salamatof Native Association shall be treated as follows:

Salamatof will acquire the16% interest in each of the Debtor and Gorbuscha, LLC owned by Dylan Buchholdt as well as the 16% interests in each entity owned by Robert Jurasek. These transfers will give Salamatof a 32% ownership interest in the Debtor and a 32% ownership interest in Gorbuscha. For the transfer of interests in Gorbuscha Salamatof will credit its claim by $200,000 and for the transfer of shares in the Debtor Salamatof will credit its claim by $500,000 leaving a $1,200,000 balance.

Salamatof will have an allowed unsecured claim in Class 1 of $110,000, leaving a remaining balance of $1,090,000. All interest accruing on the balance will be paid by FOCB, Dylan Buchholdt and Robert Jurasek (the "FOCB Debtors") and the Debtor shall be liable only to pay the principal amount due unless the FOCB Debtors default. Default in this instance shall mean allowing the interest payments to become delinquent by 30 days or more after written notice. The interest rate shall be 10% but if the FOCB Debtors default Debtor shall be liable to make the interest payments.

The Debtor will pay the $1,090,000 remaining balance of the claim as a subordinated unsecured claim in Class 3 and in addition to the distributions under Class 3 will make quarterly payments sufficient to pay not less than a total of $275,000 by December 31 of each calendar year beginning with the year 2023. The entire $1,090,000 balance will be due and payable not

later than December 31, 2026. Any prepayments will be applied to the next succeeding installments due. If a payment is not made within thirty days of the end of each calendar quarter Salamatof may send a notice of default and Debtor shall have 45 days to cure the default. /Debtor shall have a total of three cure opportunities, but on any subsequent default Salamatof may refuse to accept a cure payment in which case the entire unpaid balance shall be due and payable.

Until full payment of the Salamatof claim the Debtor shall (i) not issue additional shares (ii) not pay salaries to any shareholders officers or directors other than James Maurer or his successor as manager as provided in the Plan, (iii) not make any distributions to shareholders other than to pay income taxes as provided in the Plan, unless the distribution is agreed to by all shareholders.

The adversary proceeding filed by the Debtor against Salamatof will be dismissed following the Effective Date of the Plan.

Provisions regarding Gorbuscha:

Until full payment of the Salamatof claim Gorbuscha shall (i) not issue additional membership interests (ii) not pay any salaries, (iii) use all its revenue only for debt repayment, taxes, maintenance and improvements to the real property owned by Gorbuscha and (iv) after repayment of the obligation to James Pentlarge, pay not less than two-thirds of all revenue to reduce the Salamatof claim.

Salamatof's deed of trust on the Gorbuscha property shall remain in effect and shall be ratified by this Plan.

Provisions regarding FOCB:

Until full payment of the Salamatof Claim the FOCB Debtors shall pay all interest accruing on the claim balance in monthly payments commencing on the first day of the month first following the Effective Date.

If FOCB is recapitalized all funds received by FOCB shall be used to repay the Salamatof Claim.

All distributions from FOCB to its members shall be paid to Salamatof to be applied to the balance of the Salamatof claim.

Provisions regarding the Guarantors.

James Maurer, Billy Opinsky, Dylan Buchholdt and Robert Jurasek shall remain jointly and severally liable for repayment of the Salamatof Claim but no default action shall be taken against any of them if the Debtor, Gorbuscha and FOCB make all payments on the claim as provided above; no default action shall be taken against Maurer or Opinsky if the Debtor and Gorbuscha make all payments required to be made by them as provided above.

Dylan Buchholdt and Robert Jurasek shall indemnify HLS, James Maurer and Billy Opinsky from any liability to pay interest to Salamatof on the Salamatof claim and shall reimburse them for any interest they are required to pay as a result of a default by the FOCB Debtors.

As additional security for payment of amounts to be paid by the Debtor on the Salamatof claim, James Maurer and Billy Opinsky will pledge their 68% share ownership in the Debtor and their 68% interests in Gorbuscha. All of the guarantors shall reaffirm their personal guarantees of payment of the balance plus interest.

