

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF COLUMBIA**

In re:)	
)	
NEIGHBORS' CONSEJO,)	Case No. 15-00373
)	Chapter 11
)	
Debtor.)	
_____)	

DEBTOR'S FIRST AMENDED DISCLOSURE STATEMENT

December 27, 2017

Kermit A. Rosenberg (VSB #14975)
Bailey & Ehrenberg PLLC
1015 18th Street, N.W
Suite 204
Washington, D.C. 20036
Telephone: 202.350.4670
Facsimile: 202.318.7071
Email: kar@becounsel.com

Attorneys for Debtor

TABLE OF CONTENTS

I.	Introduction.....	3
II.	Notice to Holders of Claims.....	4
III.	Operation and History of Debtor.....	5
IV.	Confirmation Requirements and Debtor’s Recommendation.....	9
V.	Overview of the Plan.....	10
VI.	Effects of Plan Confirmation.....	15
VII.	Pending Litigation.....	17
VIII.	Alternatives to the Plan	17
IX.	Liquidation Analysis.....	18
X.	Risk Factors and Tax Analysis.....	19
XI.	Tax Consequences.....	20
XII.	Plan Confirmation.....	20
XIII.	Disclaimers.....	23
XIV.	Conclusion.....	24

I. INTRODUCTION

11 U.S.C. § 1125(b) PROHIBITS SOLICITATION OF AN ACCEPTANCE OR REJECTION OF A PLAN UNLESS A COPY OF THE PLAN OR SUMMARY THEREOF IS ACCOMPANIED OR PRECEDED BY A COPY OF A DISCLOSURE STATEMENT APPROVED BY THE BANKRUPTCY COURT. THIS PROPOSED DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT, AND THEREFORE THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT IS NOT INTENDED TO BE NOR SHOULD IT BE CONSTRUED AS, AN AUTHORIZED SOLICITATION PURSUANT TO 11 U.S.C. § 1125(b) AND RULE 3017 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE. NO SUCH SOLICITATION WILL BE MADE EXCEPT AS AUTHORIZED BY THIS COURT PURSUANT TO THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE AND RULES.

Neighbors' Consejo ("Debtor" or "NC"), the Debtor and Debtor-in-Possession in this Chapter 11 case, filed a voluntary petition under Chapter 11 of Title 11, United States Code, in the United States Bankruptcy Court for the Eastern District of Virginia, Alexandria Division ("Bankruptcy Court" or "Court") on July 16, 2015 ("Filing Date" or "Petition Date").

Neighbors' Consejo has prepared this First Amended Disclosure Statement in order to disclose information that is material and necessary for the creditors and equity interest holders to arrive at a reasonably informed decision in exercising their right to accept or reject the First Amended Plan of Reorganization ("Plan") that was filed in the Bankruptcy Court. The legal standards governing this Disclosure Statement are set forth in Section 1125 of Title 11 of the United States Code. The Court has determined that this Disclosure Statement contains adequate information in that it provides you with sufficient information upon which to base your decision to accept or reject the Plan, i.e., the degree and detail of information that a reasonably prudent investor in the Debtor would have the right to expect before making a decision to invest.

Defined terms are capitalized in this Disclosure Statement and Plan and are defined in the Plan.

Attached to or enclosed with this Disclosure Statement are copies of the following documents:

1. The First Amended Plan of Reorganization (Exhibit 1)
2. Projected Income and Expense Statement including a projection of distributions to Creditors by Class (Exhibit 2)

II. NOTICE TO HOLDERS OF CLAIMS

The Debtor provides this Disclosure Statement in order to disclose the information believed to be material for creditors to arrive at a reasonably informed decision in exercising the right to vote on acceptance of the Plan under Chapter 11 of the United States Bankruptcy Code proposed by the Debtor.

NO REPRESENTATIONS CONCERNING THE DEBTOR, PARTICULARLY AS TO FUTURE INCOME, BUSINESS AFFAIRS, TAX CONSEQUENCES, OR VALUE OF PROPERTY, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT, ARE AUTHORIZED BY THE DEBTOR. NOTHING CONTAINED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING NEIGHBORS' CONSEJO OR ANY OTHER PARTY, OR DEEMED CONCLUSIVE ADVICE ON THE TAX OR OTHER LEGAL EFFECTS OF THE REORGANIZATION ON CLAIMS OR INTEREST HOLDERS.

