

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
WEST PALM BEACH DIVISION**

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In re:

Patriot Flooring Supplies, Inc.,
Ponypic, LLC,

Debtors.

Case No. 16-18984-EPK
Chapter 11

(Jointly Administered)
Case No. 16-18986-EPK

**JOINT DISCLOSURE STATEMENT PURSUANT
TO 11 U.S.C. § 1125**

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I. **INTRODUCTION**

Patriot Flooring Supplies, Inc. (“Patriot”) and Ponypic, LLC (“Ponypic” and, together with Patriot, the “Debtor”) submit this Joint Disclosure Statement, pursuant to section 1125 of Title 11 of the United States Code (the “Bankruptcy Code”), to all of the Debtor’s creditors and all parties-in-interest in connection with the Joint Plan of Reorganization (the “Plan”) dated August 12, 2016.¹

The Bankruptcy Court has set _____, at _____ .m., at the United States Bankruptcy Court for the Southern District of Florida, 1515 Flagler Drive, Courtroom B, West Palm Beach, Florida 33401 for a hearing on confirmation of the Plan. The Plan will be confirmed if it complies with the requirements of section 1129(a) of the Bankruptcy Code. The Plan must be accepted by the requisite majority of at least one class of claims that is impaired under the terms of the Plan. The requirement for acceptance by a class of claims that is impaired is at least two-thirds in dollar amount and more than one-half in number of the allowed eligible claims that vote. Pursuant to section 1129(b) of the Bankruptcy Code, the Debtor may be able to have the Plan confirmed over the objections of dissenting classes of creditors.

This Disclosure Statement has been prepared in order to provide holders of claims against the Debtor with adequate information about the Debtor and the Plan in order to enable holders of such claims to arrive at a reasonable, informed decision in exercising their right to vote for acceptance or rejection of the Plan.

THIS DISCLOSURE STATEMENT, INCLUDING THE PLAN AND ALL OTHER EXHIBITS, SHOULD BE READ IN ITS ENTIRETY. THE DESCRIPTION OF THE PLAN IN THE DISCLOSURE STATEMENT IS A SUMMARY AND IS QUALIFIED BY

¹ All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the attached Plan of Reorganization.

REFERENCE TO THE ACTUAL TERMS AND CONDITIONS OF THE PLAN ITSELF, WHICH SHOULD BE REVIEWED CAREFULLY BEFORE MAKING A DECISION AS TO WHETHER TO ACCEPT OR REJECT THE PLAN.

The Plan must be feasible.

Unless the Plan is accepted by each holder of a claim in an impaired class, the Plan must provide that each such claimant will receive or retain property of a value, as of the Effective Date, that is not less than the amount such holder would receive if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

A ballot is enclosed herewith for the use of creditors who are entitled to vote on the Plan. The ballot should be completed as promptly as possible and returned to the Clerk of the Bankruptcy Court, Flagler Waterview Building, 1515 North Flagler Drive, 8th Floor, West Palm Beach, Florida 33401. The Bankruptcy Court has set _____, 2016 as the last day for receipt and filing of ballots. This date may be extended only by order of the Bankruptcy Court.

NO STATEMENTS, INFORMATION OR REPRESENTATIONS CONCERNING THE DEBTOR, PARTICULARLY AS TO ITS FUTURE INCOME OR FINANCIAL CONDITION, ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THE DEBTOR IS UNABLE TO WARRANT AND REPRESENT THE ACCURACY OF THE INFORMATION CONTAINED HEREIN, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO INSURE ITS ACCURACY.

THE DEBTOR HAS BEEN AUTHORIZED TO DISTRIBUTE THIS

DISCLOSURE STATEMENT TO CREDITORS, AND TO SOLICIT ACCEPTANCES OF THE PLAN, AFTER NOTICE AND A HEARING BEFORE THE BANKRUPTCY COURT. THE BANKRUPTCY COURT HAS FOUND THAT THE INFORMATION CONTAINED HEREIN IS OF THE KIND, AND IS SUFFICIENTLY DETAILED TO ENABLE A HYPOTHETICAL REASONABLE INVESTOR TYPICAL OF THE CLASSES BEING SOLICITED TO MAKE AN INFORMED DECISION AS TO WHETHER TO ACCEPT OR TO REJECT THE PLAN. THE BANKRUPTCY COURT HAS NOT PASSED UPON THE PLAN. NEITHER THIS DISCLOSURE STATEMENT NOR THE ORDER APPROVING IT OR CONDITIONALLY APPROVING IT ARE TO BE CONSTRUED AS APPROVAL OR ENDORSEMENT AS TO THE FAIRNESS OR MERITS OF THE PLAN BY THE BANKRUPTCY COURT.

II. THE DEBTOR AND ITS CHAPTER 11 CASE

The Debtors' Businesses

Patriot is a Florida corporation that was formed and incorporated in 2000. It owns and operates a wholesale flooring supply business with a principal location at 342 Pike Road, Suite 14, West Palm Beach, Florida 33411 (the "Property"). Patriot has five other storefront locations in Florida in Palm Beach County, Martin County and Indian River County.² All of the storefront locations are leased by Patriot or by one of Patriot's wholly owned subsidiaries.

The Property is owned by Ponypic, a Florida limited liability corporation that was formed in 2008 for the sole purpose of holding title to the Property. Ponypic leases the Property to Patriot pursuant to an oral, "triple net" lease.

² Patriot's location in Vero Beach, Florida is actually leased by Patriot Flooring of Vero, LLC, and Patriot's location in Delray Beach, Florida is actually leased by Patriot Flooring of Delray, LLC. Each of these limited liability corporations are wholly owned subsidiaries of Patriot and do not conduct any business, own any assets, or owe any debts other than their contingent liability under the terms of the leases of the referenced non-residential real property.

