UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
WEST PALM BEACH DIVISION
www.flsb.uscourts.gov

IN RE:

REDIGI, INC.,

Debtor.
_____/

CASE NO.: 16-20809-PGH
CHAPTER 11

DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION FOR REDIGI, INC.

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The Debtor in Possession, **ReDigi, Inc.** submits its Disclosure Statement for its Plan of Reorganization (hereinafter referred to as "Disclosure Statement") to its Creditors and other parties in interest. A hearing on confirmation of the attached Plan of Reorganization (hereinafter referred to as the "Plan") is to be scheduled by the Court. The approval of the Disclosure Statement is not tantamount to a decision by the Court on the merits of the Plan.

INTRODUCTION

This Disclosure Statement is submitted pursuant to the requirement imposed on the proponent of a Plan of Reorganization by 11 U.S.C. Section 1125. The purpose is to disclose information deemed to be material, important, and necessary for the Creditors to arrive at a reasonably informed decision in exercising their right, or to vote for acceptance or rejection of the Plan. This Disclosure Statement should be read in conjunction with the accompanying Plan. The Plan is a legally binding document once it is approved by the Court, and should be read in its entirety. Accordingly, creditors may wish to consult with their own attorney to understand the Plan more fully.

On August 3, 2016, the Debtor in Possession, **ReDigi Inc.** filed a voluntary Petition for Reorganization under Chapter 11 in the United States Bankruptcy Code, 11 U.S.C., Section 101 *et seq*., ("the Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of Florida (the "Bankruptcy Court"). **ReDigi Inc.** has continued to operate its business affairs as a Debtor in Possession pursuant to Section 1108 of the Bankruptcy Code.

THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT WAS PREPARED BY THE DEBTOR, UNLESS SPECIFICALLY STATED

TO BE FROM OTHER SOURCES. NO REPRESENTATIONS, OTHER THAN THOSE SET FORTH HEREIN, CONCERNING THE DEBTOR, PARTICULARLY AS TO FUTURE BUSINESS OPERATIONS OR VALUE OF ITS PROPERTY, IS AUTHORIZED OR WARRANTED BY THE DEBTOR. THE READER SHOULD NOT RELY ON ANY ORAL OR OUTSIDE REPRESENTATION BY ANY AGENT OF THE DEBTOR IN DECIDING TO VOTE FOR OR AGAINST THE PLAN. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN THOSE CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH OTHER ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR, WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE UNITED STATES TRUSTEE FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

Projections or results of future operations are based on the Debtor's best estimates in light of current market conditions, past experience, analysis of general economic conditions, and other estimates which will bear on the results.

You are urged to carefully read the contents of this statement before making your decision to accept or reject the Plan. Particular attention should be directed to the provisions of the Plan affecting or impairing your rights as they presently exist. The terms used herein have the same meaning as in the Plan unless the context hereof requires otherwise.

Creditors may vote on the Plan by filling out and mailing the accompanying ballot form to the Bankruptcy Court. The Court will set a deadline to file Ballots, in order to be

considered and counted. As a Creditor, your vote is very important. *In order for the Plan to be accepted, of the ballots or votes cast, Creditors that hold at least 2/3's in amount and more than 1/2 in number of the allowed claims of impaired classes must accept the Plan.* You are, therefore, urged to fill in, date, sign and promptly mail the enclosed ballot which has been furnished to you. Please be sure to properly complete the form and legibly identify the name of the Claimant or interest holder. You are advised that the Debtor may be afforded the right under the Bankruptcy Code to have the Plan confirmed over the objections of dissenting Creditors consistent with the limitations set forth in the Bankruptcy Code, as further discussed below.

I. DEFINITIONS

The following phrases, as used hereinafter, shall have the following meanings:

All definitions in the Plan of Reorganization are incorporated herein.

Court - Shall mean the United States Bankruptcy Court for the Southern District of Florida, including any Bankruptcy Judge thereof, and any court having competent jurisdiction to hear appeals from the Bankruptcy Judges thereof.

Creditor - Shall mean any Person holding a claim or Equity Interest, including Administrative Claimants and claims of the kind specified in sections 502(b), 502(h), and 502(i) of the Code, and such Person's heirs, successors, assigns, executors, and personal representatives.

Debtor's Property - Shall mean all of the Debtor's property, as defined in Section 541 of the Bankruptcy Code.

