UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF COLORADO

In re:	)	
	)	Case No: 15-23313-EEB
TAEUS CORPORATION	)	Chapter 11
	)	
Debtors.	)	
	)	
	)	

THIRD AMENDED DISCLOSURE STATEMENT IN SUPPORT OF CHAPTER 11 PLAN OF REORGANIZATION DATED OCTOBER 31, 2017

TAEUS CORPORATION, Debtor-in-Possession, submits this Amended Disclosure Statement in support of the Chapter 11 Plan of Reorganization dated October 17 , 2017 ("Plan").

INTRODUCTION

This disclosure statement (the "Disclosure Statement") is being provided to all known creditors in the chapter 11 bankruptcy case of TAEUS CORPORATION., Debtor- in-Possession, (the "Debtor"). This Disclosure Statement contains information about the Debtor and describes the Chapter 11 Plan of Reorganization dated October 17, 2017 filed by the Debtor with the Bankruptcy Court. A full copy of the Plan is attached to this Disclosure Statement as **Exhibit A**. ***Your rights may be affected. You should read the Plan and the Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.***

The proposed distribution under the Plan are discussed at pages 6 through 8 of this Disclosure Statement.

I. The Disclosure Statement

A. Purpose of the Disclosure Statement

This Disclosure Statement is provided to disclose information which is deemed material, important and necessary for each creditor to arrive at a reasonable, informed decision in exercising the right to vote for acceptance or rejection of the Plan. The Disclosure Statement is subject to final approval pursuant to 11 U.S.C. §1125 by the United States Bankruptcy Court for the District of Colorado which requires the Disclosure Statement to contain adequate information for the purposes of voting. The 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 or object to the Plan;

- What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Plan;
- Why the Debtor believes the Plan is feasible and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation; and
- the effect of confirmation of the Plan.

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

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

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

The hearing at which the Court will determine whether to approve the adequacy of this Disclosure Statement and will take place on , at , in Courtroom F at the United States Bankruptcy Court for the District of Colorado, United States Bankruptcy Court, Custom House 721 19th St., Denver, CO 80202 (the "Court").

.2. *Deadline for Objecting to the Confirmation of the Plan*

Objections to the confirmation of the Plan must be filed withe Court and served upon Debtor's counsel, the Office of the United States Trustee and interested parties by **____ 2017**.

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

If you want additional information about the Plan or Disclosure Statement, you should contact **Michael J. Davis, DLG Law Group LLC, 4100 Mississippi Ave., St. 420, Denver, Colorado 80246.**

C. **Disclaimer**

NO REPRESENTATIONS ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION.

THIS DISCLOSURE STATEMENT HAS NEITHER BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION. SIMILARLY, THE COMMISSION HAS NOT REVIEWED THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT.

The information contained herein has not been subjected to a certified audit. The Debtor is not able to warrant or represent that the information contained herein is without error, although all reasonable efforts under the circumstances have been made to ensure accuracy. Much of the information contained herein is based upon information contained in other documents, the accuracy of which may be subject to interpretation and/or challenge.

The information contained in this Disclosure Statement is information available as of August 10, 2017, except as noted otherwise herein. Changes may be necessary and any material changes may be considered by the Court at the hearing on confirmation of the Plan. Financial information supplied by the Debtor has not been subject to audit.

D. Recommendation of the Debtor

In the opinion of the Debtor, the Plan is the best available option for creditors. The Plan provides for payments to creditors in excess of what would be received through a liquidation of assets.

II. BACKGROUND

A. Description and History of Debtor's Business

For over twenty years, TAEUS has been supplying Intellectual Property ("IP") analysis, defense, litigation support, and brokering services functioning as experts in these fields. TAEUS has created methods for patent evaluation, patent sales, data analysis, brand protection, and patent licensing that make it easier to do business secure in the knowledge that an entity's IP's are safe.

In April, 2014, Taeus went through a Class F Corporate Restructuring in order to achieve maximum operational identity. Taeus Holdings Inc. ("THI") is owned by Arthur and Kathleen Nutter. THI was formed and became the owner of four separate entities which included the Debtor, Taeus Research LLC, PatentBooks Inc., and Taeus International. The only operational entities were the Debtor and PatentBooks Inc., which was a new entity formed to offer an efficient, "one stop shop" for patent users to license the patent rights needed to offer products & services, and the greatest benefit to patent owners by being paid quality-based royalties on every single one of their patents. The idea was that PatentBooks would hold the patent portfolios for customers and the Debtor would perform auditing and provide support for the patent portfolios that had been assigned to PatentBooks by their clients. THI is the parent company as described above, Arthur Nutter is connected with all the entities and functions as the CEO for all the Taeus entities.

