

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF ALABAMA  
SOUTHERN DIVISION**

In Re: )  
 )  
COMMERCIAL FLOOR CARE, LLC. ) CASE NO. 16-02266-TOM  
 )  
Debtor. ) CHAPTER 11

**DEBTOR'S DISCLOSURE STATEMENT**

October 6, 2016

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**ARTICLE I. - INTRODUCTION**

Commercial Floor Care, LLC, debtor and debtor-in-possession (hereinafter referred to as the "Debtor" or "CFC") submits this Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code, 11 U.S.C. § 101 *et. seq.*, (the "Bankruptcy Code"), to creditors and interest holders of the Debtor (the "Claimants") to disclose information to enable the Claimants to make an informed decision in exercising their rights to accept or reject the Debtor's Plan of Reorganization (the "Plan").

As a Claimant, your vote on the Plan is important. Parties voting on the plan should read both The Plan and this Disclosure Statement. All terms herein and not otherwise defined have the same meaning in the Plan. Parties may wish to consult with their own legal counsel, accountants and tax advisors with respect to the legal effects of the Plan.

The Bankruptcy Code requires, as a condition to confirmation of a consensual plan of reorganization, that each class of claimants that is impaired under the plan accept the plan. The Bankruptcy Code defines "acceptance" of a plan by a class of creditors as acceptance by holders of two-thirds in dollar amount and more than one-half in number of the claims of that class that cast ballots for acceptance or rejection of the plan. A class of interests has accepted a plan if such plan has been accepted by holders of such interest that hold at least two-thirds in amount of the allowed interests of such class held by holders of such interests that has accepted or rejected such plan.

Liabilities incurred in the ordinary course of business by the Debtor since the Chapter 11 petition was filed, including amounts owed to vendors and suppliers who have sold merchandise or furnished services to the Debtor since such dates, whether or not incurred in the ordinary course of business, are described in the Plan as Administrative Expenses and, unless disputed, will be assumed and paid by the Debtor in accordance with the terms and conditions of the particular transaction and any agreements

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Commercial Floor Care, LLC, debtor and debtor-in-possession (hereinafter referred to as the "Debtor" or "CFC") submits this Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code, 11 U.S.C. § 101 *et. seq.*, (the "Bankruptcy Code"), to creditors and interest holders of the Debtor (the "Claimants") to disclose information to enable the Claimants to make an informed decision in exercising their rights to accept or reject the Debtor's Plan of Reorganization (the "Plan").

As a Claimant, your vote on the Plan is important. Parties voting on the plan should read both The Plan and this Disclosure Statement. All terms herein and not otherwise defined have the same meaning in the Plan. Parties may wish to consult with their own legal counsel, accountants and tax advisors with respect to the legal effects of the Plan.

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Liabilities incurred in the ordinary course of business by the Debtor since the Chapter 11 petition was filed, including amounts owed to vendors and suppliers who have sold merchandise or furnished services to the Debtor since such dates, whether or not incurred in the ordinary course of business, are described in the Plan as Administrative Expenses and, unless disputed, will be assumed and paid by the Debtor in accordance with the terms and conditions of the particular transaction and any agreements

relating thereto. Holders of Administrative Expense claims are not impaired and are not entitled to vote on the Plan.

Claims arising from the rejection of executory contracts and unexpired leases are treated under the Bankruptcy Code as if they arose before the filing of the Chapter 11 petition and holders of those claims are Claimants entitled to vote on the Plan.

If a class or classes of Claimants does not accept the Plan, the Debtor has the right to request confirmation of the Plan pursuant to Section 1129(b) of the Bankruptcy Code, the "cramdown" provision. Section 1129(b) permits the confirmation of a plan of reorganization notwithstanding the nonacceptance of the Plan by one or more impaired classes or interests. Under that section, a plan of reorganization may be confirmed by the Bankruptcy Court if it does not discriminate unfairly and is "fair and equitable" with respect to the nonaccepting class.

This Disclosure Statement may be used in connection with the solicitation of votes on the Plan. Approval of this Disclosure Statement is not, however, a ruling by the Bankruptcy Court as to the fairness of the merits of the Plan.

Confirmation by the Bankruptcy Court of the Plan in accordance with the provisions of the Bankruptcy Code will be considered at the scheduled hearing on the Plan. The hearing on the Plan may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement made at the hearing.

Capitalized terms used in this Disclosure Statement, which are not otherwise defined in this Disclosure Statement, shall have the same meanings as given to them in the Plan of Reorganization.

## **ARTICLE II - BACKGROUND PRIOR TO FILING**

### **A. CURRENT BUSINESS DESCRIPTION.**

#### **1. General Description of Debtors' Business.**

##### **a. Pre-bankruptcy Operations.**

CFC operates a commercial carpet and textile floor cleaning business with expertise in high-tech cleaning systems and floor tile repair and replacement services. CFC has been in business for 11 years and operates as a Millicare, Sani-Glaze and Solid franchisee. In an effort to reduce expenses, Debtor moved into a new location in Trussville

##### **b. Post-Bankruptcy Operations.**

Since the Filing Date, the Debtor resolved the use of cash collateral with Servis First Bank and has operated with a positive cash flow each month since the bankruptcy was filed. Debtor also terminated one sales person in an effort to reduce its payroll expense.

**B. EVENTS LEADING TO BANKRUPTCY.**

The Debtor's owner and managing member, George Sims, had some personal medical issues which prevented him from being to operate the business for a few months. During this period, Debtor borrowed money from predatory lenders with high interest rates and daily payments resulting in a drain on the company's cash flow, which precipitated the filing of the Chapter 11.

**ARTICLE III - FINANCIAL INFORMATION**

**A. ASSETS.**

As of the Filing Date, Debtors owned the assets more particularly described below.

**1. Real Property.**

a. Debtor does not own any real property.