Effective Date - Shall mean thirty (30) days after the entry of the Confirmation Order1 at which time the initial payments called for herein will

1 Capitalized terms not otherwise defined herein shall have the definitions provided for in the Plan.

commence, unless stated otherwise in the Plan or Confirmation Order.

Equity Interest – shall mean any ownership or equity interest in the Debtor, including without limitation, interests evidenced by common or preferred stock, warrants, options, or other rights to purchase any ownership or equity interest in the Debtor.

Person - shall mean any individual, sole proprietorship, partnership (general or limited), joint venture, trust, unincorporated organization, association, corporation, institution, entity, or government (whether federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body, political subdivision or department thereof).

Plan - Shall mean the Third Amended Plan of Reorganization, including any other subsequent amendments or modifications.

Reorganized Debtor - Shall mean the entity that emerges from this reorganization process upon confirmation of the Plan and substantial consummation thereof.

II. PRE-PETITION EVENTS CAUSING NEED FOR REORGANIZATION

Prior to its formation, John Ossenmacher, the Chief Executive Officer of ReDigi, among others, developed a concept for transferring digital media without making copies and a patented system was built and developed. The system also included features to help users maintain compliance with copyright laws. Throughout 2010, development of the patents continued as Ossenmacher and his team met with various record labels, artists and others that could benefit from the technology. Testing was completed by various labels and technical institutions. ReDigi was incorporated in 2011.

The essence of ReDigi's patents and business model was to allow consumers to resell digital media. The basic premise was to utilize the "first sale" doctrine, which

allows owners of copyrighted material to treat that copy in any way desired so long as the copyright owner's exclusive copyright rights are not infringed.

On or about January 6, 2012, Capitol Records, LLC, Capitol Christian Music Group and Virgin Records IR Holdings, Inc. (collectively "Capitol") sued ReDigi for copyright infringement under various counts in the United States District Court for the Southern District of New York, Case Number 1:12-cv-00095-RJS, styled *Capitol Records, LLC, et al. v. Redigi Inc., et al*. (the "District Court Case"). In its Complaint, Capitol alleged that ReDigi infringed Capitol's exclusive rights under copyright laws by creating a virtual marketplace in which lawful purchasers of iTunes music files may sell or otherwise transfer ownership of those music files. After taking discovery, Capitol sought summary judgment of its infringement claims.

Capitol made two basic arguments to the District Court. First, Capitol argued that in connection with Capitol's unsuccessful attempt to obtain a preliminary injunction, ReDigi's witnesses admitted that ReDigi's technology causes copies of Capitol's sound recordings to be made as part of the transfer process to ReDigi's "cloud" server. In fact, ReDigi's technology is able to transfer an iTunes music file without copying it all. At no time during discovery did Capitol actually examine any of ReDigi's system code to determine whether ReDigi could transfer iTunes music files without causing any reproductions to be made. This issue remains in dispute as part of the pending appeal.

Second, Capitol argued that examination of ReDigi's technology was unnecessary because any transfer of an iTunes music file over the Internet necessarily resulted in the creation of a new "phonorecord" as defined under the Copyright Act. Relying on the Act's definition of "phonorecords" as "material objects," Capitol argued

that the only "material objects" involved in the transfer of iTunes music files were a consumer's computer hard disk or other Apple-compatible device capable of storing electronic music files. As a result, the transfer of an iTunes music file from the consumer's hard disk to ReDigi's server necessarily resulted in the creation of a new “phonorecord” because it was impossible to transfer a “material object” over the Internet.

Ultimately, the District Court granted Capital Records’ Motion for Partial Summary Judgment on March 30, 2013 by way of that certain Memorandum and Order Granting Motion for Partial Summary Judgment. A determination of damages was reserved to a later date.

In it’s ruling, the District Court found that ReDigi's now-patented technology infringed upon Capitol's reproduction and distribution rights under sections 106(1) and 106(3) of the U.S. Copyright Act. 17 U.S.C. §§ 106(1) and 106(3). The District Court also found that material disputed facts prevented the court from ruling on Capitol's claims for infringement of its public performance and display rights under sections 106(4) and 106(5). The District Court denied ReDigi's separate motion for summary judgment.