Steven Hart is the President and sole Director and Shareholder of Patriot, and the managing member of Ponypic. Additional information regarding the Debtor's history, including but not limited to past and current business operations and the events surrounding the commencement of this bankruptcy case, is set forth in the *Declaration of Steven Hart in Support of Chapter 11 Petition and Request for First Day Relief* (the "Declaration") [ECF #6]. The Declaration is available for review upon request to undersigned counsel.

Mr. Hart has a 50% ownership interest in Ponypic. Ann Hart is also a member of Ponypic and has a 50% ownership interest in Ponypic. Mr. Hart is Ponypic's Managing Member and has sole decision making authority regarding its affairs.

Patriot sells floor covering supplies and provides support to a broad range of dealers, each of whom provide flooring installation services to different markets, including retail, hospitality, educational, institutional and medical. Patriot's employees are trained to have a wide range of flooring installation knowledge, allowing Patriot to provide immediate installation support for its customers. Patriot is a member of the Floor Covering Distributor Alliance, a group of nineteen wholesale distributors located in the United States, Australia and Canada that sell products needed to install any type of flooring.

Ponypic is a real estate holding company and does not have any operations.

Patriot currently has twenty-one employees, two of which are paid a salary plus commission, and fifteen of which are paid on an hourly basis. The remaining four employees are paid on a salaried basis. Patriot offers a Safe Harbor 401(k) plan for all of its employees. Employees are eligible to participate in the 401(k) Plan after completing a year of service. Regular employee contributions are made approximately seven days after the end of each payroll period. Patriot contributes 3% of each Employees' annual pay to their respective 401(k) Plan

account, provided such Employee has completed at least one year of employment.

Patriot's revenues are primarily generated from sales to sub-contractors and flooring supply dealers. Credit is rarely extended to any customers other than flooring supply dealers, some of which receive net 30 terms. Sales to sub-contractors are generally made on a cash basis. Cash flow management is integral to the success of Patriot's business operations. Turnover of Patriot's inventory occurs approximately every forty-five days.

**The General Electric Capital Corporation and
Florida Business Development Corporation Loans**

On September 23, 2008, Ponypic executed a mortgage (the "Mortgage") in favor of General Electric Capital Corporation ("GE") as security for repayment of a promissory note in the principal amount of \$1,920,000 (the "GE Note" and, together with the Mortgage, the "Loan Documents") with a maturity date of September 1, 2033, in order to facilitate the purchase of the Property. The Mortgage gave GE a lien against the Property and all personal property owned by Ponypic.

Patriot executed a Commercial Guaranty (the "Guaranty") of the Note.

Mr. Hart and Ms. Hart (together, the "Guarantors") signed personal guarantees for payment of the GE Note.

GE also provided an "interim" loan to Ponypic to finance the remaining amount of the purchase price of the Property. On September 23, 2008, Ponypic executed a Mortgage with Future Advances and Security Agreement (the "Second Mortgage") in favor of GE as security for repayment of a Promissory Note in the principal amount of \$1,204,260.00 (the "Second Note" and, together with the Second Mortgage, the "Second Loan Documents") with a maturity date of February 1, 2009. The Second Mortgage gave GE a second priority lien against the Property and all personal property owned by Ponypic.

The Second Loan Documents were assigned by GE to the Florida Business Development Corporation ("FBDC"), a private, non-profit Certified Development Corporation that administers the United States Small Business Administration's 504 Program, pursuant to an Assignment of Note and Mortgage and Modification Agreement dated September 23, 2008. This loan was made pursuant to the United States Small Business Administration's SBA 504 Debenture program. The SBA sold debentures to investors, and the resulting 504 Renewal Note (the "504 Note") was in the principal amount of \$1,237,000.00, with an interest rate of 6.85561% and a maturity date of November 1, 2028.

Patriot and the Guarantors signed Unconditional Guarantees of payment of the 504 Note.

Ponypic executed a Security Agreement in favor of FBDC pledging the Property and all personal property owned by Ponypic as security for repayment of the 504 Note.

Patriot executed a Security Agreement in favor of FBDC pledging only its equipment, including furniture and fixtures in the Property and software as security for repayment of the 504 Note. On October 2, 2008, the FBDC assigned the 504 Note to the SBA.

Modification of the GE Loan Documents

On or about December 23, 2009, Ponypic, Patriot, the Guarantors and GE entered into a Note and Mortgage Modification Agreement that modified the Loan Documents. The principal amount owed on the Note remained at \$1,920,000.00, but the repayment schedule was modified so that the maturity date was changed from September 1, 2033 to October 1, 2018, and the interest rate was modified so that Ponypic was obligated to make eighteen monthly payments at an interest rate of 6%, followed by eighteen monthly payments at an interest rate of 7%, followed by thirty-three monthly payments at an interest rate of 8%, followed by thirty-six monthly payments at an interest rate of 9.01%, with a balloon payment of \$1,734,689.61 due on October

1, 2018.

On or about September 10, 2015, GE assigned the Loan Documents to Waterfall Finance 10, LLC ("Waterfall").

On March 31, 2016, Waterfall assigned the Loan Documents to ARCPE 1, LLC ("ARCPE").

Events Leading Up To the Chapter 11 Cases

The Property was developed as part of the Southern Park of Commerce, a commercial, mixed use complex with twenty-three small bay warehouse units containing both office and warehouse space. For many years, Ponypic was the only purchaser of any of these small bay warehouse units, resulting in the Property losing a significant amount of its original value. The unsold warehouse units were eventually sold by the developer in or about 2013.

The general economic downturn that began in 2008 and the significant decrease in real estate values rendered Ponypic unable to meet its monthly debt service obligations, leaving Ponypic, Patriot, Mr. Hart and Ms. Hart jointly and severally liable for payment of these debts.