**2. Personal Property.**

**a. Cash and Bank Accounts.**

As of the Filing Date, Debtor had one checking account at ServisFirst Bank. The balance in the checking account totaled approximately \$8,000.00.

**b. Deposits, including security deposits and utility deposits.**

As of the Filing Date, Debtor had a deposit being held by Pawnee Leasing in the amount of \$1,183.96 for equipment that was being leased.

**c. Accounts Receivable.**

As of the Filing Date, Debtor had approximately \$110,000.00 in accounts receivable. Debtor believes that all of this is collectable and it provides security to ServisFirst bank on their outstanding loans totaling approximately \$150,000.00.

**d. Other Inventory or Supplies.**

As of the Filing Date, Debtor owned an assortment of chemicals and cleaning solutions with a value of \$13,918 based on the recent cost of the supplies.

**e. Office Furniture, fixtures and equipment.**

As of the Filing Date, Debtor owned office equipment, including all computer equipment and communication systems, software and printers valued at \$1,640.00 according to the most recent balance sheet.

**f. Automobiles, vans, trucks, etc.**

As of the Filing Date, Debtor owned a 2007 Chevrolet Silverado Truck with a Kelly Blue Book value of \$5,565.00.

**g. Other Machinery, fixtures and equipment.**

As of the Filing Date, Debtor owned a variety of cleaning equipment valued at \$11,619.00 based on a recent cost of the equipment.

**h. Internet Domain Names and Websites.**

As of the Filing Date, Debtor owned a website at [www.comfloorcare.com](http://www.comfloorcare.com). Debtor is unaware of any value attributable to this site.

**i. Licenses, Franchises and Royalties.**

As of the Filing Date, Debtor had an ownership interest in 3 franchises, Millicare, SaniGlaze and Solid. The Milliken (“Millicare”) franchise had a value of \$6,743.47 according to its historical cost as listed on the balance sheet. The SaniGlaze franchise had a value of \$58,701.56 according to its historical cost as listed on the balance sheet. However, this figure needs to be adjusted since the Debtor is only servicing the Montgomery area and no longer services the Birmingham area. The Solid franchise is valued at \$32,000.00 according to its historical cost and most recent balance sheet.

**j. Customer List.**

Debtor does have a customer list, but is unaware of any value that can be attributable to it.



Equipment Inventory

Buy Item Description	Quantity	Condition
Milicare/Carpet Cleaning		
Lomac/GLS Scrubber 20" SN# 05151901	1	
Lomac/GLS Scrubber 20" SN# 08152018	1	
Lomac/GLS Scrubber 20" No label	1	
Lomac/GLS Scrubber 20" SN# 62867	1	
Lomac/GLS Scrubber 20" SN# D8152124	1	Good
Lomac/GLS Scrubber 15" SN# 41491	1	Good
Lomac/GLS Scrubber 15"	1	
VS18 Windsor Vacuum 18" SN# T 11011309	1	
VS18 Windsor Vacuum 18" SN# T 11011289	1	
VS18 Windsor Vacuum 15" SN# V 48025075	1	
VS18 Windsor Vacuum 15" SN# T 48018888	1	
VS18 Windsor Vacuum 18" SN# K 202227	1	
VS18 Windsor Vacuum 18" SN# U 48020224	1	
VSP18 Windsor Vacuum 18" SN# U 48021518	1	Good
VSP18 Windsor Vacuum 18"	1	
VSP18 Windsor Vacuum 18"	1	Good
HSS Pacer 30 vacuum SN# 3131326230A/HOX	1	Good
SOLO 2 gal. pump sprayer	4	Good
SOLO 1 1/2 gal. pump sprayer	3	Good
SOLO 3 gal. pump sprayer	1	Good
Air Mover/Power File	2	Good
Sokus 500Carpet extractor SN# 703501--	1	Excellent
Sokus 500Carpet extractor SN# no label	1	Excellent
Power File 1300Carpet extractor SN# no label	1	Good
Power File 100Carpet extractor SN# E5220	1	Good
Clipper 12	1	Excellent
CFR 400	1	Poor
Fogmaster Fogger	1	Good
Electric sprayer/Power File	1	Good
Electric sprayer applicator/Whittaker	5	Good
HHP 310 Carpet Extractor SN#	1	Good
Dauplex Floor Scrubber SN# 42058	1	
File Lifter SN# C6C17DB108		
VCT cleaning & waxing		
Wet/Dry vacuum/Power File	2	Good
Low speed scrubber/Power File sn# 04JAN0788	3	Good
Tornado like scrubber	1	
Low speed scrubber/Power File SN# 10988	1	Good
Low speed scrubber/Power File C171 sn 28AJUG0806	1	Good
Low speed scrubber/Track SN# 11654300	1	Good
Low Speed Tile Scrubber/Tenant SN# 80010110323385	1	
SankGLAZE		
Air Mover/Power File 1/2 horse	5	Good
Electric Drill/Mixer	4	Good
Flexzilla Air Hose 1/4" x 50' 300PSI	3	Good
Right Angle Grinder 1/4"	2	Good
Guardair HP Safety Air Gun	2	Good
General Rand Die Grinder Kit	1	Good
Vertical Air Compressor 28 gal. SN# 2810338916	1	Good
Ultivax Bionic Face Shield	4	Good
Air Mover/Power File PD750 3/4 horse s/n 102903	1	Good
Task Force 2000 psi Elec. Pressure Washer s/n 0812276559	1	Good
Eky Pro wet/dry vac. s/n 2843	4	Good
Wet/Dry vac./Power File 15 gal. PF53 s/n 8A3092	2	Good
North Star Power Washer SN# 04092087		
Chem. Model# CR4B/POWER/Serial#04109001518		
Office Equipment		
Insipcion 530S Computer s/n 80045-821-842-052	1	Good
Monitor/Dell s/n MX-041970-47801-22-80FF	1	Good
Keyboard/Dell s/n CHORH859735717A7060X	1	Good
Mouse/Dell s/n MC7380A18LADPN00J301	1	Good
Hewlett Packard/Laser Jet 2100 Printer s/n	1	Good
Dell Vestro 200 Computer s/n CXJH001	1	Good
Dell Keyboard s/n CHORH8597357161T07EX	1	Good
Dell Mouse s/n P0JHC808000L0V	1	Good
HP Color Jet 3800n printer s/n CHWBF78549	1	Good
Dell Monitor	1	Good

*Handwritten signature or initials*

**k. Notes Receivable.**

As of the Filing Date, Debtor was owed \$5,994.24 from Samantha Mooney and \$16,449.89 from Dean Nugent for a total of \$22,444.13. These are employee loans which are being paid back monthly from their salaries.