While this reorganization was going on in 2014, and while the principal of the Debtor, Art Nutter ("Nutter"), was setting up PatentBooks, the Debtor was not being run by Nutter because he was concentrating all his time setting up PatentBooks. The President of the Debtor was Walter Copan who is no longer employed by the Debtor. Any claims were settled in litigation between TriNet as the payroll provider for Taeus and Copan with mutual releases being given. The operation of the Debtor was not profitable during this period, and resulted in the list of creditors being owed money as reflected in the schedules filed in this Case. In September of 2015, Nutter took control of the core business, reorganized his operational staff, and attempted to turn the corner on profitability. As evidence of the decline in revenues for the Debtor, 2014 produced revenue of $2,952,950, and 2015 produced revenues of $1,206,259.

B. Insiders of the Debtor

Nutter is the Debtor's CEO and will continue in that capacity. The Debtor is owned by Taeus Holdings Inc. which has no operational function and exists merely as the entity that owns the Debtor and PatentBooks.

C. Management of the Debtor before and During the Bankruptcy

At the time the bankruptcy was filed and during the bankruptcy case, the Debtor has been managed by Nutter.

D. Events Leading to Chapter 11 Filing

Once Nutter took over the reigns of the Debtor and discovered the debts the Debtor owed, he attempted to negotiate payment plans with the creditors. This was unsuccessful, and spawned multiple lawsuits and demands for collection. NetReit Presidio LLC filed a forcible entry and detainer case against the Debtor and forced the Debtor out of its offices, while also getting a sizeable judgment in the amount of $257,766.51. In order to halt collection actions by this creditor, the Debtor filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

E. Significant Events During the Bankruptcy Case

The Debtor filed for relief under Chapter 11 of the Bankruptcy Code on December 2, 2015 and filed this proposed Disclosure Statement with an attached plan dated August 18, 2017.

A Creditors Committee was appointed on January 12, 2016, and an Application to Employ Sender Wasserman Wadsworth, P.C. as Counsel to the Unsecured Creditors' Committee was filed on January 27, 2016 (Dkt. #42) with an Order approving their retention being entered on April 6, 2016 (Dkt. #73). The Committee through counsel conducted a 2004 exam of the Debtor and Nutter and a Protective Order was entered December 19, 2016 (Dkt. #107) for documents that were designated as Confidential to be turned over as a result of the 2004 exam.

The operations of the Debtor have changed markedly during the pendency of the case. The Debtor has significantly reduced expenses, including eliminating rent expenses by moving operations from a central office to employees working from home. The company aircraft was sold, staff was reduced and Nutter's pay was eliminated in July 2015, with the Treasurer of the Debtor's salary being eliminated in January 2016. The Debtor currently has 8 employees.

The Debtor also invested significant resources on a contingency basis towards the monetization of PenOne patents. The Debtor performed work on the analysis of the Patent portfolio belong to Pen-One which included certain phone technology used by both Apple and Samsung. The Debtor attempted to negotiate licenses for the use of this technology to no avail and agreed to take a percentage of the compensation which PenOne was to receive upon the resolution of the dilemma created by the continued use of the PenOne technology by Samsung and Apple. To resolve the unauthorized use of the patents, patent litigation against both Apple and Samsung was filed in the United States District Court For The Southern District Of Alabama on April 25, 2017. The cases filed are Pen-One Acquisition Group, LLC, Plaintiff, v. Apple Inc., Case 1:17cv00179 and Pen-One Acquisition Group, LLC, Plaintiff, v. Samsung Electronics Co., Ltd., And Samsung Electronics America, Inc., Case 1:17cv00180.

The Debtor will receive 25% of any litigation settlement amount from these two defendants after the payment of attorney's fees. Because PenOne assigned the cause of action to a law firm for 50% of the proceeds the Debtor's share has been reduced. The initial settlement amount in the litigation was $20,000,000, and the danger of not settling comes in the form of a judgment that could be tripled because of willful infringement. The initial valuation provided by the Debtor to PenOne of the patent portfolio was $18.2 billion dollars, and the anticipated settlement amount is estimated to be between $50 to $100 million dollars and take two years.

