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UNITED STATES BANKRUPTCY COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

In re Shibata Floral Company, Debtor.	Case No. 17-31143 DM Chapter 11 **DISCLOSURE STATEMENT [May 18, 2018]**

Shibata Floral Company (the "Debtor") furnishes this Disclosure Statement pursuant to Bankruptcy Code §1125 to assist entities entitled to vote in evaluating Debtor's proposed Chapter 11 plan (the "Plan"), a copy of which is enclosed herewith. The information contained herein has been compiled and provided by the Debtor's management and advisors. Entities wishing to vote on the Plan should complete their ballots and return them to the following address before the deadline set forth in the Order (1) Approving Disclosure Statement, (2) Fixing Time for Filing Acceptances and Rejections of Plan, (3) Setting Briefing Schedule, and (4) Fixing time for Confirmation Hearing Combined With Notice Thereof enclosed herewith:

Address for Return of Ballots:

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I. BACKGROUND

1. Name of debtor: Shibata Floral Company

2. Type of debtor: California Corporation

3. Debtor's business or employment: Shibata Floral Company is a retail seller of floral supplies located in San Francisco, California and Portland, Oregon. The Debtor is owned by Eric Shibata and Lori Shibata, each owing 50% of the shares of stock of the Debtor.

4. Date of Chapter 11 petition: November 13, 2017

5. Events that caused the filing: The Debtor filed this case due to the increasing financial pressures from unpaid vendors, litigation pending in the State of Florida, and as a mechanism to sell the Debtor's business, if possible.

II. DEBTOR'S CREDITORS AT PRESENT

A. Holders of Secured Claims: MUFG Union Bank ($43,383) and Toyota Motor Credit ($2,047)

B. Holders of Priority Claims: Internal Revenue Service ($9,391) and (disputed) Certified Florists Supplies, Inc. ($1,520.67)

C. Non-Insider Unsecured Claims:

Amount Debtor scheduled as undisputed plus claims filed (if different)	$ 625,353

III. THE ESTATE'S ASSETS AT PRESENT

A. Assets.

Cash in bank accounts (estimate)	$100,000
Inventory	$580,101[1]
Accounts Receivable	$162,386
Skyline Flower Growers and Shippers, Inc. Installment Sale Contract (purchase price based on a percentage of revenues	$200,000 (estimate)

[1] As of February 28, 2018 and inventory is valued at 75% of book value to account for liquidation value.

over 5 years). The Debtor received $34,833 for 2016 (4%) and $43,871 for 2017 (5%). Percentage will increase to 6% in 2018, 8% in 2019 and 10% in 2020. The value is based on similar sale projections for 2018, 2019 and 2020.	
Claim for breach of contract against Altman Plants	$25,000
Furniture and fixtures (office furniture, equipment)	$5,500
Machinery and Equipment (pallet, racking forklifts, picker, pallet jacks)	$34,000
Autos and trucks: • 2010 Toyota Prius • 2013 Toyota Prius • 2003 Honda Accord • 2001 Mitsubishi Montero • 2003 Honda Civic • 1997 Isuzu Truck • 2004 GMC Savana Van • 2008 Mazda • 1996 Ford Van • 1992 Ford Van • 1994 Dodge Van Security Deposits: • San Francisco Flower Mart (SF) • KR Flower Mart (SF) • Flower Market Association (OR) Investment: • Flower Market LLC (.45%)	 • $3,500 • $5,000 • $1,500 • $1,000 • $2,200 • $6,500 • $3,500 • $4,500 • $500 • $500 • $500 • $11,328 • $12,000 • $10,000 • unknown
Total Asset Value	**$ 976,148**

B. Potentially meritorious avoidance actions or claims against third parties: The Debtor has counter-claims for breach of contract, fraud and breach of fiduciary duty against Florida Logistics of Miami, EcoFlora, Inc. and Izhak Kashani. On April 30, 2018, EcoFlora, Inc. filed an Assignment for the Benefit of Creditors in Florida listing assets of accounts receivables in the amount of $358,000 (described as "uncertain value and collectability") subject to a secured claim in the amount of $252,556. The Debtor does not currently have the resources to pursue these claims in Florida. The Debtor also has a breach of contract claim against Altman Plants that

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may not be cost effective to prosecute. The Debtor also may have rent offset claims relating to electrical overcharging against San Francisco Flower Market.