The District Court did not dispute that ReDigi had presented evidence that its technology did not involve the making of any reproductions of Capitol's sound recordings. Nevertheless, the District Court agreed with Capitol that it was unnecessary to resolve factual disputes about the capabilities of ReDigi's technology to grant summary judgment in Capitol's favor. The District Court adopted Capitol’s argument that the “phonorecord” embodying Capitol’s sound recordings was “the appropriate segment of the [consumer's] hard disk that the file would be embedded in following its transfer [to

the consumer]." The District Court concluded that any transfer of an iTunes music file to ReDigi's server necessarily infringed Capitol's rights because "by the laws of physics . . .[i]t is simply impossible that the same 'material object' [i.e., the phonorecord] can be transferred over the Internet."

The District Court relied on the same reasoning to conclude that ReDigi's technology was not protected under the first sale doctrine set forth in section 109(a) of the Copyright Act. 17 U.S.C. § 109(a). Noting that the first sale doctrine only permits the consumer to transfer the "particular phonorecord" the consumer had lawfully purchased from iTunes, the District Court concluded that ReDigi's technology could only allow the transfer of "reproductions of copyrighted code" which are not protected under the first sale doctrine. As a result, the District Court determined that the only way a consumer could legitimately transfer a lawfully purchased iTunes music file is by "the lawful owner's sale of her . . . computer hard disk . . . or other memory device onto which the file was originally downloaded."

On November 2, 2015, the District Court entered an order approving a joint stipulation as to the liability of ReDigi, Inc. and John Ossenmacher, Chief Executive Officer of ReDigi (who also filed for relief under Chapter 11 on August 3, 2016). Thereafter, in order to avoid the expense of a damages trial, the parties agreed to entry of the June 3, 2016 Stipulated Final Judgment Subject to Reservation of Right to Appeal, which included a stipulated damages amount. The Stipulated Final Judgment awarded damages to Capitol in the amount of $3,500,000.00

On June 30, 2016, ReDigi and Ossenmacher filed a Notice of Appeal in the United States Court of Appeals for the Second Circuit (the "Appeal") from the Stipulated

Final Judgment Subject to Reservation of Right to entered on June 3, 2016, as well as all prior adverse rulings in the District Court Case to which it is permitted to appeal, including, without limitation, the Memorandum and Order Granting Motion for Partial Summary Judgment entered on March 30, 2013.

Upon filing its this case, the District Court Case and the Appeal were immediately stayed by operation of 11 U.S.C. § 362. The Appeal stay has been lifted and the appellate court recently granted a Motion to Expedite Oral Argument over objection raised by Capitol. It is anticipated that Oral argument will occur by the end of the summer.

III. POST-PETITION EVENTS

As set forth in the appellate brief filed on February 7, 2017, the Debtor maintains that the District Court mistakenly concluded that it could decide what it acknowledged was a “novel question” of copyright law regarding the transfer of iTunes music files or downloads over the Internet based on an incorrect analysis of the term "phonorecord" under the Copyright Act, and without regard to how appellant ReDigi's technology actually operated.

The appellate brief further states that the District Court's conclusion that federal copyright law considers a consumer's computer hard disk to be the “phonorecord” in the context of transferring iTunes music files over the Internet is both inconsistent with various provisions of the Copyright Act and contrary to governing law in the Circuit. Had the District Court considered or recognized that iTunes music files or downloads are themselves the phonorecords, it would have realized that it could not resolve Capitol's infringement claims without first determining how ReDigi's technology actually operated.

As the District Court itself acknowledged, the manner by which ReDigi's technology transferred ownership of iTunes music files was “a source of contention between the parties.” Furthermore, the District Court failed to consider that the iTunes music file or download itself is a “phonorecord” under the Copyright Act. Unlike a hard disk, nothing in the "laws of physics" prevents an iTunes music file from being transferred over the Internet. ReDigi provided credible, specific evidence that its technology could transfer such files without creating a reproduction of the source iTunes music file. By disregarding this evidence, the District Court erred in granting summary judgment to Capitol on its infringement claim. Therefore, the it is the Debtor’s position that the District Court erred in resolving Capitol's infringement claims on summary judgment and should have allowed the matter to proceed to trial.

Based upon the forgoing, it follows that ReDigi's technology transfers exclusive ownership of source iTunes music files purchased from Apple from the initial purchaser to another without making reproductions of the transferred files, the initial purchaser may lawfully sell the source files under the first sale doctrine. ReDigi submitted credible evidence that its technology accomplishes just what section 109(a) requires under the first sale doctrine to apply.