The initial patent case filing was dismissed pursuant to a Joint Stipulation Of Dismissal Without Prejudice due to the holding in TC HEARTLAND v. Kraft Foods Group Brands, 137 S. Ct. 1514 (2017) which held that patent cases could only be filed in the venue where the Defendants were located. This effectively turned patent venue choice on its ear and now cases are adjuting accordingly. Hence, the Apple case and the Samsung case will be refiled in the appropriate venue.

The Agreement with PenOne resulted from the work performed by the Debtor on the PenOne patent portfolio. It is compensation for that work. No further duties are required under the Agreement and thus the Agreement is not an executory contract which needs to be assumed and if the case were converted it would still be property of the estate.

Because the Debtor did the work on the value of the patent portfolio, the debtor is confident of its ability to prevail. If there is no settlement, the Debtor will receive nothing because this is purely a contingent agreement with PenOne. The estimated time for litigation is two years.

The United States Trustee has filed a Motion to Dismiss in the case, which was responded to by the Debtor in the form of the Disclosure Statement and Plan before the Court. The Motion is still pending.

F. **Projected Recovery of Avoidable Transfers**

The Debtor does not intend to pursue preference, fraudulent conveyances, or other avoidance actions as the payments made to creditors during the applicable time period were done in the ordinary course of the Debtor's financial affairs. The only preference listed that has been able to be identified are for expense reimbursements to Arthur Nutter in the amount of $12,560.22 and the recovery of avoidable transfers could be as low as that.

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.

The Debtor anticipates an objection will be filed with respect to the following claims:

1. The Internal Revenue Service filed Claim 3-4 in the amount of $60,600 based on unfiled 2014 and 2015 taxes. All taxes have been filed showing no liability and an objection to the claim will be filed.

2. Glen Wheeler filed Claim 7-1 in the amount of $12,710.83 which disagrees with amounts owed pursuant to the internal records of the Debtor showing $ 8907.73 and an objection to the claim will be filed.
3. Insight Analytical Labs filed Claim 22-1 in the amount of $48,921.01 which disagrees with amounts owed pursuant to the internal records of the Debtor as $26,609.06 and an objection to the claim will be filed..
4. Hire Horizons filed Claim 18-1 in the amount of $42,038.63 which disagrees with amounts owed pursuant to the internal records of the Debtor as $32,500.00 and an objection to the claim will be filed. .
5. AIG filed Claim 11-2 in the amount of $8,429.50 which disagrees with amounts owed pursuant to the internal records of the Debtor as being owed $0.00 and an objection to the claim will be filed..

H. Current and Historical Financial Condition

The identity and value of the estate's assets are listed in **Exhibit B**. The only significant assets the Debtor currently has are receivables in the amount of $120,000 and their interest in the PenOne litigation.

Historical financials and Profit & Loss Statements and Balance Sheets for 2014 and 2015 are attached hereto as **Exhibit C**.

A summary of the Debtor's operations during the pendency of this Case is attached as **Exhibit D.**

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

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

As required by the Code, the Plan places claims and equity interest 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. Classes

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. The classes in the Plan are as follows:

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 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. Class 1 claims are not impaired under the Plan and are not entitled to vote.

The Administrative expenses expected at this time are fees owed to the Debtor's attorney and the attorney for the Unsecured Creditors Committee which will be paid upon applications for compensation to be filed by the respective parties and approval by the Court of the fees requested. The only other Administrative Fee will be Trustees fees owed pursuant to calculations for amounts distributed by the Debtor as reflected in Monthly Operating reports and PostConfirmation Quarterly Reports.

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

Type	**Estimated Amount Owed**	**Proposed Treatment**
Expenses Arising in the Ordinary Course of the Business After the Petition Date	$0.00	Post-petition obligations incurred in the course of the Debtor's business affairs have been timely paid pursuant to the terms of the respective obligations. To the extent that obligations are outstanding at the time of confirmation, they will be paid in full on the effective date of the Plan, or according to the terms of the obligation, if later.
Professional Fees approved by the Court	$65,000.00	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	$0.00	Paid in full on the effective date of the Plan
Other Administrative Expenses	$0.00	Paid in full on the effective date of the Plan, or according to separate written agreement
Office of the U.S. Trustee Fees	$350.00	Paid in full on the effective date of the Plan
TOTAL	$65,350.00	

Class 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.

