

IN THE UNITED STATES BANKRUPTCY COURT  
WESTERN DISTRICT OF ARKANSAS  
FAYETTEVILLE DIVISION

CASE NO. 5:17-bk-70191  
CHAPTER 11

IN RE: THE NEW COVENANT PAINTING OF NWA, INC.,

DEBTOR IN POSSESSION

Small Business Case under Chapter 11

**THE NEW COVENANT PAINTING OF NWA, INC.'S DISCLOSURE STATEMENT, DATED OCTOBER 17, 2017**

**I. INTRODUCTION**

This is the disclosure statement (the "Disclosure Statement") in the small business chapter 11 case of The New Covenant Painting of NWA, Inc. (the "Debtor"). This Disclosure Statement contains information about the Debtor and describes the The New Covenant Painting of NWA, Inc.'s Plan of Reorganization, Dated October 17, 2017 (the "Plan") filed by The New Covenant Painting of NWA, Inc. on October 17, 2017. A full copy of the Plan is attached to this Disclosure Statement. ***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 5 - 6 of this Disclosure Statement. General unsecured creditors are classified in Class 3, and will receive a distribution of 100% of their allowed claims.

**A. Purpose of This Document**

This Disclosure Statement describes:

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

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

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

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

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

The hearing at which the Court will determine whether to finally approve this Disclosure Statement and confirm the Plan will take place on **November 16, 2017 at 9:00 am prevailing Central Time in Room 416 of the United States Courthouse, 35 East Mountain Street, Fayetteville, AR 72701.**

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

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot per the instructions on the ballot to Bond Law Office, PO Box 1893, Fayetteville, AR 72702. See section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by 5:00 PM prevailing Central Time on 15<sup>th</sup> November 2017 or it may not be counted.

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

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court and served upon Bond Law Office by Tuesday, 14<sup>th</sup> November, 2017.

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

If you want additional information about the Plan, you should contact the Debtor's attorneys, Stanley V. Bond or Emily Henson, Bond Law Office, PO Box 1893, Fayetteville, AR 72702; telephone 479.444.0255.

**C. Disclaimer**

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

**II. BACKGROUND**

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

The Debtor is a Corporation. Since 2008 the Debtor has been in the business of residential and commercial painting and drywall.

**B. Insiders of the Debtor**

The Debtor has two (2) insiders as defined in §101(31) of the Bankruptcy Code. Those persons are identified in part II.C and part III.D.2 below. The insiders constitute the entire equity ownership of the Debtor. The insiders serve as the Debtor's principal management both before the Debtor's bankruptcy case was commenced and during the pendency of the bankruptcy case, and it is proposed that the same management will continue post-confirmation. The insiders are each paid a salary of \$43,000 per year as employees of the Debtor.

**C. Management of the Debtor Before and During the Bankruptcy**

During the two years prior to the date on which the bankruptcy petition was filed, the officers, directors, managers or other persons in control of the Debtor (collectively the "Managers") were Nathan Nichols and Carrie Nichols.

The Managers of the Debtor during the Debtor's chapter 11 case have been: Nathan Nichols and Carrie Nichols.

After the effective date of the order confirming the Plan, the directors, officers, and voting trustees of the Debtor, any affiliate of the Debtor participating in a joint Plan with the Debtor, or successor of the Debtor under the Plan (collectively the "Post Confirmation Managers"), will be: Nathan Nichols and Carrie Nichols. The responsibilities and compensation of these Post Confirmation Managers are described in section III.D.2 of this Disclosure Statement.

**D. Events Leading to Chapter 11 Filing**

The Debtor took on a major commercial project with a third party drywaller in 2015. The third party ceased work on the project and the Debtor had to undertake significant expense in labor and supplies to complete the project. The Debtor has a promissory note from the drywaller scheduled in its assets and intends on pursuing collection of the note.

**E. Significant Events During the Bankruptcy Case**

The Debtor has appropriately hired its attorneys and is in process of hiring its accountants. The Debtor is operating stably and profitably and expects to continue to do so.

The Debtor is not currently, nor has it been a party to any adversary proceeding.

The Debtor is under a strict compliance order by the United States Trustee which requires them to timely file their operating reports and pay quarterly fees.

**F. Projected Recovery of Avoidable Transfers**

The Debtor does not intend to pursue preference, fraudulent conveyance, or other avoidance actions. The Debtor does not have any such transfers to pursue.

However, should any such transfers become apparent, and a party received a payment or other transfer within 90 days of the bankruptcy, or other transfer avoidable under the Code, the Debtor may seek to avoid such transfer and reserves all such rights to do so.

**G. Claims Objections**

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

**H. Current and Historical Financial Conditions**

The identity and fair market value of the estate's assets are listed in Schedule B found in the Appendix. The valuations are based on the Debtor's books and records and depreciation and amortization schedules filed with the Debtor's tax returns.

The Debtor's most recent financial statements are found in the Appendix together with the most recent chapter 11 Monthly Operating Report.