Ponypic and Patriot filed for Chapter 11 protection on June 24, 2016, in order to restructure their debt, with the intention of proposing a joint plan of reorganization capable of confirmation.

Patriot's Pre-Petition Operations

For the calendar year 2013, Patriot's total gross income was \$2,426,755.00, and its ordinary business income (loss) was \$629,219.00. For the calendar year 2014, Patriot's total gross income was approximately \$2,667,974.00, and its ordinary business income (loss) was \$856,561.00. For the calendar year 2015, Patriot's total gross income was approximately \$2,519,668.00. As of July 31, 2016, Patriot had YTD gross income of approximately \$1,845,162.00.

For the calendar year 2013, Ponypic's total gross rental income was approximately \$183,901.00, and its net rental real estate income (loss) was \$(20,984.00). For the calendar year 2014, Ponypic's total gross rental income was approximately \$183,396.00, and its net rental real estate income (loss) was \$(8,468.00). For the calendar year 2015, Ponypic's total gross rental income was approximately \$63,244.04. Ponypic has not collected any income during calendar year 2016.

Mr. Hart receives an annual salary of \$144,511.16 from Patriot, along with \$24,000.00 in 401(k) matching contributions and payment of health, life, and disability insurance premiums in the annual amount of \$17,645.88.

Equity Interests

As disclosed above, Steven Hart is the President and sole shareholder of Patriot, and the Managing Member of Ponypic. Mr. Hart has a 50% ownership interest in Ponypic. Ann Hart is also a Member of Ponypic. She owns the remaining 50% of Ponypic.

If the Plan is confirmed, Mr. Hart will remain in his current management position and retain his interest in Patriot, which will be substantively consolidated with Ponypic. Ms. Hart will not retain her ownership interest in Ponypic or the consolidated entity.

The Debtors' counsel will hold \$100,000.00 in escrow at the time of the hearing on confirmation of the Plan (in addition to other funds necessary to comply with the court's requirement that funds are available for an initial distribution under the Plan). \$50,000.00 of this sum will be contributed by Mr. Hart and \$50,000.00 of this sum will be contributed by Mrs. Hart. This \$100,000.00 will be used to fund a portion of the proposed lump sum distribution to holders of Allowed Unsecured Claims on the Distribution Date. It is intended to constitute "new value."

Substantive Consolidation

As set forth in more detail below, because of the substantial identity between Patriot and Ponypic, it is in the best interest of all creditors for the estates of Patriot and Ponypic to be substantively consolidated.

The proposed substantive consolidation will achieve two significant benefits. First, it will eliminate inter-corporate guarantees, such that the joint and several liability of Patriot and Ponypic shall be deemed to be one liability of the substantively consolidated Debtor. Second, it will provide a common pool of assets and liabilities, which in turn will provide for a more significant distribution to creditors. It will also streamline the administration of these cases.

Patriot will continue in existence and remain an active legal entity, while Ponypic will cease to exist. Title to the Property will transfer to Patriot pursuant to the terms of the proposed Plan and will be exempt from applicable transfer taxes pursuant to section 1146(a) of the Bankruptcy Code.

The Eleventh Circuit has set forth a list of non-exclusive factors to consider in determining whether substantive consolidation is appropriate, which are present in these cases. These factors are: (1) the unity of interests and ownership between corporate entities; (2) the existence of inter-corporate guarantees on loans; (3) the difficulty in segregating individual assets and liabilities; (4) the entities having common officers or directors; and (5) one entity transacting business solely with the other entity. Eastgroup Properties v. S. Motel Ass'n, Ltd., 935 F.2d 245, 249 (11th Cir. 1991).

The Debtors submit that application of the facts of these cases to these factors warrants the substantive consolidation of Patriot and Ponypic. No creditors of either estate will be harmed due to the proposed substantive consolidation, but rather the efficiencies that will be achieved through this proposed consolidation will result in a greater return to all creditors. There are very

few creditors that do not have claims against both Ponypic and Patriot, and their claims, if any, are so minor that the proposed consolidation will not result in any real detriment to creditors of both estates. Further, no significant creditors relied on the separate identities of Patriot or Ponypic in extending credit.

Patriot is an operating business, while Ponypic's only revenue derives from rent payments made to it by Patriot. Although these are two separate entities, Patriot's revenues are ultimately the source of funding for both entities and as a result, will be the source of funding proposed distributions under the Plan, in addition to new value contributions to be made by the Guarantors. It is appropriate, under these circumstances, to substantively consolidate Patriot and Ponypic.

The Debtors' Assets

The Debtors' consolidated assets primarily consist of the Property, cash, accounts receivable, inventory, equipment and vehicles, and general office furnishings. The estimated fair market value and liquidation value of the Debtor's assets is described in the Liquidation Analysis and notes thereto attached hereto as Exhibit A.

As of July 31, 2016, there was a balance of approximately \$1,152,000.00 in Patriot's operating account and a balance of approximately \$156,000.00 in Ponypic's operating account. According to the cash flow projection attached hereto as Exhibit B, the substantively consolidated Debtor's cash on hand and monthly receipts are sufficient to pay all ordinary course operating expenses and to service the payments proposed pursuant to the Plan.

III. SUMMARY OF THE PLAN

FOLLOWING IS A SUMMARY OF THE PLAN. THIS SUMMARY IS QUALIFIED BY REFERENCE TO THE TERMS AND CONDITIONS OF THE PLAN ITSELF. THIS SUMMARY SHOULD NOT BE RELIED UPON FOR VOTING PURPOSES WITHOUT

READING THE PLAN IN FULL. CREDITORS AND HOLDERS OF AN EQUITY INTEREST IN THE DEBTOR ARE URGED TO CONSULT COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN, AND FOR THE PURPOSE OF MAKING A DECISION AS TO WHETHER TO ACCEPT OR REJECT THE PLAN.