Commercially reasonable guarantee, pledge and indemnification agreements, including grace period and cure provisions consistent with this Plan, where applicable, will be executed and delivered at the Effective Date.

James Maurer and Billy Opinsky will have an option to acquire from Salamatof some or all of the 32% share ownership of the Debtor and a separate option to reacquire some or all of the 32% interests in Gorbuscha. The options may be exercised, together or separately, by notice in writing not later than two years following full payment of the Salamatof Claim. If the options are exercised each of the purchase prices shall be paid in equal quarterly payments sufficient to pay the entire price not later than five years from the exercise date. The purchase price for each of the purchased assets shall be the greater of (a) prorata share of $500,000 for the shares in the Debtor and the pro rata share of $200,000 for the interests in Gorbuscha, or (b) the fair market value of the repurchased shares or interests as determined by agreement and, if no agreement can be reached within 30 days of the notice of the exercise of the option, then buyers and seller shall each nominate an appraiser and the two so nominated shall choose a third appraiser. All three shall provide a valuation of the relevant entity and the median appraisal result shall be binding on all parties. The appraisals shall take into account the fact that the shares or interests are minority and non-controlling interests. All appraisal costs shall be split equally by buyer(s) and seller. Interest shall accrue at 3% in excess of the prime rate quoted by the Wall Street Journal on January 1 of the year the option is exercised, and shall adjusted each succeeding January 1. Salamatof shall not transfer any of the shares and interests potentially subject to the repurchase options until the time for exercise of the options has expired.

Provisions Regarding Salamatof

If neither James Maurer nor Billy Opinsky exercises his option to acquire all of the 32% share ownership of the Debtor or all of the 32% interests in Gorbuscha, then Salamatof shall have options to acquire all of the interests in either or both entities owned by Maurer and Opinsky. The options may be exercised, together or separately, by notice in writing not later than one year following the expiration of the options granted to Maurer and Opinsky as provide above. . If the options are exercised each of the purchase prices shall be paid in equal quarterly payments sufficient to pay the entire price not later than five years from the exercise date. The purchase price for each of the purchased assets shall be the greater of (a) the pro rata share of $1.0 million for the shares in the Debtor and the pro rata share of $400,000 for the interests in

Gorbuscha with interest as provided above for the Maurer and Opinsky options, or (b) the fair market value of the purchased shares or interests as determined by agreement and, if no agreement can be reached within 30 days of the notice of the exercise of the option, then buyers and seller shall each nominate an appraiser and the two so nominated shall choose a third appraiser. All three shall provide a valuation of the relevant entity and the median appraisal result shall be binding on all parties. All appraisal costs shall be split equally by buyer and seller(s). Interest shall accrue at 3% in excess of the prime rate quoted by the Wall Street Journal on January 1 of the year the option is exercised, and shall be adjusted each succeeding January 1. Maurer and Opinsky shall not transfer any of the shares and interests potentially subject to the repurchase options until the time for exercise of the options has expired.

Class 7 -- *Equity Interest Holders*

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a for-profit 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 the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the debtor is the equity interest holder. In this case, James Maurer and Billy Opinsky will retain their shares in the Debtor and their interests are not impaired. The interest of Dylan Buchholdt and Robert Jurasek will be transferred to Salamatof as described above with respect to Class 5.

D. **Means of Implementing the Plan**

1. *Source of Payments*

Payments and distributions under the Plan will be funded from cash on hand and ongoing revenue.

2. *Post-confirmation Management; Distributions to Shareholders.*

The officers of the Debtor and their annual salaries following confirmation of the Plan will be:

James Maurer – Vice President and Secretary. Salary is $68,000 as Debtor's full time director of operations. May be increased by 10% annually starting in 2020.

William Opinsky – President and Treasurer. Serves without salary.

Resumes of the Debtor's managers are attached as Exhibit 11.