Should a default in making the required Federal tax payments under the plan occur, and should the Debtor fail to cure such default within 30 days after being notified of the default, the administrative collection powers and rights of the IRS will be reinstated as they existed prior to the filing of the bankruptcy petition. These rights and powers include, but are not limited to, the filing of a Notice of Federal Tax Lien and the administrative collection actions of levy, seizure and sale authorized under the Internal Revenue Code.

Priority tax claims have been asserted against the Debtor as follows:

Claimant	**Amount of Claim**	**Allowed Amount**
IRS	$60600.00	0

The Debtor scheduled certain claims as un-disputed, certain claims as disputed and certain claims as disputed and unknown, with a bar date being set to file proofs of claim. After the filing of claims, the review of those filed claims, and the resolution of certain of the filed claims upon objection by the Debtor, the amount of undisputed, un-objected to, or resolved Class 2 claims shall be paid in full within five (5) years from the Petition Date in equal quarterly installments commencing 90 days from the Effective Date of the Plan, together with accrued interest (4.0% for the IRS claim not resolved by the Debtors objection to claim). The IRS Claim will be deemed allowed until objected to by the Debtor. All claims will be paid in full upon the realization of the proceeds of the PenOne litigation. Class 2 claims are not impaired under the Plan and are not entitled to vote.

3. *Classes of General Unsecured Claims*

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

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

Class	**Description**	**Impairment**	**Treatment**
3	General Unsecured Claims	Impaired	Allowed general unsecured claims will be paid in full from the proceeds of the commission generated from PenOne, and will receive quarterly payments equal to 1/20th of their claims till the PenOne proceeds arrive. Unobjected to secured claims are owed in the amont of $1,525,797.79 and will be paid at the rate of $76,289.89 per quarter.
3	Disallowed Claims	Impaired	Disallowed claims will not receive any distributions or property through the Plan. The amount of objected to claims is $112,099.97 and would be paid at the rate of $5604.00 per quarter if no objection is sustained. The payment would depend on whether the objections to the claims are granted.

4. *Classes 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.

The current equity interest holder is Taeus Holdings, Inc. who is unimpaired under the Plan and will retain its interest if the Court confirms the Plan and creditors are paid 100 cents on the dollar as indicated.

D. **Means of Implementing the Plan**

1. *Source of Payments*

The Debtor will fund the Plan using funds generated from operations which will fund the quarterly payments owed under the Plan and the remainder of amounts owed to creditors will come from the proceeds generated from the commission to be realized from the PenOne litigation. The initial amounts owed upon confirmation would be attorneys fees in the approximate amount of $65,000 which would be owed for fees for the attorney for the Debtor and Counsel for the Creditors Committee.

The current pipeline of business quoted for the remainder of 2017 which figures comes from monthly meetings between management and sales equals $1.8 million. The sales staff estimates that a minimum of $600,000 will be closed by the end of this calendar year. The sales staff has already closed a $120,000 sale which will be showing in monthly operating reports and is awaiting a $500,000 commitment from a large manufacturer. In addition, a major source of revenue will be business referred to Taeus from PatentBooks, an entity which offers a low cost/low risk means for Patent Owners to become Publishers and derive new revenue from unlicensed product suppliers. See https://patentbooksinc.com for client interactions. Patent users can subscribe to all of the product patents in a PatentBook with a single subscription. Taeus is the exclusive provider of patent analysis for PatentBooks which expects to generate significant sales of its product beginning in 2018.

The main focus of Art Nutter has monetizing the PatentBooks business model which will be a main pipeline for Taeus work. Recently, PatentBooks has received funding commitments from investors which will allow it to begin its marketing in earnest. The main attraction is the unique opportunity to have one company handle an entire portfolio. Many large patent users have shown interest.

The Debtor also invested significant resources on a contingency basis towards the monetization of PenOne patents. The Debtor performed work on the analysis of the Patent portfolio belonging to Pen-One which included certain phone technology used by both Apple and Samsung. The Debtor attempted to negotiate licenses for the use of this technology to no avail and agreed to take a percentage of the compensation which PenOne receives upon the resolution of the dilemma created by the continued use of the PenOne technology by Samsung and Apple. To resolve the unauthorized use of the patents, patent litigation against both Apple and Samsung was filed in the United States District Court For The Southern District Of Alabama on April 25, 2017. The cases filed are Pen-One Acquisition Group, LLC, Plaintiff, v. Apple Inc., Case 1:17cv00179 and Pen-One Acquisition Group, LLC, Plaintiff, v. Samsung Electronics Co., Ltd., And Samsung Electronics America, Inc., Case 1:17cv00180.