The Plan is based upon the Debtor's belief that the Distributions contemplated under the Plan are fair and equitable in this case.

Attached as exhibits to or accompanying this Disclosure Statement are copies of the following:

1. The Debtor's Estimated Liquidation Analysis (Exhibit A);
2. The Debtor's Cash Flow Projection (Exhibit B);
3. The Plan (Exhibit C); and
4. A form of ballot for acceptance or rejection of the Plan (Exhibit D).

The Debtor's Liquidation Analysis shows a possible range of recoveries in the event the Debtor's case is converted to a case under Chapter 7 of the Bankruptcy Code. The lowest anticipated recovery is compared to the highest anticipated recovery, and the difference between the lowest recovery amount and the highest recovery amount has been divided by two and added to the lowest anticipated recovery amount to create a median anticipated recovery amount. A review of the Debtor's Liquidation Analysis shows that, in the event the Debtor's case was converted to a case under Chapter 7 of the Bankruptcy Code, after payment of Allowed Administrative and Allowed Secured Claims, the anticipated amount available to distribute to unsecured creditors in the event of liquidation is less than the distribution proposed pursuant to the Plan.

Pursuant to the proposed substantive consolidation of Patriot and Ponypic, Patriot will be

the reorganized Debtor and will assume responsibility for consummation of the proposed Plan.

A. DESIGNATION AND TREATMENT OF CLASSES

Unclassified Claims.

Certain types of Claims are automatically entitled to particular treatment under the Bankruptcy 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 does not comply with that required by the Bankruptcy Code. Accordingly, Administrative Expense Claims and priority tax claims under section 507(a)(8) of the Bankruptcy Code are not placed into specific classes.

The Debtor shall pay the United States Trustee all fees that may be due pursuant to 28 U.S.C. § 1930(a)(6) within ten days of the entry of the Confirmation Order for pre-confirmation periods. The Debtor will also provide the United States Trustee with an affidavit stating the cash disbursements for the relevant period. The Debtor shall further pay the United States Trustee all fees due pursuant to 28 U.S.C. § 1930(a)(6) based upon all the Debtor's disbursements for post-confirmation periods within the time period set forth in 28 U.S.C. § 1930(a)(6), until the earlier of the closing of this case by the issuance of a Final Decree by the Court, or upon entry of an Order by this Court dismissing this case or converting this case to another chapter under the Bankruptcy Code. The Debtor shall provide to the United States Trustee upon the payment of each post-confirmation payment an appropriate affidavit indicating all the cash disbursements for the relevant period.

No fees are currently due to the United States Trustee.

Cash on hand as of the Effective Date will be used to pay Administrative Expenses.

Administrative Claims related to post-petition fees and expenses of the Debtors' attorneys through confirmation (exclusive of pre-petition payments made) are estimated to be

approximately \$50,000.00. Such claims will not be allowed or paid unless approved by a Final Order of the Bankruptcy Court. To the extent allowed, they will be paid from cash on hand.

Although the Debtor typically pays all of its vendors in full in the ordinary course of business, to the extent that a vendor provides post-petition goods and services to the Debtor, the costs arising out of such goods and services will be treated as Allowed Administrative Expenses and will be paid in full in the ordinary course of business. Accordingly, total known Administrative Expense Claims, not including ordinary course operating expenses, are estimated at approximately \$50,000.00. All Administrative Expense Claims will be paid in full on or before the Effective Date, or as otherwise agreed between the parties.

Class 1 Claim (ARCPE 1, LLC's Secured Claim).

The Class 1 Claim is impaired. ARCPE has a Secured Claim of \$2,200,000.00, and will receive a replacement lien securing its Claim on the collateral against which it currently has a lien.

As discussed in detail above, ARCPE has a lien against the Property and all personal property owned by Ponypic. The approximate value of the Property is \$2,025,000.00. Ponypic's personal property is valued at approximately \$175,000.00. Accordingly, ARCPE has an Allowed Secured Claim in the amount of \$2,200,000.00.

Ponypic will pay \$175,000.00 in cash to Debtors' counsel to be held in escrow pending confirmation of the Plan. Upon occurrence of the Effective Date, Debtors' counsel will make a lump sum payment of \$175,000.00 to ARCPE in satisfaction of that portion of ARCPE's Allowed Secured Claim.

The Loan Documents will be modified to provide for a new principal balance of \$2,025,000.00, a 25 year amortization period, and an approximate maturity date of June 1, 2041.

The applicable interest rate will be fixed at 6.25% for the first five years of the loan term. During this initial five year period, ARCPE will receive monthly principal and interest payments of \$13,358.30.

Following the initial five years of the loan term, the interest rate on the modified Loan Documents may adjust. The interest rate will have a floor of 6.25% and a ceiling of 11.00% for the life of the loan. Rate adjustments may occur no more frequently than every five years.

The fully indexed interest rate following the initial five years of the loan term will be calculated based upon the then-prevailing Wall Street Journal Prime Rate, plus a margin of 275 basis points. Notwithstanding this, the interest rate will never increase by more than 2.5% upon any rate adjustment.

Patriot will take title to the Property pursuant to the Plan. The monthly payments of principal and interest going forward will be made with cash derived from Patriot's business operations. Patriot will pay insurance and real estate taxes directly.

Patriot has made monthly adequate protection payments to ARCPE in the amount of \$13,358.30 during the pendency of this case. Upon occurrence of the Effective Date, all such payments will be applied against principal and interest, as set forth in the modified Loan Documents executed by Patriot in connection with the proposed Plan.