Until full payment of all amounts due to creditors under the Plan, HLS shall not make any distributions or pay any dividends to its shareholders, except that HLS shall distribute earnings on each share of common stock for that taxable year in an amount at least sufficient to enable the shareholders to pay all federal income taxes that they may owe on account of the

HLS' taxable income that is passed through to and taxed to them. The distributions required to be paid under the provisions of the above sentence shall be paid in time to allow shareholders to make estimated payments of federal income taxes when due, as well as on or before the fifteenth day of April following the calendar year that includes the last day of the HLS' taxable year for which taxable income as an S Corporation was passed through to the shareholders. If HLS obtains an extension of time to file its tax or information returns, then HLS shall pay to the shareholders by the fifteenth day of April a reasonable estimate of the amount required to paid under this section, with the balance, if any, to be paid when HLS files its tax or information return. Credits against tax passed through to the shareholders that can be used, in all circumstances, to reduce income taxes that would otherwise be owed by any shareholder shall reduce the amount required to be distributed.

Until full payment of amounts due to creditors under the Plan, HLS shall not make loans or other inter-company transfers to shareholders or affiliate entities, other than rent payments to Gorbuscha, LLC and purchases of goods or services at fair market value in the ordinary course of business.

E. **Risk Factors**

The Debtor's payments to creditors depend on the Debtor's continued business operations and sufficient profits. The bar and restaurant market in Anchorage can be affected by local and statewide economic conditions, tourism levels and increased competition, none of which the Debtor is able to influence.

The Debtor believes it is possible that the plan can be confirmed even if one or more classes of creditors does not accept the plan, because the plan does provide for payment of all claims in full. However, it is possible that the Court will decline to confirm the plan under the absolute priority rule based on a lack of assurance that all payments will be made and because the shareholders are not contributing new value to the reorganization.

F. **Executory Contracts and Unexpired Leases**

Assumed Executory Contracts and Unexpired Leases.

The Debtor assumes the following executory contracts and/or unexpired leases effective upon the effective date of this Plan as provided in Article IX or sooner as provided in separate orders of the Bankruptcy Court. Except as modified, the terms of the original contracts or leases shall remain in effect. Except as set out in this paragraph, no cure payments, compensation for prior defaults, or adequate assurance of future performance shall be required with respect to any assumed contracts or leases.

1. Premises lease from the Pioneers of Alaska Igloo 15 covering the restaurant and bar premises at 612 F Street, Anchorage.

2. Franchise Agreement with Host International, LLC for a location at the Anchorage Airport.

Except as modified, the terms of the original lease and other agreements shall remain in effect. No cure payments, compensation for prior defaults, or adequate assurance of future performance shall be required.

Rejected Executory Contracts and Unexpired Leases.

All executory contracts and unexpired leases that are not listed in the Plan as assumed or assumed pursuant to previous orders of the Court will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases if you believe that you have any such agreement with the Debtor.

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 or by the deadline set forth in a separate notice.

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)Tax consequences to the Debtor of the Plan. The Debtor has elected to be treated as an "S Corporation" for federal income tax purposes, so any taxable income or loss is reported in the personal income tax returns of the shareholders. Because the circumstances of each shareholder's taxes may differ from others, and are affected by the income or losses of other entitles, the Debtor cannot state the tax consequences to the shareholders.

(2) General tax consequences on creditors of any discharge, and the general tax consequences of receipt of plan consideration after confirmation. The tax consequences to creditors from the receipt of less than the full balances owed by the Debtor will depend on their method of tax accounting and reporting, and therefore creditors should consult their own tax advisors for advice on whether the plan will have tax consequences.

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 Debtor believes that all classes except Classes 4 and 5 are impaired and that holders of claims in each of these classes are therefore entitled 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 the Debtor's 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 initial deadline for filing a proof of claim in this case was July 9, 2018. A later deadline of June 23, 2018 was set for certain creditors when the Debtor amended its schedules to show that the claims are disputed in whole or in part. One creditor in this category Melissa Mitchell) was given until June 30, 2018 to file a proof of claim; she did not file a claim.

In addition, creditors who claim administrative expense status for sales to the Debtor within 20 days of the filing of the involuntary petition on December 5, 2017 had until August 17, 2018 to file a claim for the amount due for that period; one claim in this category was filed.

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" on 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. One requirement is that no class of claims or interests junior to the dissenting class may receive or retain any property under the Plan, unless the dissenting class is being paid in full.