The initial patent case filing was dismissed pursuant to a Joint Stipulation of Dismissal Without Prejudice due to the holding in TC Heartland v. Kraft Foods Group Brands, 137 S. Ct. 1514 (2017) which held that patent cases could only be filed in the venue where the Defendants were located. This effectively turned patent venue choice on its ear and now cases are adjusting accordingly. Hence, the Apple case and the Samsung case was dismissed and will be refiled in the appropriate venue.

The Debtor will receive 25% of any proceeds resulting from settlement, judgment or licensing. If the case goes to trial, and PenOne prevails, that would produce a judgment. It is also possible that a settlement could be reached within the context of the litigation or that the litigation would be dismissed and a licensing agreement entered into. The Debtor would receive its percentage from any of these events from the two defendants after the payment of attorneys fees. Because PenOne assigned the cause of action to a law firm for 50% of the proceeds the Debtor's share has been reduced because of the attorneys fees, but still remains at 25% of the proceeds of any transaction after attorneys fees are paid. The initial settlement amount in the litigation was $20,000,000, and the danger of not settling comes in the form of a judgment that could be tripled because of willful infringement. The initial valuation provided by the Debtor to PenOne of the patent portfolio was $18.2 billion dollars, and the anticipated settlement amount is estimated to be between $50 to $100 million dollars and take two years.

The Agreement with PenOne resulted from the work performed by the Debtor on the PenOne patent portfolio. It is compensation for that work. No further duties are required under the Agreement and thus the Agreement is not an executory contract which needs to be assumed and would be property of the estate even if the case were converted.

Because the Debtor did the work on the value of the patent portfolio, the debtor is confident of its ability to prevail. If there is no settlement, the Debtor will receive nothing because this is purely a contingent agreement with PenOne. The estimated time for litigation is two years.

2. *Financial Projections*

Financial Projections are attached as Exhibit G.

3. *Post-Confirmation Management*

The current management of the Debtor will handle the Post-Confirmation Management of the Estate. The current manager is Art Nutter who is President of the Debtor. He will not be compensated for his management of the Debtor until the creditors are paid in full. He is not currently being compensated as well.

E. **Risk Factors**

As with any plan of reorganization or other financial transaction, there are certain risk factors which must be considered. It should be noted that all risk factors cannot be anticipated, that some events will develop in ways that were not foreseen and that many or all of the assumptions that have been used in connection with this Disclosure Statement and the Plan will not be realized exactly as assumed. Under the Plan, some of the principal risks that Holders of Claims should be aware of, in the view of Proponent, are as follows:

(1) Non-Acceptance by Impaired Class

The Plan is subject to approval by the holders of Allowed Impaired Claims which are the only Classes entitled to vote on the Plan. No assurance can be given that the Plan will be accepted by the requisite amount of Holders of Allowed Claims in each class or confirmed by the Bankruptcy

Court. Failure of the Holders of Allowed Claims to vote for the Plan or non-confirmation by the Bankruptcy Court could lead to delay and additional expenses to the Estate.

(2) Timing of Distributions

Because the payment in full of Allowed Claims in any Class and the amounts estimated for Priority and Administrative Expenses depends on the resolution of the PenOne litigation, payments may be materially and adversely affected by the amount of time it takes to resolve that litigation. Until that time, quarterly payments will be made.

(3) Tax Consequences

The tax consequences of the Plan may vary from the anticipated tax consequences described below.

(4) Possible Adverse Effects from Delay

Any delays of Confirmation or of the Effective Date could result in, among other things, increased Professional Fee Claims and other Administrative Claims. Delay could further endanger the ultimate approval of the Plan by the Bankruptcy Court.

(5) Possibility of Unsuccessful Resolution to the Pen One Litigation.