THE INFORMATION AND DATA CONTAINED IN THIS STATEMENT HAVE BEEN SUPPLIED BY THE DEBTOR BUT HAVE NOT BEEN SUBJECT TO A CERTIFIED AUDIT. ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO PRESENT ACCURATE INFORMATION, NO WARRANTY AS TO ITS ACCURACY IS GIVEN OR SHOULD BE IMPLIED. THE TRANSACTIONS CONTEMPLATED IN THE PLAN HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY COURT OR GOVERNMENTAL AUTHORITY, NOR HAS ANY COURT OR GOVERNMENTAL

AUTHORITY PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTIONS OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. CREDITORS ARE URGED TO READ THIS DISCLOSURE STATEMENT CAREFULLY.

Voting for acceptance or rejection of the Plan is governed by the provisions of the Bankruptcy Code. A class of creditors is considered to have accepted the Plan (i) if it is accepted by creditors holding at least two-thirds in amount and more than one half in number of the allowed claims of such class that have voted, or (ii) if the class is unimpaired within the meaning of the Bankruptcy Code.

The Bankruptcy Court will conduct a hearing and rule on confirmation of the Plan in accordance with the Bankruptcy Code. You will receive a separate notice of that hearing.

The Plan contains definitions, a procedure for claims objections, and a provision for post-confirmation jurisdiction. Readers should refer to the Plan for a complete discussion of these provisions. If all requirements for confirmation of the Plan under the Bankruptcy Code are otherwise satisfied, the Debtor will ask the Bankruptcy Court to confirm the Plan.

III. OPERATION AND HISTORY OF THE DEBTOR

A. History of the Debtor

Neighbors' Consejo is a District of Columbia community organization dedicated since 1995 to providing Mental Health Rehabilitative Services ("MHRS") and Substance Use Disorder Services ("SUD") free of charge to residents of Washington, D.C. Additionally, for a number of years since at least 2004, it has provided transitional housing for the homeless who also needed MHRS and/or SUD treatment

The revenue streams during these years consisted of local funds from the City of

Washington, through grants/contracts for services managed by the Department of Behavioral Health (“DBH”); Medicaid funds channeled through the DBH system; Department of Housing and Urban Development (“HUD”) managed by The Community Partnership for the Prevention of Homelessness (“TCP”) to address homelessness in the City; and sundry donations and grants from various sources.

Due diligence shows that financial hardship began as early as 2010 due to a combination of factors, now identified primarily as (a) general mismanagement, (b) failure to secure additional sources of revenue to expand the serviceable customer base, (c) failure to generate annual corporate sponsorships and/or event generated donations, and (d) misappropriation of funds.

The financial situation reached the meltdown point in early 2014, when NC found itself unable to meet payroll and other operational obligations. There were several Executive Directors during that year, evidently none able to take the organization off the downward spiral. Renewal of grants was not initiated. Renewed operating licenses from DBH were not requested. IRS filings were not done, so that even the IRS 501(c)(3) status was soon revoked, and liens for payroll taxes filed. The Board of Directors was not to be found, with the Chairman resigning in December of that year. Whatever staff remained was working without direction, albeit without regular pay – and it was due to their commitment to the community that services continued.

Without a renewal of its operating MHRS license in early 2014, NC was limited to treating only those patients under care at the time and was prohibited from taking on new patients. This, of course, led to the natural depletion of monthly revenue as patients exited the program.

Around November 2014, NC staff approached Glenda Rodriguez for help. Volunteering her time, she endeavored to identify the critical areas in need of immediate corrective action,

starting with the non-responsive Board of Directors, status of receivables and payables, staff, clients, standing with regulatory agencies – in short, all aspects of the business. By March 2015 she managed to obtain a response from one member of the board, who, absent any response from other members after multiple requests, proceeded to appoint new members to the Board. The newly constituted Board appointed Ms. Rodriguez as Executive Director that March, and after due and careful consideration of all aspects of the business, including its future viability, the Board resolved to file for protection under Chapter 11 while it reorganized operations. The petition initiating this Chapter 11 case was filed on July 16, 2015.