The Debtor shall execute an Amended and Restated Mortgage and Security Agreement, a Restated and Amended Promissory Note, and an Affirmation, Continuation and Restatement of Loan Documents Agreement (collectively, the "Modified Loan Documents") to effectuate the restructured loan, along with any other documents necessary to effectuate the transfer of title to the Property to the substantively consolidated Debtor. ARCPE's security interest will generally be limited to the Property and all fixtures thereto, along with any personal property used in

connection with the operation of the Property.

The Modified Loan Documents, which will be available for review upon request and prior to any hearing on confirmation of the Plan, set forth all applicable details.

This transaction is not subject to tax pursuant to Section 1146(a) of the Bankruptcy Code, which provides that the “issuance, transfer, or exchange of a security, or the making or delivery of an instrument of transfer under a [confirmed plan] . . . may not be taxed under any law imposing a stamp tax or similar tax.”

ARCPE has an unsecured deficiency claim of approximately \$200,000.00 that it has agreed to waive, subject to confirmation of the Plan (as may be amended).

Class 2 Claim (United States Small Business Administration’s Secured Claim).

The Class 2 Claim is impaired. The SBA has a Secured Claim of \$32,178.00, and will receive a replacement lien securing its Claim on the collateral against which it currently has a lien.

As discussed in detail above, the SBA has a lien against the Property, all personal property owned by Ponypic, and all equipment, furniture, fixtures and software owned by Patriot. It does not have a lien against cash, accounts, accounts receivable, inventory, proceeds and the like owned by Patriot. The Property and Ponypic's personal property are fully encumbered by ARCPE's Secured Claim. The personal property owned by Patriot that is subject to the SBA's lien is worth approximately \$32,178.00.

The SBA will receive monthly principal and interest payments on the new principal balance of \$32,178.00 at a rate of 4.5%, with a 5 year amortization period and a maturity date on or about October 1, 2021. The monthly principal and interest payment amount will be \$599.90. The monthly payments of principal and interest will commence on the first calendar day of the

month following the Effective Date and will be made with cash derived from Patriot's business operations.

Class 3 Claims (Unsecured Claims)

Class 3 Claims are impaired. ARCPE has an unsecured deficiency claim of approximately \$200,000.00 that it has agreed to waive. The SBA has an Allowed Secured Claim of \$32,178.00, and the remaining amount owed to it, \$1,446,350.00, shall be treated as an Allowed Unsecured Claim. Accordingly, Allowed Unsecured Claims total approximately \$1,446,350.00 (this amount is subject to change in accordance with the procedures outlined in the Plan for determining the amount and validity of Disputed Claims). The holders of Allowed Unsecured Claims shall receive a one-time pro rata Distribution from \$50,000.00 in cash contributed by Mr. Hart, \$50,000.00 in cash contributed by Ms. Hart, and \$400,000.00 to be contributed by Patriot, for a total Distribution of \$500,000.00. This one-time Distribution shall be disbursed no later than ten business days after the Effective Date, subject to the Disputed Claims reserve procedure set forth in § 11.1 of the Plan.

Therefore, each holder of an Allowed Class 3 Claim shall receive almost 35% of the Allowed Amount of such Claim, in full satisfaction of all Allowed Class 3 Unsecured Claims.

Class 4 Claims (Equity Interest Holders).

The Class 4 Claims are not entitled to vote on acceptance or rejection of the Plan. Class 4 consists of the Equity Interests of Steven Hart, the President and sole shareholder of Patriot and the managing member and 50% owner of Ponypic, and Ann Hart, a member and 50% owner of Ponypic. In consideration for his contribution of \$50,000.00, Steven Hart will retain his ownership interest in Patriot and will become 100% owner and sole member of Ponypic. Neither Mr. Hart nor Ms. Hart will receive any Distribution under the Plan.

The Debtor believes the Plan provides a realistic recovery to creditors while providing Patriot and Ponypic with an opportunity to reorganize their affairs and move forward as viable entities.

The Debtor has concluded that Distributions to creditors under the Plan will be greater than any recovery that could be achieved if the Debtor's assets were liquidated or if these estates were not deemed to be substantively consolidated for purposes of the Plan. Accordingly, the Debtor believes that acceptance of the Plan is in the best interest of creditors and recommends that you vote to accept the Plan. A copy of the Plan is attached as Exhibit C to this Disclosure Statement.

B. EFFECTUATION AND IMPLEMENTATION OF THE PLAN

The funds and other consideration necessary to make all payments contemplated by the Plan shall be derived from cash on hand as of the Effective Date, cash obtained from the Debtor's business operations, \$50,000.00 in cash contributed by Mr. Hart, and \$50,000.00 in cash contributed by Ms. Hart.

The cash flow projection attached hereto as Exhibit B sets forth projected monthly income and expenses through December of 2020 and shows the Debtor's ability to satisfy its ordinary course monthly operating expenses and all payments contemplated by the Plan. The cash flow projection also sets aside a reserve to pay for necessary capital repairs to the Property or other unanticipated, necessary expenses.

Patriot and Ponypic will be substantively consolidated pursuant to the Plan. As of the Effective Date of the Plan, the Plan will be consummated as proposed herein, Patriot will continue in its existence and remain an active legal entity, and Ponypic will cease to exist.

Payments made pursuant to the Plan shall be drawn on a domestic bank. No payments of

fractions of cents shall be made.

All Distributions shall be sent to Claimants at their last known address as set forth on the proof of claim filed with the Bankruptcy Court or, if no proof of claim is filed, on the schedules filed by the Debtor, or to such other address as may be designated by a Claimant.

In the event of any dispute between and among Claimants (including the entity or entities asserting the right to receive the disputed payment or Distribution) as to the right of any entity to receive or retain any payment or Distribution to be made to such entity under the Plan, the Debtor may, in lieu of making such payment or Distribution to such entity, make such payment into an escrow account or to a disbursing agent, for payment or Distribution as ordered by a court of competent jurisdiction or as all interested parties to such dispute may otherwise agree.