The Pen One Litigation resulted from a patent analysis performed by the Debtor on a patent portfolio owned by PenOne. The litigation would not have been brought if there wasn't a high degree of certainty as to the viability of PenOne's claim to the patents. However, there are certain procedural issues with asserting a right to compensation which involves challenging the validity of the patent with the Patent Trial and Appeal Board (PTAB) which conducts trials, including inter party, post-grant, and covered business method patent reviews and derivation proceedings, hears appeals from adverse examiner decisions in patent applications and reexamination proceedings, and renders decisions in interferences. The Defendants in the PenOne litigation will most certainly file an action with the PTAB which the Debtor would defend based on their patent analysis which occurred before the PenOne litigation was filed. Though it is unlikely that the PTAB would invalidate the patents which form the basis for the PenOne litigation, any litigation is uncertain.

The initial patent case filing was dismissed pursuant to a Joint Stipulation of Dismissal Without Prejudice due to the holding in TC Heartland v. Kraft Foods Group Brands, 137 S. Ct. 1514 (2017) which held that patent cases could only be filed in the venue where the Defendants were located. This effectively turned patent venue choice on its ear and now cases are adjusting accordingly. Hence, the Apple case and the Samsung case will be refiled in the appropriate venue. However, this prolongs the chance of an expected return to pay creditors in full.

(6) Risk of Insufficient Revenue to Fund the Plan.

The Debtor has gone through a massive and costly reorganization of their business functions, driven down their costs associated with breaking even, and are working with associated businesses in the form of PatentBooks which will provide a steady increase in revenue. Their sales team is functioning smoothly with clear expectations, and revenue streams are projected to increase as indicated. However, the resulting expected increases in revenues have not been produced at this point in time, and the necessity to fund the Plan with quarterly payments relies on projected increased revenues. If these revenues are not produced by the time the first payment is due under the Plan, the Debtor will not be able to make the required payments.

(7) Possibility the Court Will Grant the U.S. Trustees Motion to Dismiss

The U.S. Trustee currently has a Motion to Dismiss on file which has neither been granted or denied. If the Motion is granted, the Debtor will no longer be under the protection of the U.S. Bankruptcy Court and will be allowed to exercise their state court collection options. In such a scenario, the first creditors to exercise their rights will have priority to any and all assets of the Debtor.

Some, if not all, of the foregoing risks are inherent in any liquidation, including that by a chapter 7 trustee.

F. **Executory Contracts and Unexpired Leases**

Article VI of the Plan lists how executory contracts and unexpired leases will be treated by the Debtor under the Plan. Assumption means 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. Article VI of the Plan also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults should any exist.

Assumption of executory contracts and/or unexpired leases solely through a plan may not provide sufficient due process and clarity to the other party to such agreement. Accordingly, if the Debtor intends to assume or reject executory contracts and/or unexpired leases, the Debtor shall file motion(s) and notice(s) to assume or reject such agreements, and shall serve such motion(s) and Notices(s) in accordance with Fed. R. Bankr. P. 7004. If the Debtor does not wish orders to enter on such motions until it has been determined that the Court will confirm a plan, it may so indicate in the motions and file certificates of non-contested matter only after the Court has confirmed a plan.

Because the Agreement with PenOne is not an executory contract as explained herein, it does not need to be assumed.

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 confirmation of the Plan, unless the Court has set an earlier time.

G. **Tax Consequences of the Plan**

THIS DISCLOSURE STATEMENT DOES NOT ADDRESS THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES THAT MAY BE RELEVANT TO TAXPAYERS UNDER THE FEDERAL INCOME TAX LAWS, NOR DOES IT DISCUSS ANY ASPECT OF FEDERAL, STATE, LOCAL OR FOREIGN TAX LAWS THAT MAY BE APPLICABLE TO PARTICULAR TAXPAYERS. THE TAX CONSEQUENCES TO HOLDERS OF CLAIMS AND INTERESTS, INCLUDING THE AVAILABILITY OF DEDUCTIONS FOR WORTHLESS DEBT OR WORTHLESS EQUITY, IF ANY, MAY VARY BASED ON THE INDIVIDUAL

CIRCUMSTANCES OF EACH HOLDER. EACH CREDITOR AND EQUITY HOLDER TREATED BY THE PLAN IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF THE PLAN.

The following are the anticipated tax consequences of the Plan:

(1) Tax consequences to the Debtor of the Plan – The tax consequences of the Plan to the Debtor involve issues relating to income that is generated to make the payments under the Plan and the allocation of those payments as expenses in the Debtor's books and records after confirmation of the Plan;
(2) General tax consequences on creditors – The payments generated by the Plan must be allocated within the books and records of the creditors receiving those payments and will impact the tax returns of the creditors for the year those payments are received
(3) General tax consequences on creditors of any discharge – A discharge in bankruptcy represents a write off of debt to each creditor. As stated, each creditor should consult their individual Advisors as to the effect of this write off to the extent there is any discharge under this Plan.