B. Committee of Unsecured Creditors

An Official Committee of Unsecured Creditors has not been formed in this case.

C. Post Petition Operations and Events

With multiple action fronts open and very limited staff, it took much more time than anticipated to complete tasks related to administration and finance. NC found that someone had stolen or destroyed most, if not all, financial records from the office, including but not limited to, bank ledgers and statements and cancelled checks. Focused on identifying exactly what was owed to whom, NC initiated a forensic audit that continues to this day. In the process of reconstructing financial information from bits and pieces, hints contained in sundry documents by reference or inference, essential information was discovered so that facts emerged enabling NC to dispute and object to claims while clarifying the course of events that led to its current situation – such as, for example, misappropriated funds totaling more than \$200,000 by a former Executive Director (the recovery of which is the subject of a pending adversary proceeding). Interestingly enough, though not surprisingly, a number of inflated and in some cases fraudulent claims against NC have been identified and objections to these are pending.

Evaluating the operating funds requirements and the current needs of the organization,

the Board decided to dispose of two properties: one designated as office space, where less than a third of the square footage was needed, and the other being used as transitional housing (which would soon enough be empty as the existing contract with TCP was due to expire and no further revenue from it would be available). A bridge loan was needed until the best price possible was obtained in the sale, and DIP financing was secured to enable continued operations. With the sale of these properties concluded in March 2016, NC was able to pay off the DIP loan as well as mortgages and judgment and tax liens that were levied against the properties, and to secure operating funds as it continued to reorganize.

During 2015-2016, NC successfully obtained the renewed MHRS license and a new SUD license. Also, it secured the IRS reinstatement of its 501(c)(3) status. It did not, however, obtain a renewed contract for housing the homeless from TCP, as TCP refused to continue the relationship. Worth noting the fact that NC is currently filed a lawsuit in DC Superior Court against TCP for their failure to pay around \$250,000 for services rendered under existing contracts during that last year.

In late 2016, during the open license application period, NC obtained an SUD license. However, the City did not issue a Purchase Order for SUD services to NC because by a matter of days between license issuance and the closure date of the newly devised contracting mechanism, NC had “missed” the deadline due to DBH delays in issuing the license. This not only meant that NC was unable to obtain funds from the City to provide SUD services, and was also precluded from servicing Medicaid covered patients, since according to DBH, NC could only bill Medicaid if it did so through the City’s system. Without a PO, NC was not active in the system to do any billing. As early as February 2017, NC asked DBH to issue a \$1 pro forma PO to activate NC in the City system, or to make an exception and simply activate the account so that Medicaid payable services could be provided. DBH did neither. This was a major setback, as

NC had readied itself to provide these services. It was not until August of 2017 that DBH informed NC that it could bill Medicaid directly for all services if it decided to do so. In tandem, MHRS services closed out fiscal 2016 with over \$160,000 due from DBH, while DBH issued a 2017 PO for these services of around \$10,000, later increasing it to \$30,000.

With the strategic decision not to continue residential services, which proved costly and burdensome to cashflow, NC further decided to dispose of the residence facility at 1622 Lamont Street, N.W., which is under contract for sale, for which NC has filed a motion with this Court to approve. The focus going forward is on outpatient services, centered on the needs of DC and southern Maryland.

E. Financial Projections

The Debtor has prepared financial projections of post-confirmation performance that are attached to this Disclosure Statement as Exhibit 2, which demonstrate the feasibility of the Plan.