During the 1-year prior to filing the bankruptcy case, the Debtor made payments to the insiders, including Eric and Lori Shibata as well as their children, Stephanie L. Quan and David Shibata. The payments to Eric and Lori Shibata were twofold. First, there were payments for interest on Promissory Notes that evidenced loans made by the Shibatas to the Debtor. The payments of the interest on the Promissory Note were paid pursuant to the terms of the Promissory Note. Second, Eric and Lori Shibata received salary, Eric Shibata in the amount of $58,336 and Lori Shibata in the amount of $42,000. The salary payments were made as compensation for Eric and Lori Shibata's services provided to the Debtor during this time period. As with their parents, Stephanie Quan and David Shibata also were paid a salary, Ms. Quan receiving $61,568 and David Shibata receiving $45,096. Again, these payments were made as compensation services provided to the Debtor during this period of time.

In addition to wages and interest, the Debtor made payments on the personal credit card bills for Eric Shibata, Lori Shibata and David Shibata. The charges on the credit cards were exclusively for the business expenses and the payments made were made pursuant to the terms of the cardholder agreement.

The Debtor believes that the payments made both to the Shibatas as well as to their credit card companies would be subject to a full defenses if an action was brought to recover them. Payments to the insiders for interest on the loans as well as salary would be subject to the ordinary course of business defense as the payments were made pursuant to the terms of the Promissory Note and pursuant to the terms of their employment. Furthermore, the payments on the credit card bills would be subject to a full defense under California's Uniform Avoidable Transaction Act or 11 U.S.C. Sec. 548 in that all the charges were incurred for the benefit of the Debtor and no personal charges of the Shibatas were paid by the Debtor.

IV. SUMMARY OF PLAN

A. Effective Date: <u>30 days after entry of the order confirming Plan</u>

B. Treatment of Secured Claims of MFG Union Bank and Toyota Motor Credit: Retain liens on the Debtor's assets subject to each lien and the Debtor continues to be obligated pursuant to the underlying loan obligations.

C. Professional Fees and Administrative Expenses: Debtor anticipates that its unpaid, professional administrative expenses at the Effective Date will be approximately $25,000. The professional fees consist of approximately $10,000 in fees to the Debtor's Court approved accountant (Cothran & Johnson), and $15,000 in fees and costs to the Debtor's attorneys, Kornfield, Nyberg, Bendes, Kuhner & Little, P.C.

D. Treatment of General Unsecured Claims:

1.	Estimated percentage dividend:	49%
2.	Will installment payments be made?	Yes
3.	If so: The Debtor shall make quarterly payments of $9,586 over a 8-year period or until the unsecured creditors receive 49% of their claims. Payments shall begin on the 30th day following the Effective Date.	$ 9,586
	Estimated date of first installment: Contingencies, if any:	July 5, 2018
4.	If not: Will there be a lump sum payment?	No

The principals of the Debtor, Eric and Lori Shibata, are listed in the Debtor's schedules as having an undisputed, unsecured claim in the amount of $1,057,721. The claim is based on (i) loans made to the Company over a period of time (2008-2011) evidenced by four (4) promissory notes with a balance owing as of the petition date of $282,721; and (ii) the assignment of a promissory note in the amount of $775,000 from Eric Shibata's mother to Eric Shibata. The note is interest only and was in default as of the petition date and therefore was due and payable in full. The assignment of the Promissory Note occurred on November 23, 2011. The Shibatas, under the Plan, are agreeing to fully subordinate payment on said claim to all payments provided for under the Plan and will not have the right to receive any payment on account of said claim until all of the Debtor's obligations under the Plan have been fully satisfied.