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 the 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. The requirements are <u>not</u> 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 the purposes of voting and (2) impaired.

In this case, the Plan Proponent believes that class 3 is impaired and that holders of claims in this class are therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that classes 1, 2 and 4 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 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.

2. *What is an Impaired Claim of a Creditor or 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 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 interest 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), (3) and (8) of the Code;
- holders of claims or equity interests that do not receive or retain any value under the Plan; and
- 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.

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 (½) 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 in the nonaccepting classes are treated in a 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 "discriminate unfairly," and is "fair and equitable" toward each impaired class that has not voted to accept the Plan.

3. The Absolute Priority Rule

The Absolute Priority Rule provides that a Chapter 11 plan is "fair and equitable" regarding a dissenting class of unsecured claims if the plan provides that each holder of a claim in such class is effectively paid in full, or failing that, that no holder of any claim or interest that is junior to the dissenting class will retain any property under the plan.

Stated plainly, equity interest holders are not permitted to keep their equity under a plan if all senior claims are not paid in full. Because all senior claims to shareholder interests are being paid in full in the Plan, the Plan satisfies the "absolute priority rule".

You should consult your own attorney if a "cram down" 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 who do not accept the Plan will receive at least as much under the Plan as such claim would receive in a Chapter 7 liquidation. A copy of the Debtor's Liquidation Analysis is attached as **Exhibit E** to this Disclosure Statement.

Based upon the Debtor's Assets and Liabilities as of the Petition Date, the Debtor believes the payment to unsecured creditors in a liquidation would be considerably delayed if the only proceeds available to pay creditors were from the PenOne litigation. As evidenced in the liquidation analysis, any amounts produced from a liquidation would first be used to pay administrative fees and priority creditors. Though the proceeds from PenOne Agreement is an asset of the Debtor that does not require any further work by the Debtor, the outcome of the litigation is uncertain and may be lengthy. The PenOne agreement is a contingent receivable of the Debtor, and does not provide any return to creditors until it is resolved. Though it does not require assumption by a Trustee who could wait for any result, while the creditors wait for this resolution, the Debtor would be funding payments from operations. A trustee would not be making payments during this waiting period.

Further, as already mentioned, avoidance actions are minimal. Hence, in a liquidation, the Debtor does not believe that assets would be available to be sold for more than the amount of the priority and administrative claims initially and that the only asset which would pay creditors without the Debtor operating would be the proceeds from the PenOne litigation. Thus, unsecured creditors would not receive a distribution in a liquidation until the PenOne litigation is resolved and the return from that is uncertain.

D. **Feasibility**

The Court must find that confirmation of the Plan is not likely to be followed by 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 proposed plan provides for the payment of Creditors from the operations of the Debtor initially and from the commission that will be paid from the transaction with PenOne which will far exceed any amounts owed to creditors. In patent litigation where corporations are using patents without the permission of the patent owners (a more frequent occurrence than previously estimated), the return is usually very large.

The Debtor performed work on the analysis of the Patent portfolio belong to Pen-One which included certain phone technology used by both Apple and Samsung. The Debtor attempted to negotiate licenses for the use of this technology to no avail and agreed to take a percentage of the compensation which PenOne was to receive upon the resolution of the dilemma created by the continued use of the PenOne technology by Samsung and Apple. To resolve the unauthorized use of the patents, patent litigation against both Apple and Samsung was filed in the United States District Court For The Southern District Of Alabama on April 25, 2017. The cases filed are Pen-One Acquisition Group, LLC, Plaintiff, v. Apple Inc., Case 1:17cv00179 and Pen-One Acquisition Group, LLC, Plaintiff, v. Samsung Electronics Co., Ltd., And Samsung Electronics America, Inc., Case 1:17cv00180.

The initial patent case filing was dismissed pursuant to a Joint Stipulation Of Dismissal Without Prejudice due to the holding in TC HEARTLAND v. Kraft Foods Group Brands, 137 S. Ct. 1514 (2017) which held that patent cases could only be filed in the venue where the Defendants were located. This effectively turned patent venue choice on its ear and now cases are adjuting accordingly. Hence, the Apple case and the Samsung case will be refiled in the appropriate venue.