**l. Potential Preference Actions.**

Debtor is unaware of any preference or avoidance actions that it can Pursue at this time.

**3. Executory Contracts and Unexpired Leases.**

As of the Filing Date, Debtor had executory contracts with Central Fleet Leasing and Pawnee Leasing Corp. to lease vehicles and certain cleaning equipment respectively. Both of these contracts will be assumed in furtherance of the Debtor's operation. Debtor also states that their franchise agreements with Milliken, SaniGlaze and Solid are executory contracts which will be assumed in order to provide a revenue stream for the Debtor. All franchise fees owed to SaniGlaze and Solid were current as of the Filing Date. However, a balance of \$25,330.31 was owed to Milliken on the Filing Date and this amount will be cured as a separate unsecured class in accordance with the assumption of the Milliken franchise agreement.

Lastly, Debtor has an executory contract with Whitted Properties to lease the current building where Debtor currently operates. Debtor intends to assume this lease as well.

**B. LIABILITIES.**

As of the Filing Date, Debtors had secured debt and non-priority unsecured debt as more particularly described below. As of the commencement of Debtors' bankruptcy case, Debtors' total scheduled liabilities were \$540,453.22.

**1. Administrative Claims Entitled to Priority Under 507(a)(1).**

**a. Professionals Retained by Debtors.**

Professionals retained by the Debtor as part of the Chapter 11 proceeding, includes the law firm of Najjar Denaburg, P.C. to represent it in this bankruptcy case. The Law Firm will make application to the court for payment of its fees. These fees will be paid from the Debtors' personal funds or funds held in the Law Firm's trust account, if

approved by the Court. At the present time, Debtor's counsel anticipates additional fees of \$15,000 in excess of what is held in trust.

2. **Secured Claims.**

a. **ServisFirst Bank**

ServisFirst Bank has a first priority security interest in Debtor's cash, accounts receivable and inventory. ServisFirst has two loans, one in the amount of \$100,000.00, which is being paid interest only and matures on 9/24/2016. The other in the amount of \$50,000.00 has a balance due of 45,548.20 and matures 10/1/2010.

b. **On Deck**

On the Filing Date, On Deck was owed approximately \$268,535.12 and this debt was secured by Debtor's cash and accounts receivable. On Deck's security interest is second in priority to the lien of ServisFirst. Therefore, the debt owed to On Deck will be treated as unsecured.

3. **Unsecured Creditors.**

a. **Scheduled Unsecured Creditors.**

The Debtor scheduled approximately 9 creditors as holding unsecured claims. Such creditors were owed an approximate amount of \$128,773.40, although some were listed as disputed. These claims are sub-divided into two categories:

1) **Undisputed Debt**

As of the Filing Date, Debtor listed a number of creditors who were owed money from trade debt and various outstanding loans to the company. Debtor avers that the total amount of undisputed debt still remaining to be paid is \$103,261.45. However, of this amount, \$25,330.31 is owed to Milliken and this amount would need to be paid upon the assumption of the franchise agreement. And another \$2,403.50 which was owed to the Law Office of Thomas J. Skinner, IV, LLC, has already been paid as disclosed with the Amendment to Schedule F adding this creditor. This leaves a balance of \$75,527.64 for unsecured debt.

**2) Contingent, Unliquidated and Disputed Debt.**

- a. As of the Filing Date, Debtor listed EBF Partners, LLC for \$28,750.00 as the contingent, unliquidated and disputed unsecured liability. No claim was filed by this creditor before the claims bar date, so the debt will not be considered in the calculation for repayment to unsecured creditors.

**c. Creditors Deemed Unsecured by Operation of Section 506(a) of the Bankruptcy Code.**

Under Section 506 of the Bankruptcy Code, a creditor is deemed to have a secured claim to the extent of the value of the creditor's interest in the collateral. For purposes of this Chapter 11 Reorganization, On Deck is unsecured to the extent of the balance owed in the amount of \$268,535.12.

**ARTICLE IV - SUMMARY OF THE PLAN**

The Debtor believes that through the Plan of Reorganization in Chapter 11, creditors, as a group, will obtain a greater recovery from the estate of the Debtor than the recovery which would be available if the remaining assets of the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

Accordingly, the Debtor believes that the Plan is in the best interests of the creditors.

**A. CLASSIFICATION OF CLAIMS.**

For purposes of organization, voting, and all confirmation matters, all Claims, shall be classified as set forth in Article II of the Plan. A Claim is classified in a particular class only to the extent that the Claim qualifies within the description of that class and is classified in other classes to the extent that any remainder of the Claim qualifies within the description of such other classes. A Claim is also classified within a particular class only to the extent that such Claim is an Allowed Claim in that class and has not been paid, released or otherwise satisfied prior to the Effective Date.