E. The Debtor's shareholders will be retaining their shares under the Plan.

F. The Debtor will fund the Plan through its ongoing operations. During the course of its Chapter 11 case, the Debtor has operated at a profit with a positive cash flow. The Debtor's most recent monthly operating report (March 2018) shows that over the life of the Chapter 11 case, the Debtor has a profit from operations of $63,650 and cash on hand of $74,862. The Debtor's business is seasonal therefore the profit and cash flow will fluctuate from month to month.

G. Payment of Priority Claims:

The Debtor will pay its priority tax claim, if valid, to the Internal Revenue Service in the amount of $9,391 in full over 4 years from the Effective Date on a quarterly basis ($585.00). The Debtor will object to the priority claim filed by Certified Florists Supplies, Inc. which is the Los Angeles landlord and has no legal basis for asserting its claim as a priority claim.

H. Other significant features of the Plan:

The payments under the Plan shall be due quarterly (due on the 5th of the month after the quarter ends) and in Default if not received by creditors by the 15th of the month. In the event that the Debtor does not timely make a required Plan payment, the Debtor shall be given a written notice of Default, with a copy to the Debtor's counsel, and will have ten (10) days to cure said Default. In the event a Default is not cured within the aforementioned ten (10) day period, then the Debtor will be in default under the Plan. The Debtor may have to temporarily relocate its business operations for a 2-3 year period. In the event the Debtor's revenue decreases to the point it is

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unable to make its payments under the Plan, the Debtor shall be entitled to defer payments under the Plan to account for the lost revenue.

V. COMPARISON WITH CHAPTER 7

If Debtor's Plan is not confirmed, the potential alternatives would include proposal of a different plan, dismissal of the case or conversion of the case to Chapter 7. If this case is converted to Chapter 7, a Chapter 7 trustee will be appointed to liquidate the Debtor's assets. In this event, all secured claims and priority claims, including all expenses of administration, must be paid in full before any distribution is made to unsecured claimants.

1.	Estimated percentage dividend to unsecured claimants in a Chapter 7:		35 %
2.	Calculation thereof:		
	Total Chapter 7 Estate[2] (see Section III):	$	942,820
	Less estimated Chapter 7 expenses of administration[3]:	$	198,317
	Less unpaid Chapter 11 expenses of administration (including priority tax claims):	$	34,391
	Less other priority claims:	$	0
	Less secured claims	$	43,383
	Amount available for distribution:	$	666,729
	Divided by total allowable unsecured claims ($625,352), plus claims of Eric and Lori Shibata ($1,057,721) and the damage claims from the termination of commercial leases in San Francisco, California ($30,606) and Portland, Oregon ($146,640):	$	1,860,320
	Equals percentage dividend:		35%

[2] Does not include the security deposit with landlord since these would not be available in a Chapter 7 bankruptcy.
[3] Trustee's fees: ($50,000); Attorney's fees ($25,000); Accountant Fees ($5,000); Auctioneer Commission ($96,645) based on 15% on the sale of the inventory, equipment, furniture, fixtures and vehicles valued at $644,300; and Rent/Storage ($52,292) based on 2 months of rent at the San Francisco and Portland locations where the assets to be sold are located..

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3. The Debtor believes that the creditors will fare better under the Plan than they would in a Chapter 7 liquidation. As is shown in the liquidation analysis, the estimated dividend to unsecured creditors would be approximately 35%. However, this figure may be high given that the value of the receivables and assets would be even lower if the Debtor was no longer in business and a Chapter 7 Trustee was attempting to collect the receivables and sell the assets. In addition, as part of the Plan, the Shibatas have agreed to fully subordinate their claim of $1,057,721.11. If the case converts to a Chapter 7 case, the Debtor believes the Shibatas would not have to subordinate their claim as there is no legal or factual basis to subordinate their claim.