IV. CONFIRMATION REQUIREMENTS AND DEBTOR'S RECOMMENDATION

A. Confirmation Requirements

In order to be confirmed (i.e. approved) by the Court, the Plan or its proponent must (among other requirements set forth in Section 1129 of the Code):

1. Disclose all compensation paid or promised for professional services rendered or to be rendered in connection with the case;
2. Disclose the identity and affiliations of all officers to serve after the Plan is confirmed and the compensation of any insiders to be employed after confirmation;
3. Propose to distribute to each member of a Class of claimants property at least equal in value to what the claimant would receive if the Debtor's assets were liquidated on the date of the Confirmation hearing, and distributed to creditors according to their rights and priorities under law;

4. Propose to pay all Administrative Claims in full, or on such other terms as the Administrative Claimants and the Debtor may agree; and

5. Propose to pay all Priority Claims in full in cash on the Effective Date or deferred payments equal to the allowed priority claims as of the Effective Date, including allowed Priority Tax Claims plus statutory interest within six years from the date or dates of assessment.

Generally, a Class of claims as to which legal, equitable or contractual rights are altered is "impaired." Claims in Class 1 being paid in full on the Effective Date, that class of creditors is not impaired and is deemed to have accepted the Plan, and Creditors in Class 2 are entitled to vote for the acceptance or rejection of the Plan. See 11 U.S.C. 1129(a)(8).

B. Recommendation of the Debtor

The Debtor believes that the Plan is in the best interests of its creditors, and will permit the best possibility of recovery for all interested parties. In arriving at this conclusion, the Debtor's management considered: (i) the estimated liquidation value of the Debtor's assets and the fact that the Debtor's creditors would likely receive less in connection with a forced liquidation of the Debtor than if the Debtor were to continue to operate its business of providing nonresidential neighborhood treatment, counseling, and outreach services (see discussion below regarding liquidation, including analysis of liquidation distribution); and (ii) the Debtor's anticipated future cash flow on a "going-concern" basis. The Debtor's representatives believe that, based upon the above factors, and others, the Plan is fair and in the best interest of all parties.

V. OVERVIEW OF THE PLAN

A. General Structure of the Plan

Set forth below is a summary description of the Plan that highlights its major terms and

provisions. The summary is qualified in its entirety by reference to the provisions of the Plan itself, which accompanies this Disclosure Statement as Exhibit 1. In the event of any inconsistency between the Plan and this Disclosure Statement the terms of the Plan shall control.

The Plan provides for payments to the Debtor's creditors from the Debtor's cash on hand and from cash generated from future business operations and collection of accounts receivable. Although full collection of NC's accounts receivable totaling approximately \$320,000 alone would generate sufficient funds to satisfy the Plan in full, collection is not guaranteed and is therefore not relied upon for any funding of the Plan.

The attached forecast of anticipated post-confirmation performance is based on the Debtor's good faith investigation and discussions with experienced industry professionals and nationally available analytical metrics. See Exhibit 2.

The Plan defines the Effective Date as the later of (a) the fifteenth (15th) business day following the date of entry of the order confirming the Plan of Reorganization; or (b) if an appeal is filed, the fifth day after such appeal is finally resolved and no further appeal or certiorari proceeding is pending; provided, however, notwithstanding anything in this Section to the contrary, the Debtor may choose an earlier date to be the Effective Date. If the Effective Date falls on a Saturday, Sunday, or legal holiday, the Effective Date shall mean the first business day thereafter.

B. Unclassified Claims or Expenses

Section 1123 of the Bankruptcy Code provides that a plan of reorganization shall designate classes of claims other than priority tax claims and administrative expenses. Accordingly, the Plan regards tax claims and administrative expenses as "unclassified." The concept of "impairment" does not apply to these "unclassified" Claims and expenses.

1. Allowed Administrative Claims. Allowed Administrative Claims consist of any

cost or expense of the Chapter 11 case allowed under section 503(b) of the Bankruptcy Code, including certain taxes and all actual, necessary expenses relating to the preservation of the Debtor's estate or the operation of the business. The compensation of professionals, such as attorneys, financial consultants, and accountants hired by the Debtor for services rendered or expenses incurred after the Chapter 11 Petition Date, are also regarded as Allowed Administrative Claims. Payments to such professionals for compensation and reimbursement of expenses will be made in accordance with detailed procedures established by the Bankruptcy Code and Rules relating to such payments. The Bankruptcy Court, on hearing after notice, will review all requests for compensation and reimbursement of expenses incurred through the Confirmation Date. It is anticipated that there will be no approved fees due to be paid to the Debtor's professionals as of the Effective Date. Alternatively, if in the event there are such fees and the Debtor does not have sufficient funds on the Effective Date, the professionals holding Allowed Administrative Claims may agree to accept deferred payment after the Effective Date.