**1. Secured Claims.**

a. **Class 1: Class 1 consists of the Allowed Secured Claim of ServisFirst Bank.**

**2. Unsecured Claims.**

- a. **Class 2:** **Class 2 consists of the Allowed General Unsecured Claims.**
- b. **Class 3:** **Class 3 consists of the Allowed Unsecured Claim of On Deck.**
- c. **Class 4:** **Class 4 consists of the Allowed Unsecured Claim of Milliken.**

3. **Equity Security Holders.**

- a. **Class 5:** **Class 5 consists of the Allowed Claims of Equity Security Holders.**

**B. TREATMENT OF CERTAIN UNCLASSIFIED CLAIMS.**

1. The holders of Allowed Claims entitled to priority under Section 507(a)(1) of the Bankruptcy Code, including entities entitled to payment pursuant to Section 503 or Section 546(c) of the Bankruptcy Code, or otherwise inadvertently not included in the above classifications for any reason, shall receive on account of such Allowed Claims, Cash in the amount of such Allowed Claims on the Effective Date or if they have a pre-bankruptcy claim against the bankruptcy estate, at the option of the Reorganized Debtor, shall retain their legal, contractual, and equitable rights against the Debtor. Notwithstanding the foregoing, each professional employed at the expense of the estate of the Debtor who may be entitled to an allowance of fees and expenses from the estate of the Debtor pursuant to Section 503(b)(2) through (6) of the Bankruptcy Code, shall receive Cash in the amount awarded to such professional by Order of the Bankruptcy Court pursuant to Section 330 or Section 530(b)(2) through (6) of the Bankruptcy Code approving allowance of compensation or reimbursement of expenses in favor of such professional.

**C. IDENTIFICATION OF IMPAIRED AND UNIMPAIRED CLASSES OF CLAIMS.**

1. **Impaired Classes of Claims.**

Classes 1, 2, 3 & 4 are impaired under the Plan.

2. **Unimpaired Classes of Claims.**

Class 5 is unimpaired under the Plan.

3. **Impairment Controversies.**

If a controversy arises as to whether any Claim or any class of Claims are impaired under the Plan, within the meaning of Section 1124 of the Bankruptcy Code, the Bankruptcy Court shall, after notice and hearing, determine such controversy.

**D. PROVISIONS FOR TREATMENT OF CLAIMS CLASSIFIED IN THE PLAN.**

The classes of Claims shall be treated as follows:

1. **Class 1 (Allowed Secured Claim of ServisFirst Bank).** ServisFirst's secured claim of \$145,548.20 will be paid with interest at the rate of 4.5% amortized over 8 years with a payment of \$1,801.37 per month and a balloon for the total remaining balance due on October 1, 2020. Class 1 is, therefore, impaired under the Plan.

2. **Class 2 (Allowed General Unsecured Claims).** The total of UNDISPUTED unsecured claims filed in the case is \$75,527.64. Each holder of a Class 2 Allowed Claim shall receive a cash payment equal to a pro rata share of \$886.00 per month for 96 months with payments to begin within 60 days of the Effective Date. Class 2 Allowed Claims will accrue interest at the rate of 3% per annum. Class 2 is, therefore, impaired under the Plan.

3. **Class 3 (Allowed Unsecured Claim of On Deck).** Each holder of a Class 3 Claim shall be paid at the rate of 3% interest amortized over 96 months with a monthly payment of \$3,140.00. Class 3 is, therefore, impaired under the Plan.

4. **Class 4 (Allowed Unsecured Claim of Milliken).** Each holder of a Class 4 Claim shall be paid at the rate of \$2,500.00 per month to cure the past due royalty fees of \$9,518.20. Once this balance is paid in full, Debtor will commence payments of \$1,200 per month in order to retire the outstanding balance of \$15,812.11 for promo fees. These payments will be made in conjunction with the assumption of Debtor's Franchise Agreement with Milliken. Class 4 is, therefore, impaired under the Plan.

5. **Class 5 (Equity Security Holders).** The legal, equitable, and contractual rights of the holder of a Class 5 Allowed Claim shall retain all interests it had as of the Filing Date. Class 5 is, therefore, not impaired under the Plan.

**E. PROVISIONS FOR TREATMENT OF UNCLASSIFIED CLAIMS.**

1. **Administrative Claims.**

All Administrative Claims shall be treated as follows:

a. **Time for Filing Administrative Claims.**

The holder of an Administrative Claim, other than (i) a Fee Claim, or (ii) a liability incurred and paid in the ordinary course of business by the Debtor, must file with the Bankruptcy Court and serve on the Proponent and its counsel, notice of such Administrative Claim within thirty (30) days after the Confirmation Date or such other date as the Bankruptcy Court may fix, a request for payment of Administrative Expenses ("Request"). Such request must include at a minimum (i) the name of the holder of the Claim, (ii) the amount of the Claim, and (iii) the basis of the Claim. Failure to file this request timely and properly shall result in the Administrative Claim being forever barred and discharged.

b. Time for Filing Fee Claims.

Each Professional Person who holds or asserts an Administrative Claim that is a Fee Claim incurred before the Confirmation Date must file with the Bankruptcy Court and serve on all parties required to receive notice a Fee Application before the Chapter 11 case is closed.

c. Allowance of Administrative Claims.

An Administrative Claim with respect to which notice has been properly filed pursuant to Article VII.E.1 of the Plan shall become an Allowed Administrative Claim if no objection is filed within (30) thirty days of the filing and service of notice of such Administrative Claim as required by Bankruptcy Rule 9014. If an objection is filed within such thirty-day period, the Administrative Claim shall become an Allowed Administrative Claim only to the extent allowed by Final Order. An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed pursuant to Article VII.A.2 of the Plan, shall become an Allowed Administrative Claim only to the extent allowed by Final Order.

d. Payment of Allowed Administrative Claims.

Each holder of an Allowed Administrative Claim shall receive (i) payment of the Allowed Administrative Claim within 30 days of the Effective Date, or (ii) such other treatment as may be agreed upon by such holder; provided, that an Administrative Claim representing a liability incurred in the ordinary course of business by the Debtor may be paid in the ordinary course of business.