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

Debtor believes that the Plan as currently proposed can be confirmed by the "cramdown" procedure as long as one class of non-insider creditors accepts the Plan. Although the existing equity ownership in the Debtor will be not cancelled on the effective date of the Plan, the plan does provide that all creditors will be paid in full over the term of the plan and therefore the Plan may be confirmed as long as the Plan passes the "best interests of creditors" test described in the next section.

C. Liquidation Analysis

A table showing the Debtor's liquidation analysis is attached as Exhibit 12.

1. Introduction

Under the "best interests" of creditors test set forth in section 1129(a)(7) of the Bankruptcy Code, the Bankruptcy Court may not confirm a plan of reorganization unless the plan provides each holder of a claim or interest who does not otherwise vote in favor of the plan with property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor was liquidated under chapter 7 of the Bankruptcy Code. To demonstrate that the Plan satisfies the "best interests" of creditors test, the Debtor has prepared a hypothetical Liquidation Analysis, which is based upon certain assumptions discussed in the Disclosure Statement and in the notes accompanying the Liquidation Analysis.

The Liquidation Analysis estimates potential cash distributions to holders of allowed claims and Interests in a hypothetical chapter 7 liquidation of the Debtor's assets, assuming that the case is converted to chapter 7 on January 1, 2019. Asset values discussed in the liquidation analysis may differ materially from values referred to in the plan and disclosure statement. The asset values are based on values from the Debtor's September 30, 2018 Balance Sheet with projections to the date of possible conversion to chapter 7.

2. Scope, Intent, and Purpose of the Liquidation Analysis

The determination of the costs of, and hypothetical proceeds from, the liquidation of the Debtor's assets is an uncertain process involving the estimates and assumptions that are subject to significant business, economic, and competitive uncertainties. Some assumptions in the liquidation analysis may not materialize in actual chapter 7 liquidation. The Liquidation Analysis was prepared for the sole purpose of generating a reasonable good-faith estimate of the proceeds that would be generated if the Debtors were liquidated in accordance with chapter 7 of the Bankruptcy Code. The underlying financial information in the liquidation analysis was not compiled or examined by any independent accountants. No independent appraisals were conducted in preparing the Liquidation Analysis. NEITHER THE DEBTOR NOR ITS ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS. ACTUAL RESULTS COULD VARY MATERIALLY.

In preparing the liquidation analysis, the Debtor estimated allowed claims based upon a review of Claims listed on the Debtor's Schedules and Proofs of Claim filed to date. In addition, the liquidation analysis includes estimates for Claims not currently asserted in the chapter 11 case, but which could be asserted and allowed in a chapter 7 liquidation, including administrative claims, wind down costs, trustee fees, tax liabilities, and certain lease and contract rejection damages claims. To date, the Bankruptcy Court has not estimated or otherwise fixed the total amount of allowed claims. Therefore, the Debtor's estimate of allowed claims set forth in the liquidation analysis should not be relied on for any other purpose, including determining the value of any distribution to be made under the Plan. NOTHING CONTAINED IN THE LIQUIDATION ANALYSIS IS INTENDED TO BE OR CONSTITUTES A CONCESSION OR ADMISSION OF THE DEBTOR. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE CHAPTER 11 CASE COULD MATERIALLY DIFFER FROM THE ESTIMATED AMOUNTS SET FORTH IN THE LIQUIDATION ANALYSIS.

3. Analysis of Assets Available in a Liquidation

a. Primary Assets of the Debtors

The Liquidation Analysis assumes a liquidation of all of the Debtors' assets, which consist of equipment, inventory, cash on hand, and accounts receivable. The Debtor's Net

Operating Losses (NOLs) are assumed to offset federal taxes (e.g. capital gains) expected to be incurred, if any, by the Trustee in a liquidation. Any NOLs remaining are ascribed no value in the Liquidation Analysis because the remaining NOLs do not retain value in a chapter 7 liquidation. Finally, the Liquidation Analysis does not attribute any value to the Debtor's intangible assets such as the Humpy's tradename.