2. Allowed Wage Claims. Allowed Wage Claims are Claims against the Debtor entitled to priority in accordance with Section 507(a)(3) of the Code, i.e., unsecured claims up to \$12,475 for individuals earned within 180 days before the Petition Date for wages, salaries, or commissions, including vacation, sick leave, and severance pay. The Debtor believes that there are Allowed Wage Claims of \$56,296.00. These Allowed Wage Claims will be paid in full on the Effective Date.

C. Classification of Claims and Interests

The remaining Claims against the Debtor are divided into the following classes:

Class 1. Allowed Unsecured Nonpriority Claims less than \$2,000.

Class 2. Allowed Unsecured Nonpriority Claims of \$2,000 or more.

D. Treatment of Claims, Expenses, and Interests

The Plan divides Claims and Interests into Classes and sets forth the treatment afforded to each Class.

1. Class 1 – (Convenience Class) - Allowed Unsecured Nonpriority Claims of \$2,000 or Less. The Class 1 Claims consist of all Allowed Unsecured Nonpriority Claims that are equal to or less than \$2,000.00. These Convenience Class claims total \$2,353.00. The holders of these Class 1 Claims will be paid in full on the Effective Date.

2. Class 2 - Allowed Unsecured Nonpriority Claims Greater Than \$2,000. The Class 2 Claims consist of the Allowed Unsecured Nonpriority Claims that are greater than \$2,000.00. There are \$644,875.52 in Class 2 Claims, of which the Debtor estimates that \$150,119.34 will be allowed. The Class 2 Claims will be paid in quarterly pro rata installments of \$20,000.00, totaling, in aggregate, 100% of the amount of each Allowed Claim, with 0.9% interest from the Effective Date, which payments shall constitute full and final satisfaction of all Allowed Class 2 Claims. The quarterly distributions shall commence six (6) months after the Effective Date and shall continue until all Allowed Class 2 Claims have been paid in full.

The projected distributions to holders of Allowed Class 2 Claims will total \$150,119.34 and are expected to be completed within two (2) years after the initial quarterly distribution. If the total amount of Allowed Class 2 Claims increases as pending and contemplated objections to claims are resolved in this Court, the Debtor will continue to make quarterly payments of at least \$20,000 until such total amount is paid in full.

3. Equity Security Holders. The Debtor is a nonstock corporation and has no equity security holders.

E. Summary of Other Provisions of the Plan

1. Implementation of the Plan

The Plan will be implemented by cash on hand and forecast business operation of the

Debtor's post-confirmation business. Payments will be made directly to creditors by NC as provided in the Plan. The Debtor will pay the Allowed Administrative Claims, the Allowed Unsecured Priority Wage Claims, and the Class 1 Convenience Class Claims in full during the first 30 days after the Effective Date. The attached projections show sufficient liquidity from cash flow to fully satisfy Allowed Class 2 Claims during the three (3) years following confirmation of the Plan. See Exhibit 2.

The Debtor reserves the right to use account receivable collections to fund the required payments under the Plan, in its sole discretion.

The plan will be considered fully implemented and all Allowed Claims fully satisfied if the payments projected in section V. D. above are made.

2. Treatment of Executory Contracts and Unexpired Leases Unless a motion to assume is filed by the Debtor prior to the Confirmation Date, all Executory Contracts and Unexpired Leases not previously assumed or rejected by order of this Court shall be rejected, and any claim shall be filed within (30) days after the Confirmation Date or shall forever be barred. Any claim for damages resulting from the rejection of an Executory Contract shall be treated as a Class 2 Claim under the Plan.

4. Amendments and Modifications The Debtor reserves the right in accordance with the Code to amend and modify this Disclosure Statement and the Plan prior to the Confirmation Date. After the Confirmation Date, the Reorganized Debtor may, upon order of the Court, in accordance with Section 1127(b) of the Code, remedy any defects or omissions or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purposes and intent of the Plan.