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

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

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

#### B. Unclassified Claims

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

##### 1. *Administrative Expenses*

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

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

<b>Type</b>	<b>Estimated Amount Owed</b>	<b>Proposed Treatment</b>
Expenses Arising in the Ordinary Course of Business After the Petition Date	0	Paid in full on the effective date of the Plan, or according to terms of obligation if later
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	0	Paid in full on the effective date of the Plan, or according to terms of obligation if later
Professional Fees, as approved by the Court.	\$5000	Paid in full on the effective date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the effective date of the Plan
Clerk's Office Fees	0	Paid in full on the effective date of the Plan
Other administrative expenses	0	Paid in full on the effective date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	\$325	Paid in full on the effective date of the Plan
<b>TOTAL</b>	<b>\$5325</b>	

##### 2. *Priority Tax Claims*

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

The following chart lists the Debtor's estimated § 507(a)(8) priority tax claims and their proposed treatment under the Plan:

Description (name and type of tax)	Estimated Amount Owed	Date of Assessment	Treatment
United States Internal Revenue Service (Claim 2), priority tax	\$50,163.27		Pmt interval = monthly Monthly payment = \$1125.02 Begin date = January 31, 2018 End Date = December 31, 2021 Interest Rate % = 3.66% per annum Total Payout Amount = \$ 54,001.11
			Pmt interval = [Monthly] payment = Begin date = End date = Interest Rate % = Total Payout Amount = \$

### 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.

The following chart lists all classes containing Debtor's secured prepetition claims and their proposed treatment under the Plan:

Class #	Description	Insider? (Yes or No)	Impairment	Treatment
2	Secure claim of: Name = IRS  Collateral Description = All real and personal property, accounts receivable  Allowed Secured Amount = \$5227.58  Priority of lien = first  Principal owed = \$5227.58  Total claim = \$5227.58	No	Impaired	Monthly payment = \$117.24  Pmts Begin = January 31, 2018  Pmts End = December 31, 2021  Interest rate % = 3.66% per annum

## 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 following chart lists all classes containing claims under §§ 507(a)(1), (4), (5), (6), and (a)(7) of the Code and their proposed treatment under the Plan:

Class #	Description	Impairment	Treatment
NA	None	N/A	

## 3. *Class 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.

The following chart identifies the Plan's proposed treatment of Class 3, which contains general unsecured claims against the Debtor:

Class #	Description	Impairment	Treatment
	[1122(b) Convenience Class]	NA	The Debtor has elected to not have a convenience class of claims.
3	General Unsecured Class	Impaired	Annual payment = \$5000 for first 48 months paid pro rata = Anniversary of the Effective Date of the Plan = Beginning in month 49 until month 144, this class will also receive the monthly payment that was going to the IRS. = = 0% Interest rate % = 100% Estimated percent of claim paid

## 4. *Class of Equity Interest Holders*

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

The following chart sets forth the Plan's proposed treatment of the class of equity interest holders:

Class #	Description	Impairment	Treatment
4	Equity interest holders	Impaired	This class of interests shall receive no distributions in the Debtor until all other classes of claims are paid in full, including administrative and priority claims.

**D. Means of Implementing the Plan**1. *Source of Payments*

The Debtor will fund its Plan by continuing its operations, and, from time to time, as may be determined by the sole judgment and discretion of the Debtor's management, additional offering of stock, or incurring debt. The Debtor's management will continue to be the prepetition management such management being: Nathan Nichols, President; and Carrie Nichols, Secretary/Treasurer.

2. *Post-confirmation Management*

The Post-Confirmation Managers of the Debtor, and their compensation, shall be as follows:

Name	Affiliations	Insider (yes or no)?	Position	Compensation
Nathan Nichols	Officer and Shareholder	Yes	President	\$43,000
Carrie Nichols	Officer and Shareholder	Yes	Secretary/Treasurer	\$43,000

**E. Risk Factors**

The proposed Plan has the following risks:

National economic collapse, force majeure

**F. Executory Contracts and Unexpired Leases**

The Plan, by reference, lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. All such contracts appear in Schedule G located in the Appendix. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any. All such contracts and leases are not in default.

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

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

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

**The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of a Lease or Contract Is sixty (60) days following confirmation of the Plan.** Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.

**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: after consultation with its accountants the Debtor's management does not anticipate any negative tax consequences from confirmation of this plan, meaning that no additional tax is anticipated other than the Debtor's current and ongoing tax obligations, and those tax obligations treated by the Plan. Creditors may be taxed on the receipt of their respective distributions as ordinary income.

#### IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

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

##### A. Who May Vote or Object

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

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

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

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

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on 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 deadline for filing a proof of claim in this case was 24<sup>th</sup> April 2017.***

##### 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.

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

**C. Liquidation Analysis**

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

**D. Feasibility**

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

1. *Ability to Initially Fund Plan*

The Plan Proponent 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. Tables showing the amount of cash on hand on the effective date of the Plan, and the sources of that cash are attached to this disclosure statement in the Appendix.

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

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

The Plan Proponent has provided projected financial information. Those projections are listed in the Appendix.

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

**V. EFFECT OF CONFIRMATION OF PLAN**

**A. DISCHARGE OF DEBTOR**

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

**B. Modification of Plan**

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

Upon request of the Debtor, the United States trustee, or the holder of an allowed unsecured claim, the Plan may be modified at any time after confirmation of the Plan but before the completion of payments under the Plan, to (1) increase or reduce the amount of payments under the Plan on claims of a particular class, (2) extend or reduce the time period for such payments, or (3) alter the amount of distribution to a creditor whose claim is provided for by the Plan to the extent necessary to take account of any payment of the claim made other than under the Plan.

**C. Final Decree**

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

/s/ Nathan Nichols

The New Covenant Painting of NWA, Inc.

/s/ Emily J. Henson

Emily J. Henson

**EXHIBITS**