**ARTICLE VI - INCOME TAX CONSEQUENCES.**

NOTHING STATED IN THE DISCUSSION WHICH FOLLOWS IS OR SHOULD BE CONSTRUED AS TAX ADVICE TO ANY CREDITOR OF THE DEBTOR. CREDITORS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE PLAN.



The statements contained in this portion of the Disclosure Statement are based on existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, existing court decisions, published Revenue Rulings, Revenue Procedures and Technical Information Releases of the Internal Revenue Service (the "IRS"), and legislative history. Any changes in existing law may be retroactive, may affect transactions commenced or completed prior to the effective date of the changes, and may significantly modify this discussion.

Legislation may be introduced in future sessions of Congress which could eliminate or alter some of the anticipated tax results of the Plan. No attempt has been made to evaluate in any detail the impact, which may be substantial, of any proposed legislation on the Plan.

The following is intended to be only a summary of certain tax considerations under current law which may be relevant to the Creditors of the Debtor. It is impractical to set forth in this Disclosure Statement all aspects of federal, state, and local tax law which may have tax consequences to the Debtor and its Creditors.

Some of the tax aspects discussed herein are complex and uncertain. Moreover, the discussion below is necessarily general, and the full tax impact of the Plan upon the Creditors will vary depending upon each Creditor's individual circumstances. Therefore, all the Creditors should satisfy themselves as to the federal, state, and local tax consequences to the Plan by obtaining advice solely from their own advisors.

THE CREDITORS SHOULD NOT CONSIDER THE DISCUSSION WHICH FOLLOWS TO BE A SUBSTITUTE FOR CAREFUL, INDIVIDUAL TAX PLANNING AND ARE EXPRESSLY CAUTIONED THAT THE INCOME TAX CONSEQUENCES TO THE CREDITORS ARE COMPLEX AND VARY CONSIDERABLY DEPENDING UPON EACH PARTY'S CIRCUMSTANCES. ACCORDINGLY, CREDITORS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH REGARD TO THEIR PARTICULAR TAX SITUATIONS.

**A. CREDITORS.**

1. To the extent that creditors receive payments under the Plan as interest, such creditors may recognize interest income under Section 61(a)(4) of the Code.

2. To the extent that, pursuant to the Plan, Creditors receive cash payments from the Debtor in satisfaction of their claims, such Creditors may recognize gain or loss, as the case may be, equal to the difference between the amount of the cash so received and their adjusted basis in such claim.



3. The gain or loss to be recognized by such Creditors will be either ordinary income or capital gain depending on, among other factors, the status of the Creditor and the nature of claim in the hands of the Creditor.

4. Section 166 of the Code permits the deduction of debts which have become totally or partially worthless. Therefore to the extent that certain Creditors will receive less than full payment from the Debtor with respect to the debt owed such Creditors, such Creditors may be able to deduct such bad debts for federal income tax purposes. The nature of the deduction for a bad debt depends on its classification as either a business or a nonbusiness debt. For noncorporate taxpayers nonbusiness bad debts are deductible as short-term capital losses, and so are subject to the limitations on deductibility of capital losses under Sections 1211 and 1212 of the Code. Business bad debts and bad debts held by corporate taxpayers are deductible as ordinary losses. A bad debt is deductible to a creditor at the time it becomes wholly or partially worthless determined under the particular facts and circumstances.

## **B. THE DEBTOR.**

### **1. Income From the Discharge of Indebtedness.**

As a general rule, Section 61(a)(12) of the Code requires that gross income for federal income tax purposes includes income from the discharge of indebtedness. However, Section 108(a)(1) of the Code specifically excludes gross income discharge of indebtedness which occurs in a title 11 (bankruptcy) case. Therefore, the Debtor will not recognize income on the discharge of indebtedness pursuant to the Plan.

Section 108(b) of the Code, however, provides that the amount excluded from gross income under Section 108(a)(1) must be applied to reduce, in order, the following tax attributes of the Debtor: (a) net operating losses and net operating loss carryovers; (b) general business credits; (c) minimum tax credits; (d) capital loss carryovers; (e) the basis of the property of the taxpayer (but not below the aggregate liabilities of the taxpayer after the discharge, pursuant to Section 1017(b)(2) of the Code); (f) passive activity loss and credit carryovers; and, (g) foreign tax credit carryovers.

Alternatively, the Debtor may elect under Section 108(b)(5) of the Code to apply any portion of the reduction referred to above to a reduction of the taxpayer's basis in depreciable property.

The effect of the reduction of tax attributes is to defer the recognition of income on the discharge of indebtedness income until such time as the reduced tax attribute would have otherwise been available to the Debtor to decrease taxable income.

residents of Alabama who have income from sources within the State of Alabama. The Alabama income tax is imposed on taxable income at a graduated rate of up to five percent (5%).

THE FOREGOING ANALYSIS IS NOT INTENDED TO BE A SUBSTITUTE FOR CAREFUL TAX PLANNING, PARTICULARLY SINCE CERTAIN OF THE INCOME TAX CONSEQUENCES OF THE PLAN WILL NOT BE THE SAME FOR ALL CREDITORS, DUE TO THEIR RESPECTIVE DIFFERING SOURCES AND TYPES OF INCOME AND DEDUCTIONS, AND OTHER FACTORS. ACCORDINGLY CREDITORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH REFERENCE TO THEIR OWN TAX SITUATION.

#### **ARTICLE VII - FEASIBILITY OF PLAN**

The distribution to be made to creditors under Debtor's Plan shall be funded from the following sources:

1. Funds on hand and funds generated by the Debtor from the work in process and accounts receivable. In addition, Debtor will be looking to sell the SaniGlaze Franchise in an effort to reduce the Debtor's obligations to ServisFirst and to cure the franchise fees owed to Millicare as required through the assumption of the franchise agreement. Please see the attached Pro Forma as Exhibit "A" from which the Debtor plans to operate for the foreseeable future.