There shall be no cash Distribution of any amount less than ten dollars. The Debtor shall retain such funds rather than distribute such funds under the Plan.

C. MERGER, DISCHARGE, RELEASE, PAYMENT AND EXTINGUISHMENT OF LIENS AND ENCUMBRANCES

Except as otherwise specifically provided in the Plan, all Claims, liens, encumbrances, causes of action, demands and lawsuits of any creditors of the Debtor against the Debtor and its agents, attorneys and assigns and/or any property or assets of the Debtor are deemed, as of the Effective Date, to be extinguished, released, compromised, settled and paid in full, and shall not at any time after the Effective Date be asserted or pursued in any manner against the Debtor or its estate, and shall be payable solely under the Plan.

Non-Debtor (Third Party) Releases

In consideration for the cash contributions made to the Debtor's estate to be distributed pursuant to the Plan, and except as otherwise specifically provided in the Plan, all Claims, liens, encumbrances, causes of action, demands and lawsuits of any creditors of the Debtors against

Steven Hart, Ann Hart or their respective agents, attorneys and assigns and/or any property or assets owned by either of them individually, jointly, or otherwise are deemed, as of the Effective Date, to be extinguished, released, compromised, settled and paid in full, and shall not at any time after the Effective Date be asserted or pursued in any manner against them, and shall be payable solely under the Plan.

Eleventh Circuit precedent provides that a bankruptcy court has the authority to issue a release in favor of a non-debtor as a condition of a plan of reorganization, and has identified a non-exclusive list of the following factors to consider in determining whether such a release should be granted: (1) "an identity of interests between the debtor and the third party . . . such that a suit against the non-debtor is, in essence, a suit against the debtor or will deplete the assets of the estate; (2) The non-debtor has contributed substantial assets to the reorganization; (3) The injunction is essential to reorganization, namely, the reorganization hinges on the debtor being free from indirect suits against parties who would have indemnity or contribution claims against the debtor; (4) The impacted class, or classes, has overwhelmingly voted to accept the plan; (5) the plan provides a mechanism to pay for all, or substantially all, of the class or classes affected by the injunction; [and] (6) The plan provides an opportunity for those claimants who choose not to settle to recover in full" In re Seaside Eng'g & Surveying, Inc., 780 F.3d 1070, 1079 (11th Cir. 2015). The Debtor submits that application of the facts of this case to each of these factors warrants the issuance of the proposed non-debtor releases.

There is an Identity of Interests Between the Debtors and the Guarantors

Mr. Hart is the owner and sole shareholder of Patriot, and Patriot's continuing operation is completely dependent upon his services, relationships and expertise. The Guarantors are the sole owners of Ponypic, and any lawsuit against either of the Guarantors pursuant to their personal guarantees would necessarily detract from the reorganization effort and the estate.

The Guarantors Have Contributed Substantial Assets To the Reorganization

The Guarantors have each contributed a substantial sum of money to the reorganized Debtor. Mr. Hart has paid in capital contributions to Patriot in the amount of \$317,893.00, and will be contributing an additional \$50,000.00 to the reorganized Debtor. Additionally, Mr. Hart has consistently taken a salary that is far lower than what the market would pay an executive of a similarly situated company, and will continue to take the same salary from the reorganized Debtor. Mr. Hart will continue to contribute his personal services to the reorganized Debtor, which services are absolutely essential to Patriot's continuing operations and to the proposed reorganization. Ms. Hart is contributing \$50,000.00 to the reorganized Debtor.

The Proposed Releases are Essential To the Reorganization

As stated in relation to the first factor, the proposed releases are essential to the proposed reorganization since the personal guarantee signed by Mr. Hart would very likely result in lawsuits against Mr. Hart that would divert Mr. Hart's attentions away from Patriot's operations and would negatively impact the proposed reorganization. Further, it is likely that Ms. Hart would commence litigation against Mr. Hart if the proposed release is not extended to her, which would divert a substantial amount of Mr. Hart's attention away from Patriot's operations and would negatively impact the proposed reorganization.

The Impacted Classes Have Voted To Accept the Plan

ARCPE has already executed a ballot accepting the proposed Plan. While all classes have not yet submitted ballots as to the proposed Plan, the Debtor believes that, under the circumstances, all classes will vote in favor of the Plan.

The Plan Provides for Payment of Substantially All Claims Affected by the Releases

ARCPE and the SBA, the two creditors primarily affected by the proposed releases, are receiving substantially all of the amounts due and owing to them for their Allowed Unsecured

Claims or have already accepted the Plan. In the event any class of creditors objects to confirmation of the Plan, the Debtor will address any issues regarding whether the absence of a full recovery by an objecting creditor warrants denial of the proposed releases.

The occurrence of the Effective Date shall operate as a discharge, pursuant to section 1141(d)(1) of the Bankruptcy Code, effective as of the Effective Date, of any and all debts (as such term is defined in section 101(12) of the Bankruptcy Code) against the substantively consolidated Debtor and the Guarantors that arose at any time before the Filing Date, including but not limited to, all principal and interest, whether accrued before, on, or after the Filing Date. On the Effective Date, as to every discharged debt and Claim, the Claimant that held such debt or Claim shall be permanently precluded from asserting against the Debtor and the Guarantors, or against any of their assets or properties, any other or further Claim based upon any document, instrument or act, omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date. Without limiting the generality of the foregoing, on the Effective Date, the Debtor shall be discharged from any debt that arose before the Effective Date, and any debt of a kind specified in section 502 of the Bankruptcy Code, to the full extent permitted pursuant to section 1141(d)(1)(A) of the Bankruptcy Code. Except as may otherwise be specifically provided herein, nothing in this Plan shall be deemed to waive, limit or restrict in any way the discharge granted upon confirmation of this Plan pursuant to section 1141 of the Bankruptcy Code.