b. Hook Line & Sinker DBA Humpy's Great Alaska Alehouse ("HLS") in downtown Anchorage, Alaska operates Humpy's Bar and Restaurant, Flattop Pizza and Bootleggers bar. All restaurant food items are serviced for the most part by the same kitchen. Due to the nature of the sales, (Cash and credit cards) HLS has minimal operating receivables.

c. There are two types of liquidation value, orderly liquidation and forced liquidation. Orderly liquidation is defined by the "International Glossary" as "liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received". It defines Forced Liquidation value as "liquidation value at which the assets are sold as quickly as possible, such as at an auction." It also defines liquidation value as "the net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either orderly or forced." In the event that a chapter 11 plan is not approved and the case is converted to chapter7, then liquidation value becomes a forced liquidation in that assets would be sold as quickly as possible and in a piecemeal manner.

d. **Assets** are as follows. Based on a projected October 31, 2018 balance sheet:

Cash - $725,000 which is offset by accrued payroll and payroll taxes respectively of $60,000 due within the next few days after conversion, leaving a net balance of $665,000 available for other uses.

Accounts receivable of $18,800 are keg deposits paid by Hook Line and Sinker to beer vendors such as Midnight Sun, K & L distributing, King Street Brewing and Odom Corporation. Coca Cola Bottling has also retained its CO2 bottle deposits. All of these vendors are either Gap, Pre-petition creditors, or both and these deposits will be recovered by the trustee as unauthorized post-petition payments.

A balance sheet receivable of $1,453,142 from Fish or Cut Bait, (Operating as Williwaw) with majority ownership by Dylan Buchholdt and Robert Jurasek, (30% each) and minority ownership by William Opinsky and James Maurer (20% each) is valued at zero ($0). Williwaw management has stated that it is unable to repay any of these amounts at this time or in the foreseeable future.

Inventory totals $140,000 of which food is $60,000, liquor, beer and wine totals are $65,000. Merchandise such as clothing and other "Humpies" souvenirs total $15,000. In the event of a forced liquidation it is likely that liquor vendors at best would only refund unopened kegs and bottles and then with a significant discount. If balances are owed the recovery amounts would be applied to their own accounts first. Some frozen foods may be refundable, again at a significant discount. Again food vendors may decide to apply any refunded balances to their

own payables before offering any cash to the Company. Any perishable foods would normally be donated to local charities. Our estimate of net recoverable cash from the quick sale of inventory depending on vendor returns is $10,000.

Restaurant Equipment has a notorious reputation for poor resale in the State of Alaska. Somebody must need it, that particular brand (POS Systems), size (stoves, freezers, beer dispensing systems) etc. A historic rule of thumb for valuation in Alaska has been 20-25% of book value. If shipped outside for sale, costs of shipping will normally offset any increase in sales price that may be obtained. Total fixed assets have a book cost of $664,818. Our estimated liquidation value is $125,000.

Leasehold improvements would stay with the building and are therefore valued at $0.

Humpy's Liquor license is recorded at a value of $125,000. Recent license sales have been $250,000. Liquor license proceeds are subject to a separate distribution formula through the Alcohol and Marijuana Control Board.

The Company owns a truck and small SUV with no outstanding debt. Estimated combined value is $18,000.

Security deposit of $15,030 would be retained by the landlord, Pioneers of Alaska.

3. Liabilities are calculated as follows:

There are no current outstanding accounts payable as all vendors are cash on delivery or weekly payment terms. The accounts payable balance is comprised of the Gap and Pre-petition creditors. Total Gap and 503 (b)(9) creditors are $119,514. Pre-petition loan and trade creditors total $841,465.

The Big Island Alehouse loan for $645,711 the Kohola loan for $50,000 the Gorbuscha payable of $86.700, the Buchholdt loan of $45,000, total of $827,411 are insider loans and will be considered separately.

Gift Certificates redeemable balance is $42,610. Certificates are redeemed for food and beverage by the customers when they are in Humpy's. No cash payments are required by Humpy's at this time for unredeemed certificates.

Alaska CSSD, 941 accounts (social security, medicare and garnishment payments in the amounts of $26,301, $1,339 and $79 respectively are paid as part of the current payroll liability. FUTA and SUTA in the amounts of $1,330 and $7,641 will be due in October. Uncashed paychecks in the amount of $3,529 as presented.