#### **ARTICLE VIII - CONFIRMATION PROCEDURES**

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

##### **A. SOLICITATION OF VOTES.**

As required by the Bankruptcy Code, the Debtor is soliciting acceptance of all classes of Claimants which are "impaired" under the Plan. Classes 1, 2, 3 & 4 are impaired under the Plan.

The Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of two-thirds in dollar amount and more than one-half in number of the claims of that class who actually cast ballots for acceptance or rejection of the plan, that is, acceptance occurs only if two-thirds in amount and one-half in number of the claims voting cast their ballots in favor of acceptance. A Claimant's vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that the Claimant's acceptance or rejection was not solicited or procured in good faith or in accordance with the provision of the Bankruptcy Code. Any creditor of an impaired class (a) whose claim has been scheduled by the Debtor in the schedules filed with the

Bankruptcy Court (provided that such claim has not been scheduled as disputed, contingent or unliquidated), or (b) who has filed a proof of claim unless such claim has been disallowed for voting purposes by the Bankruptcy Court, is entitled to vote.

**B. CONFIRMATION HEARING.**

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan at which any party in interest may object to confirmation.

The hearing on the Plan has been scheduled for \_\_\_\_\_. The hearing on the Plan may be adjourned from time to time by the Bankruptcy Court without further notice except by announcement made at the hearing. Any objection to confirmation must be made in writing and filed with the Bankruptcy Court and served upon the following on or before \_\_\_\_\_:

Steven D. Altmann  
NAJJAR DENABURG, P.C.  
2125 Morris Avenue  
Birmingham, AL 35203

Clerk, United States Bankruptcy Court  
Robert S. Vance Federal Building  
1800 5th Avenue North  
Birmingham, AL 35203

J. Thomas Corbett, Esq.  
Bankruptcy Administrator's Office  
Robert S. Vance Federal Building, Suite 132  
1800 5th Avenue North  
Birmingham, AL 35203

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

**C. CONFIRMATION.**

At the hearing on confirmation of the Plan, the Bankruptcy Court shall confirm the Plan only if the Plan meets the requirements of Section 1129 of the Bankruptcy Code. Section 1129 includes several requirements for confirmation of a plan. The more significant requirements are discussed as follows:

1. **Best Interest Test.**

Before the Bankruptcy Court will confirm the Plan, the Plan must meet the best interest test. The best interest test requires that with respect to each impaired class of creditors under the Plan, each Claimant either (a) has accepted the Plan; or (b) will receive or retain under the Plan on account of its claim property of a value, as of the effective date of the Plan, that is not less than the amount such Claimant would receive or retain if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. In other words, if one or more Claimants that are members of an impaired class vote to reject the Plan, the Court will confirm the Plan only if the distribution to such Claimants under the Plan is not less than the distribution that the Claimants would receive under a chapter 7 liquidation of the Debtor.

Based upon several factors present in the Debtor's bankruptcy case, the Debtor believes that the Plan meets the best interest test. Considering the liquidation value of the Debtor's assets, the cost of liquidation under chapter 7, and the adverse impact that a liquidation under chapter 7 would have on the Debtor's overall livelihood, the Debtor believes that the Plan provides for a larger distribution to individual unsecured creditors than under a chapter 7 liquidation of the Debtor.

The liquidation value of the Debtor's tangible assets is more particularly described in Section X below. In summary, a straight liquidation of the Debtor's tangible assets may result in some distribution to unsecured creditors, but Star Insurance's unsecured deficiency claim will substantially decrease the percentage distribution. The Debtor believes that his tangible assets are more valuable to his unsecured creditors as part of a reorganization that will generate sufficient income to fund the Plan. Under the Plan, the Debtor will pay unsecured creditors approximately 100% of their allowed claims, resulting in a larger distribution to unsecured creditors than would result from a liquidation of the Debtor's tangible assets.

In addition, the Debtor's cost of liquidation under chapter 7 would include fees payable to a trustee in bankruptcy, fees that might be incurred by additional attorneys, and other professionals that a chapter 7 trustee might engage. The cost of liquidation also would include any expenses of an auctioneer that are allowed in the chapter 7 case. The foregoing types of claims and such other claims that may arise in the liquidation, or that would result from the pending reorganization, would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay pre-chapter 11 unsecured claims. The liquidation of the Debtor's estate under chapter 7 would create costs and expenses greatly in excess of the costs and expenses of reorganization that would be paid under the Plan. In essence, any bankruptcy trustee appointed under chapter 7 of the Bankruptcy Code would have to recommence the administration of the Debtor's estate and would incur considerable expense covering the same ground and duplicating the efforts of the Debtor and the professionals the Debtor has hired during the pendency of the Debtor's reorganization. Accordingly, the Debtor believes that a liquidation of the Debtor under chapter 7 adversely would affect all

unsecured creditors by lowering the amounts available for distribution to unsecured creditors after payment of administrative and other priority claims.

To determine if the Plan is in the best interest of each impaired class, the Bankruptcy Court will compare the present value of the distributions from the proceeds of the liquidation of the Debtor's assets and properties (after subtracting the amounts attributable to the claims discussed above) with the present value offered to each of the classes of unsecured claims under the Plan. Unless it specifically determines otherwise, the Bankruptcy Court will treat all pre-chapter 11 general unsecured claims, which would have the same rights upon liquidation, as one class for the purposes of determining the potential distribution of the liquidation proceeds pro rata according to the amount of the claim held by each creditor.