On the Effective Date, all creditors shall be permanently enjoined from commencement of any suits, claims or actions against the Debtor or the Guarantors, or their respective assets relating to any of the foregoing obligations, with the exception of actions relating to the Debtor's and the Guarantor's performance of obligations required by the Plan.

Except as otherwise provided herein, all property of the Debtor's estate shall pass to and vest in the reorganized Debtor free and clear of all liens, claims and encumbrances, pursuant to section 1141 of the Bankruptcy Code, on the Effective Date.

D. RIGHTS IF PLAN IS NOT CONFIRMED

If confirmation of the Plan does not occur, the Plan shall be deemed null and void. In such event, nothing contained in the Plan shall be deemed to constitute a waiver or release of any claims by or against the Debtor or any other entity, or to prejudice in any manner the rights of the Debtor or any other entity in any further proceedings involving the Debtor.

E. ASSUMPTION AND REJECTION OF EXECUTORY CONTRACTS AND LEASES

The Plan provides that any unexpired lease or executory contract of the Debtor not provided for in the Plan shall be deemed rejected by the Debtor on the Confirmation Date.

As disclosed above, Patriot leases the Property from Ponypic. Due to the proposed substantive consolidation of Patriot and Ponypic and the contemplated transfer of title to the Property, this lease will be rejected as moot. Patriot is also a party to leases with the following entities: 2585 Associates, Limited for the use of non-residential real property located at 2591 SE U.S. Highway 1, Stuart, FL; New Donna, LLC for the use of non-residential real property located at 1740 & 1742 Donna Road, West Palm Beach, FL; Oldham Investments, Ltd for the use of non-residential real property located at 1312 Commerce Lane, Suite #1 & 2C, Jupiter, FL; Ryder Truck Rental, Inc. for a 2014 Freightliner M2 106MD and a 2016 Isuzu freight truck; Toyota Financial Services for three 2015 Toyota Industrial Forklift Trucks (Model 8FBCU25); Neopost USA for a postage meter; and Palm Beach Business Systems, Inc. for a copier/scanner machine. The Debtor will assume all of these leases.

As discussed above, Patriot Flooring of Delray, LLC, a wholly owned subsidiary of

Patriot, is a party to a lease with Ben and Diane Weave d/b/a Delray Park Build for the use of non-residential real property located at 1035 NW 17th Avenue, Suite 5, Delray Beach, FL. As further discussed above, Patriot Flooring of Vero, LLC, a wholly owned subsidiary of Patriot, is a party to a lease with Glendale Trade Center, Inc. for the use of non-residential real property located at 690 8th Court, Vero Beach, FL. To the extent necessary to effectuate the terms of the Plan, the Debtor will assume both of these leases.

Patriot is a party to contracts for services rendered by NuVox Communications (telephone and internet), Paylocity Corporation (payroll and the like), Benetech (401k administration), and EPICOR (software services). To the extent that any of these agreements constitute an executory contract, such contract is deemed to be assumed by Patriot.

The Debtor is not presently aware of the existence of any other unexpired lease or executory contract that could give rise to a substantial damage claim against its estate which has not already been asserted as a prepetition Unsecured Claim.

F. PROCEDURE FOR RESOLVING DISPUTED CLAIMS

The Plan provides that to the extent the Debtor objects to any Claim, an objection must be filed no later than thirty days after the Effective Date, or within such other time as the Bankruptcy Court may direct. Unless otherwise ordered by the Bankruptcy Court, the Debtor shall litigate to judgment, settle or withdraw any objection to a Disputed Claim in its sole discretion.

The Plan provides that, pursuant to Federal Rule of Bankruptcy Procedure 3003(c), any creditor whose claim was scheduled as disputed, contingent, or unliquidated must file a proof of claim prior to the expiration of the claims bar date. A creditor who fails to do this shall not be treated as a creditor with respect to such claim for purposes of voting on the

Plan or receiving a Distribution pursuant to the Plan. The deadline for filing a Proof of Claim for non-governmental entities is September 24, 2016. The deadline for filing a Proof of Claim for governmental entities is December 21, 2016.

The Debtor shall reserve an amount sufficient to pay all Disputed Claims in accordance with their applicable treatment under the Plan. In the event any payment or Distribution must be made to a holder of a Disputed Claim, payment shall be made in accordance with the provisions of the Plan with respect to the Class of creditors to which the respective holder of an Allowed Claim belongs. Payment shall be made as soon as practical after the Bankruptcy Court enters a Final Order allowing such Claim.

G. AVOIDANCE ACTIONS

The Debtor is not aware of any payments of antecedent debts made within ninety days of the date the Debtor filed its petition for relief that would give rise to commencement of any actions to avoid and recover preferential transfers pursuant to section 547(b) of the Bankruptcy Code. A full review of the Debtor's check registers for the ninety days prior to the commencement of this case was conducted. The review of these documents showed no irregular payments.

The Debtor is not aware of any preferential payments to Insiders in the year preceding the filing of its petition for relief that would give rise to an action to avoid any such payments.

The Debtor is not aware of any transfers that took place before the date the Debtor filed its petition for relief that may give rise to commencement of any actions to avoid and recover fraudulent transfers pursuant to section 548(a) of the Bankruptcy Code.

H. RISK FACTORS

The Debtor believes that there is minimal risk to creditors if the Plan is confirmed. The

Cash Flow Projection attached to this Disclosure Statement shows sufficient cash flow to make all monthly payments contemplated by the Plan, and the Debtor's counsel will be holding at least \$500,000.00 in escrow to make the pro rata Distributions contemplated by the Plan as of the date of any hearing on confirmation.