5. Conveyance of Assets All assets of the Debtor and the Estate in existence as of the Effective Date shall vest on the Effective Date in the Reorganized Debtor free and clear of all

liens and encumbrances. The term “all assets of NC and the Estate in existence as of the Effective Date” shall be deemed to include all claims or causes of action NC or the Estate may have against any person or entity, including, but not limited to, those arising under the Code.

6. Objections to Claims Any objection to the allowance of a Claim not filed in accordance with the procedure set forth in the Code within ninety (90) days after the Effective Date shall be deemed waived, and the Claim shall be allowed in the amount set forth on the proof of claim filed by the holder of such Claim, or, if no proof of claim is filed and such Claim is not listed in the Debtor’s schedules as contingent, disputed, or unliquidated, the Claim shall be allowed in the amount listed in such schedules.

VI. EFFECTS OF PLAN CONFIRMATION

A. Discharge. Except as otherwise expressly provided in the Plan, the confirmation of the Plan shall (i) bind all holders of Claims and Interests, whether or not they accept the Plan, and (ii) discharge NC effective immediately from any Claims and any “debt” (as that term is defined in Section 101(12) of the Code) incurred before the Confirmation Date, and NC’s liability in respect thereof is extinguished in its entirety including, without limitation, any liability specified in Code Section 502(g). In addition, except as otherwise provided in the Plan, confirmation of the Plan pursuant to the Confirmation Order acts as a discharge, as of the Confirmation Date, as to each Claimant or Interest holder receiving or entitled to receive any distribution under the Plan in respect of any direct or indirect right, Claim or Interest such Claimant or Interest holder has or may have had against or in NC as of the Confirmation Date.

B. Injunction. **Except as expressly provided in the Plan, from and after the Confirmation Date, holders of Claims against NC are permanently restrained and enjoined (i) from commencing or continuing in any manner, any action or other proceeding of any kind based upon, arising or deriving from such Claim, against NC, (ii) from enforcing,**

attaching, collecting or recovering by any manner or means, any judgment, award, decree or order against NC arising or deriving from such Claim, (iii) from creating, perfecting or enforcing any encumbrance of any kind against NC based upon, arising or deriving from such Claim, (iv) from asserting against NC any set off, right of subrogation, or recoupment against any obligation due NC based upon, arising or deriving from such Claim, (v) from performing any act based upon, arising or deriving from such Claim, in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan, and (vi) from commencing any action, collecting or recovering by any manner or means any judgment, award, decree or order against the immediate or any mediate transferee of any property distributed pursuant to the Plan based upon a claim that the transferee's receipt of such property constituted a fraudulent conveyance, preference or violation of a bulk sales law or based upon any other claim that receipt and or distribution of property by transfer pursuant to the Plan is wrongful based upon, arising or deriving from such Claim.

Notwithstanding anything contained in this Section VI.B. to the contrary, each holder of a disputed Claim may continue to prosecute its proof of claim in the Court or such other court to which the matter may be referred, and all holders of Claims shall be entitled to enforce their rights under the Plan.

C. Jurisdiction until Discharge. The Court shall retain jurisdiction for the following purposes until such time as NC's obligations under the Plan are fully discharged and the Court enters a final order terminating this Reorganization Case:

(1) Determination of all disputes regarding title to the assets of NC, and the determination of all causes of action, preferences, controversies, disputes or conflicts, whether or not subject to action pending as of the Confirmation Date, between NC and any other party.

- (2) Determination of all objections to the allowance of claims.
- (3) Determination of the validity, extent, enforceability or perfection of any claim of lien or other claim of security interest in or to the property of NC.
- (4) Correction of any defect, curing of any omissions or the reconciliation of any inconsistency in the Plan, or in the Order of Confirmation, as may be necessary to carry out the purposes and intent of the Plan.
- (5) Enforcement and interpretation of the terms and conditions of the Plan.
- (6) Entry of an order, including injunctive relief necessary to enforce the rights, title, interests and powers of the Reorganized Debtor and imposition of such limitations to, restrictions on the terms and conditions of such rights, title, interests, and powers as the Court may deem necessary.
- (7) Entry of an order closing this Reorganization Case.
- (8) Such other purposes as the Court deems necessary and reasonable to carry out the intent and purposes of the Plan.