The lease rejection damage claim for the San Francisco leases is based on two (2) leases, . Rent for Space #74 Lease is $6,244.56 per month and the lease is renewable for one (1) year on November 2018. The lease for the 620 Brannan Street lease is $15,810 per month and the lease is on a month to month basis. If the Chapter 7 Trustee rejected these leases in June 2018, the lease rejection damage claims for the Space 74 Lease would be $26,136 ($6,244 x 6 = $37,464, less the security deposit of $11,328). The lease rejection damages for 620 Brannan Street lease is $4,470 ($15,819, less the security deposit of $11,340). The Portland lease rejection damage claim is based on a 1 year of rent at $10,836 per month rent and $1,384 in monthly CAM charges (there are three (3) years remaining on this lease) which totals $146,640, which would be the lease rejection damage claim under 11 U.S.C. Section 502(b)(6). The Debtor believes these all the leases are at or below market and the chapter 7 trustee would reject each lease.

Under the proposed Plan, the distribution to unsecured creditors will be 49%, which exceeds the 35% distribution under a Chapter 7 liquidation.

VI. FEASIBILITY

A. The Debtor has the ability to make all payments required under the Plan. Based upon the Debtor's operations in Chapter 11 and historical revenues, the Debtor feels strongly that it will have the ability to fully fund the Plan. Attached hereto as **Exhibit "A"** are the summaries of financial status from the monthly operating reports (without the bank statements) filed by the Debtor during this Chapter 11 case.

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B. The Debtor asserts that as the economy continues to improve, generally, and the operations of the Debtor will remain consistent.

C. Due to the fact that the Debtor will have to temporarily relocate its San Francisco operations from 2020 to 2023 (potentially), the Debtor reserves the right to modify its payments to creditors under the Plan to allow for any reduction in revenue. It is unknown at this time the degree of the potential reduction in revenue, but the Debtor anticipates some level of reduction initially upon the move. To the extent there is a reduction of any quarterly payment, the Debtor will make up the difference in order to pay claims in full. In the event that the Debtor is unable to make payments due to the temporary relocation, the Debtor will send out a notice to creditors indicating that payments will not be made during that quarter.

D. The Debtor will be able to fund all amounts that must be paid on the effective date of the Plan.

E. Estimated amount that must be paid on the effective date: $25,000

F. Cash on hand: $100,000

VII. PROPOSED MANAGEMENT AND SALARIES AFTER CONFIRMATION

Lori Shibata – Vice President	Salary: $80,000
Eric Shibata - President	Salary: $60,000

Lori Shibata's salary has increased from her pre-petition salary of $42,000 due to the resignation of the Debtor's Chief Financial Officer with Lori assuming her duties which double her level of work. The Debtor reserves the right to increase these salaries and associated benefits in a reasonable and responsible manner.

VIII. CONDITIONAL INJUNCTION AS TO COLLECTION AGAINST SHIBATAS:

During the period of time of repayment under the Plan, and provided the Debtor is not in default of any payment obligations under the Plan, MUFG Union Bank, N.A which has a direct claim against the Shibatas under a personal guaranty, shall be enjoined from enforcing these claims against the Shibatas. Any statute of limitations relating to the claims shall be tolled during the time the injunction is in effect.

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IX. ADDITIONAL INFORMATION AND COMMENTS:

To confirm its proposed Plan of Reorganization, the Debtor must obtain the approval of the general unsecured creditor class. The Debtor cannot cram down this plan under Bankruptcy Code Section 1129(b)(2)(B)(ii).

X. CERTIFICATION

The undersigned hereby certifies that the information herein is true and correct, to the best of my knowledge and belief, formed after reasonable inquiry.

Dated: May 18, 2018

Shibata Floral Company

By:/s/ Eric Shibata
Its: President

Dated: May 18, 2018

Kornfield, Nyberg, Bendes, Kuhner & Little, P.C.

By:/s/ Chris D. Kuhner
(Bar No. 173291)
Attorneys for Debtor Shibata Floral Company

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