After considering the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the present case, including the costs and expenses of liquidation under chapter 7, the uncertainties inherent in a chapter 7, and the adverse affect that a chapter 7 would have on the value of certain of the Debtor's assets, the Debtor has determined that a chapter 7 liquidation would, at best, yield payments to unsecured creditors in an amount much less than the payments provided for in the Plan. The basis for the Debtor's determination is set forth with more particularity in Section X below. In addition, the Debtor believes that the value of any distributions from the liquidation proceeds in a chapter 7 would be less than the value of the distributions under the Plan because such distribution in a chapter 7 would not occur for a substantial period of time. A distribution of the proceeds of a liquidation could be delayed for a year or more after the completion of such liquidation in order to resolve disputed claims and prepare for distributions. If litigation were necessary to resolve certain claims, which is likely, the delay could be prolonged.

Based on the foregoing analysis and given the elimination of uncertainties inherent under chapter 7, the Debtor believes the confirmation of the Plan will provide each Claimant with greater recovery than such Claimant would receive pursuant to a liquidation of the Debtor under chapter 7 of the Bankruptcy Code. In support of the Debtor's belief that if the Debtor's bankruptcy case were converted to a chapter 7 the resulting distribution to unsecured creditors would be lower than the distributions provided by the Plan, the Debtor refers to the discussion in Section X below.

## 2. Acceptance.

Each impaired class of Claimants must accept the Plan, or the "Fair and Equitable Test" described below, must be met with respect to each impaired Class that does not accept the Plan by the requisite vote.

**3. Fair and Equitable Test.**

In the event any impaired class of Claimants does not accept the Plan, the Debtor will seek confirmation pursuant to Section 1129(b), the "cram down" provision and demonstrate to the Bankruptcy Court, as to each nonaccepting class, that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to that class. A Plan does not discriminate unfairly if no class receives more than it is entitled to for its claims or interests. The Bankruptcy Code establishes "fair and equitable" tests for unsecured creditors as follows:

Unsecured Creditors: Either (i) each impaired unsecured creditor receives or retains under the Plan property of a value equal to the amount of its Allowed Claim, or (ii) the holders of claims and interests that are junior to the claims of the dissenting Class will not receive any property under the Plan.

The Debtor may seek confirmation of the Plan even if the Plan is not accepted by a class of creditors.

**4. Feasibility.**

Debtor is of the opinion that the Plan is feasible. See Article VIII.

**5. Consummation.**

The Plan will be consummated and the distributions made if the Plan is confirmed. The Plan is to be implemented pursuant to the provisions of the Bankruptcy Code. Implementation requires an order of the Bankruptcy Court confirming the Plan. The Debtor reserves the right to submit a plan for confirmation pursuant to 11 U.S.C. §1129(b).

**ARTICLE IX - ALTERNATIVES TO CONFIRMATION OF THE PLAN**

If the Plan is not confirmed and consummated, the theoretical alternatives include (a) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code, or (b) the dismissal of this case.

**A. LIQUIDATION UNDER CHAPTER 7.**

If the Bankruptcy Court does not confirm a plan of reorganization in the Debtor's case, the Court may convert the Debtor's case to a case under Chapter 7 of the Bankruptcy Code. Under Chapter 7, a trustee would be elected or appointed to liquidate the assets of the Debtor for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. The Debtor believes that liquidation of the Debtor's assets under chapter 7 would result in a reduced amount to be distributed to the scheduled general



unsecured creditors. Furthermore, the administrative expenses will be less costly in the Chapter 11 reorganization, rather than converting the case to Chapter 7. The Debtor's conclusions are based on a liquidation analysis of the Debtor's assets set out below.

<u>ASSETS</u>	<u>LIQUIDATION VALUE</u>
Checking Account	\$8,000.00
Accounts Receivable	\$82,982.55 <sup>1</sup>
Inventory – Chemicals	\$6,959.00 <sup>2</sup>
Computers; Office Furniture	\$820.00 <sup>3</sup>
2007 Chevy Silverado	\$5,565.00
Cleaning Equipment	\$5,809.50 <sup>4</sup>
Employee Loans	\$16,833.00 <sup>5</sup>
Solid Franchise	\$17,500.00 <sup>6</sup>
Milliken Franchise	\$24,000.00
SaniGlaze Franchise	\$22,000.00
TOTAL ASSETS	\$190,469.05
<u>LIABILITIES</u>	
Chapter 7 Trustee Compensation	unknown <sup>7</sup>
Chapter 7 Administrative Expenses	unknown <sup>8</sup>
Chapter 11 Administrative Expenses	\$15,000.00 <sup>9</sup>
ServisFirst Secured Claim	\$145,000.00
Amount Available for unsecured claims	\$0.00 <sup>10</sup>
TOTAL LIABILITIES	\$160,000.00

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<sup>1</sup> In a Chapter 7, all of this money would go to ServisFirst, which will leave them with an unsecured deficiency balance of approximately \$62,017.45. This value represents approx. 90% of the A/R.

<sup>2</sup> This figure represents 50% of the cost of the Inventory.

<sup>3</sup> This figure represents 50% of the value of the computers, and other office equipment.

<sup>4</sup> This figure represents 50% of the cost of the cleaning equipment.

<sup>5</sup> This figure represents 75% collectability of the employee loans to the company.

<sup>6</sup> Franchises will have little to no value if the company ceases to operate, however the Debtor estimates that they may be worth up to 50% of the historical value upon liquidation.

<sup>7</sup> Pursuant to 11 U.S.C. §326, the Trustee' compensation will depend upon the amount of recovery from the pending lawsuits.

<sup>8</sup> The Chapter 7 Trustee would incur some administrative expense in liquidating the assets of the company.

<sup>9</sup> Debtor has approximated \$15,000.00 for Chapter 11 attorney's fees plus 2 quarters of Quarterly Fees.

<sup>10</sup> The pro rata distribution to unsecured creditors will be less in a Chapter 7 due to the inclusion of a potential unsecured deficiency claim for ServisFirst and the Chapter 7 administrative expenses.