Pre-Bankruptcy IRS payroll taxes and interest of $192,036 is a priority claim as is pre-bankruptcy SUTA in the amount of $24,693.

The FOCB-related debt of $2,700,000 is treated for liquidation purposes as unsecured along with trade debt.

There can be no assurance that the liquidation would be completed in any specific time frame, nor is there any assurance that the recovery assigned to the assets would in fact be realized. Under Section 704 of the Bankruptcy Code a trustee must, among other duties, collect and convert the property of the estate as expeditiously as is compatible with the best interests of the parties in-interest. **The Liquidation Analysis assumes that there would be pressure to complete the sales process within three months.** The Liquidation Period would allow the Trustee to sell the Debtor's assets, wind-down operational activities, complete the claims reconciliation process and make distributions to parties-in-interest. Depending on actual circumstances, the Liquidation Period could be significantly longer, in which event, the wind down costs would increase substantially and recoveries would likely decrease.

4. Liquidation Analysis Waterfall and Recovery Ranges

The liquidation Analysis assumes that the proceeds generated from the liquidation of the Assets, plus cash held by the Debtor will be available to the Trustee (the "Liquidation Proceeds"). The Trustee then would use the Liquidation Proceeds to satisfy Secured Claims, the costs and expense of the liquidation, including wind-down costs and Trustee fees, and such additional Administrative and Priority Claims that are incurred in a chapter 7 liquidation. Any remaining net Liquidation Proceeds would then be allocated to Creditors and Interest Holders in accordance with the priorities set forth in section 726 of the Bankruptcy Code except that proceeds from the sale of the Debtor's liquor license will be distributed to creditors with valid "holds" under the practice of the Alcohol and Marijuana Control Board.

The analysis shows that general unsecured claims may recover about 7% of their claims out of proceeds from the liquidation of the Debtor's assets other than the liquor license. However the trade and loan creditor (not including FOCB-related loans) may, however, recover as much as 28% of their claims from the liquor license sale, depending on the sales proceeds and the amount of valid "holds" placed on the proceeds. The total of future "holds" is unknown, so the recovery percentage estimate from this source cannot be predicted accurately.

Refer to Exhibit 12 for the specific estimates of recovery by different groups of creditors.

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.

3. *Ability to Initially Fund Plan*

The Debtor believes that the Debtor 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. The Debtor's projections show that there should be about $625,330 from operations on hand as of November 1, 2018, the estimated effective date. The amount to be paid at that time is estimated at $125,000 for administrative claims and US Trustee fees.

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

The Debtor must also show that it will have enough cash over the life of the Plan to make the required Plan payments. The Debtor has provided projected cash flow financial information through December 31, 2023, which is the date plan payments to all non-insider creditors other than Salamatof should be completed. Those projections are listed in Exhibit 13. Exhibit 13 also shows the schedule of payments to administrative, priority and unsecured creditors. The projections are based on 2017 and 2018 to date levels of income and expenses with assumed increases of 3% or 4% in revenue and between 2% and 5% in certain expenses per year, as shown on the projections.

You should consult with your accountant or other financial advisor if you have any questions pertaining to these projections. The projections can be provided to interested creditors in Microsoft Excel format, on request to the Debtor's counsel.

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 Debtor 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 Debtor 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 Debtor, 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. This may occur before all distributions required by the Plan have been made.

Dated: November 5, 2018

HOOK LINE & SINKER, INC.

By: /s/James Maurer
James Maurer, President

David H. Bundy, PC
Attorney for Debtor

By: /s/ David H. Bundy
David H. Bundy

List of Exhibits

1. Plan of Reorganization
2. Shareholder, Officer and Director History
3. List of Claims
4. Unaudited Statement December 31, 2015
5. Unaudited Statement December 31, 2016
6. Unaudited Statement December 31, 2017
7. Unaudited Statement September 30, 2018
8. Proposed Lease with Gorbuscha
9. List of Equipment
10. Projected balance sheet as of January 1, 2019
11. Manager Resumes
12. Liquidation Analysis
13. Projections