VII. PENDING LITIGATION

NC has filed a civil suit against TCP in the Superior Court of the District of Columbia to recover approximately \$265,000 for unpaid housing services. Discovery is ongoing, and the case has not been set for trial. The outcome of such litigation will not affect the Debtor's ability to carry out the provisions of the Plan but could shorten the time necessary to complete the contemplated 100% payout to general unsecured (Class 2) claimants, all without requiring modification of the Plan.

The Debtor has filed objections to claims and is prosecuting and defending adversary proceedings with former employees and management. The outcome of such litigation will not affect the Debtor's ability to carry out the provisions of the Plan but could extend the time

necessary to complete the contemplated 100% payout to general unsecured (Class 2) claimants, all without requiring modification of the Plan.

VIII. ALTERNATIVES TO THE PLAN

If the Plan is not accepted and confirmed, the Debtor or any other party in interest could attempt to formulate a different plan. The contemplated operation of the Debtor's business depends almost exclusively upon the knowledge, skill, and expertise of the staff. The Debtor believes that it is unlikely that any alternate business plan would be feasible on a timely basis and, in any event, would not contain terms more favorable to the creditors than the Plan. The Debtor believes that the Plan, as described herein, enables creditors to realize the maximum recovery under the circumstances. The only other alternative would be to close down and liquidate the Debtor's business in or outside a Chapter 7 bankruptcy case.

IX. LIQUIDATION ANALYSIS

The Bankruptcy Code provides that the Court will not approve a Chapter 11 plan unless the creditors will receive at least as much under such plan as they would in a liquidation under Chapter 7 of the Bankruptcy Code.

In evaluating contemplated operations going forward the Debtor has taken into account the nature, status and underlying values of its tangible and intangible assets. NC believes that a Chapter 7 liquidation, which requires the appointment of a trustee to administer the estate, would diminish the return to creditors due to (i) the immediate cessation of operations and termination of all business activities, (ii) the delays and expense in connection with the appointment and administration of the estate by a trustee, and (iii) the expenses of the trustee, including the trustee's statutory commissions and compensation for professionals such as accountants, appraisers or liquidation agents employed by the trustee. Section 326 of the Bankruptcy Code sets forth the guidelines for compensation to a trustee. The trustee is also entitled to

reimbursement for all reasonable expenses. The Bankruptcy Code authorizes the Court to compensate the trustee from the assets of the estate. Fees in this case could be awarded in an amount in excess of 5% of the distributed assets. Moreover, the trustee would have to take over and fund the lawsuit against TCP from estate assets as well as pending and contemplated claim objections and adversary proceedings to in order to see any recovery for the benefit of the estate.

At confirmation the Debtor's assets will consist of approximately \$142,000 in cash, \$31,000 in current billings and \$312,000 in accounts receivable. If this case is converted to a case under Chapter 7 of the Bankruptcy Code, the trustee will spend at least 50% of the cash in the estate on professional fees to administer the estate, object to claims, and attempt to collect the accounts receivable before making any distribution to creditors at least (2) years after conversion of the case. Using NC's projection for Allowed Class 1 and 2 Claims, such claimants would receive no distribution on account of their claims.

Therefore, the Debtor believes its proposed Plan pays creditors significantly more than they would receive in a liquidation.

X. RISK FACTORS AND TAX ANALYSIS

There is the risk that Debtor's efforts to increase and maintain business operations may not be successful to the extent necessary to pay creditors the amounts contemplated under the attached Plan.

Any objection to the Plan filed in the Chapter 11 case by a member of a class of claims or interests could either prevent confirmation of the Plan or delay such confirmation for a significant period of time.

The Plan is an "operating" plan that depends on future operations to fund payments to creditors. If the contemplated cemetery operations are eroded by either external factors (e.g., market changes, competition) or internal factors (loss of key personnel) the Plan's

implementation could be adversely affected.