The subject Appeal is a matter of great public importance and, accordingly, many Amicus Briefs have been filed in the pending appeal.

The Debtor has two separate platforms under which it can operate, ReDigi 1.0 and ReDigi 2.0. The differences between the two platforms are detailed in **Exhibit “I”**.

The Debtor has prepared projections and creditor treatment based upon two

scenarios: (i) a successful appeal and/or remand; or (ii) an unsuccessful appeal. Under the first scenario, ReDigi will operate as originally intended. Under the second scenario, ReDigi will operate only in Europe under licensing agreements.

In the pending bankruptcy, the United States Trustee filed a Motion to Dismiss or Convert (the "UST Motion") (C.P. #101). That Motion was initially heard on February 28, 2017 and then continued to June 28, 2017. On April 11, 2017, Capitol Records, LLC, Capitol Christian Music Group, Inc. and Virgin Records IR Holdings, Inc. filed a Motion to Convert Case to Chapter 7, or Alternatively, to Appoint Chapter 11 Trustee (the "Motion") (C.P. #132). The Motion was set for hearing on May 9, 2017 and an evidentiary hearing was scheduled for May 23, 2017. The evidentiary hearing has been continued by the bankruptcy court to allow the parties to go to mediation.

IV. FINANCIAL INFORMATION

The source of the financial information for this Disclosure Statement and accompanying Plan is from reports and financial statements of the Debtor, Debtor in Possession Monthly Operating Reports, and the Debtor's accountants and agents. The aforementioned information has been compiled through the present. The Debtor has prepared two sets of projections scenarios for payment to creditors. As stated above, the first scenario is based on a successful appeal and remand in which ReDigi can launch ReDigi 1.0 and ReDigi 2.0, as originally intended. This scenario also vacates and negates Capitol's $3,500,000.00 stipulated judgment pursuant to the terms of the June 3, 3016 Stipulated Judgment from the District Court. The second scenario is based upon an unsuccessful appeal, wherein ReDigi operates only in Europe based on licensing agreements.

V. VOIDABLE TRANSFERS AND PREFERENCE ANALYSIS

The Debtor believes that there are currently no known or existing voidable transfers that the Debtor has been a party to within the year prior to Bankruptcy. The Debtor has concluded in its business judgment that transfers within such period were made in the ordinary course of the Debtor's operations, and the Debtor has decided not to pursue such transfers as potential or fraudulent transfers.

VI. OBJECTIONS TO CLAIMS

Pursuant to the Plan, the Debtor may object to any scheduled claim or proof of claim filed against the Debtor. Such an objection shall preclude the consideration of any claim as "allowed" for the purposes of timely distribution in accordance with the Plan. Any objections by the Debtor have been, or will be, filed with the Bankruptcy Court under separate pleading. The Debtor estimates that allowed general unsecured claims under Scenario A, after objections, will total $763,709.78, and that allowed general unsecured claims under Scenario B, after objections, will total $4,776,033.62.

VII. MEANS OF EFFECTUATING PLAN, NEW CASH INFUSION AND RISK ANALYSIS

The Debtor believes that the Plan provides the best value for the allowed claims of Creditors and is in the Creditors' best interest. Attached hereto as Exhibit "A" is a table showing the claims against the Debtor and their classifications. Attached hereto as Exhibit "E" are the projected cash flow budgets of the Debtor under both Scenario A and Scenario B (the "Projections").

The Debtor estimates that it will need funding in the amount of $1,000,000.00 to commence operations in Year 1. The Debtor has obtained a financing commitment

from two separate lenders to provide two separate loans to the Debtor in the amount of $1,000,000.00 each (the "Financing"), as revolving lines of credit to be used as post-confirmation working capital to commence operations. This Financing will be funded upon confirmation of the Plan of Reorganization, regardless of the status or ruling in the pending appeal. The loan term sheets are attached hereto as **Exhibit "F".** The Term Sheet from Millen Consulting will be amended to reflect that it is not contingent upon the appeal and will be filed separately upon receipt. The loan will be used initially to fund any administrative expenses and will then be used to fund the rollout of operations in Europe, as well as the United States (if the appeal is successful). Both lenders are existing pre-petition investors in ReDigi and, consequently, have substantial knowledge of the Debtor and have significant motivation to see the Debtor succeed. Both lenders have merely been waiting for this matter to get to the point of a confirmed Plan of Reorganization to fund the loans. The Plan of Reorganization seeks approval of one or both of the loan commitments as part of the confirmation process.