The risk of confirmation is far slighter than the alternative of liquidation, as shown by the Liquidation Analysis attached hereto. In the event of a liquidation of the Debtor's assets, an additional layer of expenses will be incurred due to commissions paid to a Chapter 7 trustee, and potential fees paid to professionals retained by any trustee in connection with, at a minimum, any due diligence the trustee would be duty bound to conduct.

The cost of liquidation would also include costs associated with winding down Patriot's business, including payment of all current accounts payable, and any required general and administrative expenses associated therewith. The liquidation would require retention of certain key employees to assist with the liquidation of Patriot's inventory, which could reasonably be expected to last anywhere from 120 to 180 days. The operating expenses that would be incurred during this liquidation of inventory would include payroll, taxes, insurance, rents, and other overhead expenses, and would total approximately \$675,000.00 over six months. Other post-petition accounts payable incurred in the ordinary course and entitled to administrative claims were approximately \$563,443.00 as of July 31, 2016. After payment of Allowed Secured Claims and Allowed Administrative Claims, the amount available to distribute to unsecured creditors in the event of liquidation is less than the distribution proposed pursuant to the Plan. Please review the Liquidation Analysis attached as Exhibit A to this Disclosure Statement for additional details.

I. FEDERAL TAX CONSEQUENCES

The Debtor does not believe the implementation of the Plan will lead to any material

federal tax consequences for the Debtor's estate.

J. RETENTION OF JURISDICTION

The Plan provides that the Bankruptcy Court shall retain jurisdiction over these proceedings following confirmation of the Plan for certain purposes, including, but not limited to:

- (i) Hearing and determining objections to Claims;
- (ii) Hearing and determining any and all applications for compensation of Professionals or any similar fees; and
- (iii) Hearing and determining any and all applications, adversary proceedings and contested or litigated matters properly before the Bankruptcy Court, which relate to the Debtor's pre-Effective Date affairs or payment of Claims.

The Plan provides for retention of jurisdiction for other matters, including Plan modifications and disputes arising out of or relating to the Plan. All Claimants should refer to the Plan for a full and complete statement of the various matters over which the Bankruptcy Court shall retain jurisdiction.

K. MODIFICATION OF THE PLAN

Under the Plan, the Debtor reserves the right to amend or modify the Plan after the Confirmation Date. The Plan is to be governed by the Bankruptcy Code and construed and enforced in accordance with the laws of the state of Florida.

L. ALTERNATIVES TO THE PLAN

Alternatives to the Plan include confirmation of another Chapter 11 plan, conversion to a case under Chapter 7 of the Bankruptcy Code, or dismissal of this case. In the event of dismissal, it is very likely that foreclosure actions would be commenced soon thereafter by

ARCPE and potentially the SBA that would disrupt and otherwise destabilize the Debtor. The most likely result is that the Debtor would be unable to pay ordinary course operating expenses as they come due and both Patriot and Ponypic would fail.

The Debtor believes that the Plan represents the best possible distribution to holders of Allowed Claims under the circumstances.

IV. **CONFIRMATION OF THE PLAN**

Holders of an impaired Claim against the Debtor may accept or reject the Plan by returning the enclosed ballot, duly completed and signed, prior to any deadline for filing ballots set by the Bankruptcy Court. One criterion for confirmation of the Plan by the Bankruptcy Court is acceptance of the Plan by each Class of Claimants that is impaired. A Claim is impaired unless the Plan leaves such Claim legally, equitably and contractually unaltered. Class 1, Class 2, and Class 3 Claims are impaired under the Plan.

For the Plan to be accepted there must be acceptances from holders of at least two-thirds in amount and more than one-half in number of holders of each Class of Claims who vote.

Even if one or more Classes of impaired Claims vote to reject the Plan, the Bankruptcy Court may nonetheless confirm the Plan if the rejecting Classes are treated in the manner set forth in section 1129(b) of the Bankruptcy Code. A plan that is confirmed over the objection of one or more Classes of impaired Claims is commonly referred to as a “cram down” plan. The Code allows the Plan to be confirmed over the objection of such Classes if the Plan (i) meets all the requirements for confirmation except the voting requirements of section 1129(a)(8) of the Bankruptcy Code, (ii) does not “unfairly discriminate” and (iii) is “fair and equitable” toward each impaired class that has not voted to accept the Plan.

The Bankruptcy Court has fixed _____, _____, 2016, as the date by which holders of Claims and interests may accept or reject the Plan and _____, 2016, at ____:____.m. as the date and time for a hearing on confirmation of the Plan. The date of the confirmation hearing may be adjourned in open court.

Class 1, Class 2, and Class 3 Claimants are urged to complete the enclosed ballot and return it to Fowler White Burnett, P.A., 515 North Flagler Drive, Suite 2100, West Palm Beach, FL 33401, Attn: Eric A. Rosen, Esq. and Kaleb R. Bell, Esq.

If the Plan is confirmed, all Distributions will be made as set forth herein. Once all Distributions have been made and the estate has been fully administered, as provided in Federal Rule of Bankruptcy Procedure 3022, 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 this case. Alternatively, the Court may enter such a final decree on its own motion.

Dated: August 12, 2016

Patriot Flooring Supplies, Inc.
Debtor and Debtor in Possession



By: Steven Hart
President

Ponypic, LLC
Debtor and Debtor in Possession



By: Steven Hart
Managing Member

I HEREBY CERTIFY that I am admitted to the Bar of the United States District Court for the Southern District of Florida and that I am in compliance with the additional qualifications to practice in this Court as set forth in Local Rule 2090-1(A).

/s/ Eric A. Rosen

Eric A. Rosen

Fla. Bar No. 36426

Email: erosen@fowler-white.com

Kaleb R. Bell

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