The Debtor will receive 25% of any litigation settlement amount from these two defendants after the payment of attorney's fees. Because PenOne assigned the cause of action to a law firm for 50% of the proceeds the Debtor's share has been reduced. The initial settlement amount in the litigation was $20,000,000, and the danger of not settling by the Defendantscomes in the form of a judgment that could be tripled because of willful infringement. The initial valuation provided by the Debtor to PenOne of the patent portfolio was $18.2 billion dollars, and the anticipated settlement amount is estimated to be between $50 to $100 million dollars and take two years.

The Agreement with PenOne resulted from the work performed by the Debtor on the PenOne patent portfolio. It is compensation for that work. No further duties are required under the Agreement and thus the Agreement is not an executory contract which needs to be assumed.

Because the Debtor did the work on the value of the patent portfolio, the debtor is confident of its ability to prevail. If there is no settlement, the Debtor will receive nothing because this is purely a contingent agreement with PenOne. The estimated time for litigation is two years.

Until that point in time, the organic sales of the Debtor are now increasing and will be sufficient to fund the initial payments. Initial payments under the Plan would be administrative fees consisting mainly of attorneys fees owed upon application and court approval to Counsel for the Debtor and Counsel for the Unsecured Creditor Committee. That amount is estimated to $65,000 and would be owed within 30 days of confirmation. The first payments to unsecured creditors would be due 90 days from the effective date of the Plan and are in the amount indicated in Section III(B)(3), or $76,289.89.

As stated, the current pipeline of business quoted for the remainder of 2017 which figures comes from monthly meetings between management and sales equals $1.8 million. The sales staff estimates that a minimum of $600,000 will be closed by the end of this calendar year. The sales staff has already closed a $120,000 sale which will be showing in monthly operating reports and is awaiting a $500,000 commitment from a large manufacturer. In addition, a major source of revenue will be business referred to Taeus from PatentBooks, an entity which offers a low cost/low risk means for Patent Owners to become Publishers and derive new revenue from unlicensed product suppliers. See https://patentbooksinc.com for client interactions. Patent users can subscribe to all of the product patents in a PatentBook with a single subscription. Taeus is the exclusive provider of patent analysis for PatentBooks which expects to generate significant sales of its product beginning in 2018.

The main focus of Art Nutter has monetizing the PatentBooks business model which will be a main pipeline for Taeus work. Recently, PatentBooks has received funding commitments from investors which will allow it to begin its marketing in earnest. The main attraction is the unique opportunity to have one company handle an entire portfolio. Many large patent users have shown interest.

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 as Exhibit F. Projections for the revenue of the Debtor are attached hereto as Exhibit G.

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

The proposed plan provides for the payment to creditors from the operations of the Debtor and the proceeds from the PenOne litigation. The plan proponents believe these two sources will be sufficient to meet the plan obligations

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.

The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated and (2) the Court authorizes the proposed modifications after notice and a hearing. "Substantial consummation" occurs when all or nearly all of the property to be transferred under the plan has been transferred, the reorganized debtor or its successor assumes management of the debtor's business or its property, and plan distributions to creditors have commenced.

C. Remedies in the Event of Default

In the event the Debtor does not make the payments required under the Plan and a Final Decree has not been entered, the creditors may either move to dismiss or convert the case pursuant to 11 USC 1112(b)(1) which states:

> "Except as provided in paragraph (2) and subsection (c), on request of a party in interest, and after notice and a hearing, the court shall convert a case under this chapter to a case under chapter 7 or dismiss a case under this chapter, whichever is in the best interests of creditors and the estate, for cause unless the court determines that the appointment under section 1104(a) of a trustee or an examiner is in the best interests of creditors and the estate" 11 U.S. Code § 1112(b)(1)

If a final decree has been entered in the case and the case has been closed, the creditors may reopen the case and pursue conversion of the case, or the creditors may pursue their state court remedies for non-payment pursuant to the provisions of the confirmed Plan.

D. 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.

Dated this 31st day of October, 2017

Respectfully submitted,

/s/ Art Nutter
Art Nutter, Debtor
DLG Law Group LLC
(*A true and correct copy of this document*

is on file at the law offices of DLG Law Group LLC)

By: /s/ *Michael J. Davis*

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