In considering the information set forth herein to determine whether or not to accept or reject the Debtor's proposed plan, each impaired Creditor should consider the foregoing risk factors. Further, none of the information set forth herein should, in any manner, be construed to be tax or investment advice to the recipients of this document. If any Creditor feels that professional advice is necessary prior to making that determination as to accept or reject the Plan, then such advice should be independently obtained.

XI. TAX CONSEQUENCES

Confirmation of the Plan is not expected to generate any adverse tax consequences to the Debtor.

The Plan's distribution to creditors may have a tax consequence to creditors receiving a distribution. All creditors are urged to consult with a qualified professional to determine the income tax consequences, if any, of the Plan.

XII. PLAN CONFIRMATION

A. Classes Entitled To Vote

Only Classes that are impaired under the Plan are entitled to vote to accept or reject the Plan. Generally, section 1124 of the Bankruptcy Code provides that a class of claims or interests is impaired under a plan of reorganization unless the Plan does not alter the legal, equitable and contractual rights of the holder of such claim or interest. In addition, such classes are impaired unless all outstanding defaults, other than defaults relating to the insolvency or financial condition of the debtor or the commencement of the bankruptcy case have been cured and the holders of claims or interests in such classes have been compensated for any damages incurred as a result of any reasonable reliance by such holders on any contractual provisions or applicable law to demand accelerated payment. Only Class 2 is an impaired class entitled to vote on the

Plan.

B. Confirmation Standards

At the confirmation hearing, the Bankruptcy Court will confirm the Plan only if all the requirements of section 1129 of the Bankruptcy Code are met. Those requirements include, but are not limited to, the following:

- Feasibility of the Plan. In order for the Plan to be confirmed the Bankruptcy Court must determine that the need for further reorganization or a subsequent liquidation of the Debtor following confirmation is unlikely. The Debtor believes based on its financial projections that the Plan is feasible.
- Acceptance by Impaired Classes. Section 1126(a)(8) of the Bankruptcy Code requires that each impaired class of claims or interests accept the Plan by the requisite votes in order for confirmation to occur without triggering the "fair and equitable" test described below.
- The "Fair and Equitable" Test. The provisions of Section 1129(b) of the Bankruptcy Code allow the Bankruptcy Court to confirm a plan without the consent of an impaired class of claims or interests if the treatment of that class under the plan is "fair and equitable" and does not discriminate unfairly against the holders of claims or interests in that class. The Bankruptcy Court must determine at the confirmation hearing whether the Plan is fair and equitable and does not discriminate unfairly against any impaired Class of Claims or Interests.

XIII. DISCLAIMERS

THE TRANSACTIONS CONTEMPLATED IN THE PLAN HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY COURT OR GOVERNMENTAL

AUTHORITY, NOR HAS ANY COURT OR GOVERNMENTAL AUTHORITY PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTIONS OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE DEBTOR HAS NOT AUTHORIZED ANY PERSON TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION IN CONNECTION WITH THE SOLICITATION OF ACCEPTANCES OF THE PLAN OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN DULY AUTHORIZED.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN AND NOTHING CONTAINED IN THIS DISCLOSURE STATEMENT SHALL (1) CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY DEBTOR, (2) BE ADMISSIBLE IN ANY PROCEEDING, CASE OR CONTROVERSY INVOLVING THE DEBTOR OR ANY OTHER PARTY, OR (3) BE DEEMED ADVICE TO ANY PARTY IN INTEREST ON THE TAX OR OTHER LEGAL CONSEQUENCES OF THE PLAN ON DEBTOR'S CREDITORS OR SHAREHOLDERS.

THE CREDITORS ARE URGED TO READ THIS DISCLOSURE STATEMENT CAREFULLY AND TO CONSULT WITH THEIR OWN LEGAL AND FINANCIAL ADVISORS IN DECIDING WHETHER TO ACCEPT OR REJECT THE PLAN.

XIV. CONCLUSION

The Plan will provide an opportunity for creditors to receive substantially more than they would receive in a liquidation under Chapter 7 of the Bankruptcy Code or any other known