**B. ALTERNATIVE PLAN.**

If the Plan is not confirmed, the Debtor or any other party in interest could attempt to formulate a different plan. Such a plan might involve a different method of calculating the distribution to creditors. The Debtor believes that the Plan as described herein enables creditors to realize the most under the circumstances. The Debtor believes that a reorganization under Chapter 11 is a much more attractive alternative to creditors than a Chapter 7 liquidation because a greater return to creditors will be obtained.

**ARTICLE X – SUMMARY OF PLAN DISTRIBUTION**

TOTAL AMOUNT OF DEBT TO BE PAID BY DEBTOR:

<b>CLASS OF CREDITORS</b>	<b>Total Amount to be Paid</b>	
CLASS 1 – ServisFirst Bank	\$145,000.00*	
CLASS 2 – Unsecured Claims	\$75,527.64**	
CLASS 3 – Unsecured Claim of On Deck	\$268,000.00***	
CLASS 4 – Unsecured Claim of Milliken	\$25,330.20****	
CLASS 5 – Equity Holder Claims	\$0.00	
Administrative	\$15,000.00*****	
<b>TOTAL</b>	<b>\$603,115.45</b>	

\* Payments of \$1,801.37 per month

\*\* Payments of \$886.00 per month

\*\*\* Payments of \$3,140.00 per month

\*\*\*\* Payments of \$2,500 per month for 4 months and reduced to \$1,200 per month for the next 12 months


\*\*\*\*\* This amount includes attorney fees and quarterly fees to the bankruptcy administrator for at least 2 additional quarters. This amount may increase or decrease depending on the final amount approved for professional fees.




**ARTICLE XI - RECOMMENDATION**

The Debtor believes that the Confirmation and implementation of the Plan is preferable to the alternative described above because it will provide a greater recovery to all claimants than those available in a Chapter 7 liquidation. In addition, any other alternative would involve significant delay, uncertainty and additional administration.

Dated this the 6<sup>th</sup> day of October, 2016.

By:   
George Sims, Managing Member  
Commercial Floor Care, LLC

  
Steven D. Altmann

**OF COUNSEL:**

Najjar Denaburg, P.C.  
2125 Morris Avenue  
Birmingham, AL 35203  
(205) 250-8400

**Pro-Forma Income Statement** 8 year Projection

Commercial Floor Care, LLC

REVENUE	2017	2018	2019	2020	2021	2022	2023	2024
Gross sales	966,612	969,029	971,451	973,880	976,314	978,755	981,202	983,655
<b>COST OF GOODS SOLD</b>								
Inventory Products, Supplies	39,631	39,730	39,829	39,929	40,029	40,129	40,229	40,330
Wages Technicians, Management, Admin	326,715	327,532	328,350	329,171	329,994	330,819	331,646	332,475
<b>Total Cost of Goods Sold</b>	<b>366,346</b>	<b>367,262</b>	<b>368,180</b>	<b>369,100</b>	<b>370,023</b>	<b>370,948</b>	<b>371,876</b>	<b>372,805</b>
<b>GROSS PROFIT</b>	<b>600,266</b>	<b>601,767</b>	<b>603,271</b>	<b>604,779</b>	<b>606,291</b>	<b>607,807</b>	<b>609,327</b>	<b>610,850</b>
<b>OPERATING EXPENSES</b>								
Employee benefits <i>Employee Health Insurance</i>	25,132	25,195	25,258	25,321	25,384	25,448	25,511	25,575
Payroll taxes	26,137	26,203	26,268	26,334	26,400	26,466	26,532	26,598
Insurance <i>General Liability, Workman's Comp, Life</i>	28,998	29,071	29,144	29,216	29,289	29,363	29,436	29,510
Rent	15,780	15,780	15,780	15,780	15,780	15,780	15,780	15,780
Utilities	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200
Office supplies	18,366	18,412	18,458	18,504	18,550	18,596	18,643	18,689
Travel & Entertainment	3,866	3,876	3,886	3,896	3,905	3,915	3,925	3,935
Equipment lease	7,104	6,512	7,000	7,000	7,000	7,000	7,000	7,000
Vehicle Lease	41,148	11,400	27,600	27,600	16,200	16,200	16,200	16,200
Vehicle Maintenance	12,566	12,597	12,629	12,660	12,692	12,724	12,756	12,788
Fuel	38,664	38,761	38,858	38,955	39,053	39,150	39,248	39,346
Royalty & Promo fees	71,529	71,708	71,887	72,067	72,247	72,428	72,609	72,790
Advertising	9,666	9,690	9,715	9,739	9,763	9,788	9,812	9,837
Business Licenses	2,900	2,907	2,914	2,922	2,929	2,936	2,944	2,951
Professional fees	7,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
<b>Total Operating Expenses</b>	<b>322,057</b>	<b>288,312</b>	<b>305,596</b>	<b>306,193</b>	<b>295,392</b>	<b>295,993</b>	<b>296,595</b>	<b>297,199</b>
Member Distribution	156,000	156,000	156,000	156,000	156,000	156,000	156,000	156,000
Tax Distribution	31,200	31,200	31,200	31,200	31,200	31,200	31,200	31,200
	187,200	187,200	187,200	187,200	187,200	187,200	187,200	187,200
<b>DISPOSABLE INCOME</b>	<b>91,009</b>	<b>126,255</b>	<b>110,475</b>	<b>111,386</b>	<b>123,699</b>	<b>124,614</b>	<b>125,532</b>	<b>126,451</b>
<b>CREDITOR PAYMENTS</b>	<b>89,047</b>	<b>76,141</b>	<b>69,928</b>	<b>69,928</b>	<b>69,928</b>	<b>69,928</b>	<b>69,928</b>	<b>69,928</b>

Exhibit A