The Debtor believes that the risk of non-payment of the percentage distribution to the Unsecured Creditors with Allowed Unsecured Claims in the Chapter 11 is greatly outweighed by the more substantial risk of non-payment if the above-referenced case is converted to a Chapter 7 Liquidation, wherein such Unsecured Creditors would receive a nominal or, most likely, no distribution.

VIII. CLAIMS AND THEIR TREATMENT UNDER THE PLAN:

SCENARIO A: SUCCESSFUL APPEAL:

A. ***Administrative Claims:*** The administrative claimants include the Debtor's attorney and the Office of the U.S. Trustee. Payment of the Administrative

Claims for the Debtor's counsel is subject to set off for pre-petition retainers, and all professional fees are subject to approval by the Court. The scheduling Order for confirmation will set forth a deadline for the filing of all Fee Applications. All Administrative Claims will be paid 100% of their allowed claims on or before confirmation of the Plan, as a condition of confirmation, from the Debtor and/or through funds received under the approved exit financing.

B. ***Tax Claims:***

1. **Internal Revenue Service:** This class consists of Claim #2 filed by the IRS in the aggregate amount of $12,223.31, which consists of a secured claim of $5,638.75 and an unsecured claim of $6,584.56. This claim shall be paid pursuant to the terms set forth below in Class One and Class Three.

C. ***Other Claims:***

1. **Class One – Secured Claim Internal Revenue Service**: The Secured Claim of the IRS in the amount of $5,638.75 is secured by personal property owned by the Debtor. As of Effective Date, the Debtor shall pay the $5,638.75 with 4% interest amortized over twelve (12) months at $480.14 per month. The IRS has filed a proof of claim in this matter. The claim is impaired.

2. **Class Two – Secured Claim Nutter McClennan & Fish, LLP**: The secured claim of Nutter Clennan & Fish, LLP in the amount of $629,805.40 shall be paid in full, without interest, bi-annually over three (3) years as more fully set forth below. As set forth in their Proof of Claim, the remainder of their claim in the amount of $250,576.46 is unsecured and shall be treated in Class 3.

a. **July 31, 2018:** $50,000.00

b. **December 31, 2018**: $50,000.00

c. **July 31, 2019:** $100,000.00

d. **December 31, 2019**: $100,000.00

e. **July 31, 2020:** $150,000.00

f. **December 31, 2020**: $179,805.40

The Debtor reserves the right to pay this claim in full prior to the expiration of the three (3) year period if funds are available. This claim is impaired.

3. **Class Three (General Unsecured Claims):** The General Unsecured claims include all allowed deficiency unsecured claims, and other allowed claims of Unsecured Creditors, subject to any objections that are filed and sustained by the Court. The Debtor estimates that allowed general unsecured claims under Scenario A, after objections, will total $763,709.78. The holder of an allowed general unsecured claim shall be paid twenty-five percent (25%) of net revenue at the end of each calendar year beginning as of December 31, 2018, until all allowed unsecured claims are paid in full without interest. The payments shall be calculated and paid to each allowed creditor on or before January 31st of the following calendar year. The total amount paid to the allowed general unsecured creditors listed in the projections are estimations based on projected net revenue. These claims are impaired.

9.1 **Class Four (Equity Shareholders)**: All equity security holders listed in the Bankruptcy Petition shall continue to each own their respective shares of common and/or preferred stock in the Reorganized Debtor as set forth in the attached **Exhibit "F"**.

SCENARIO B: UNSUCCESSFUL APPEAL:

A. ***Administrative Claims:*** The administrative claimants include the Debtor's attorney and the Office of the U.S. Trustee. Payment of the Administrative Claims for the Debtor's counsel is subject to set off for pre-petition retainers, and all professional fees are subject to approval by the Court. The scheduling Order for confirmation will set forth a deadline for the filing of all Fee Applications. All Administrative Claims will be paid 100% of their allowed claims on or before confirmation of the Plan, as a condition of confirmation, from the Debtor and/or through funds received under the approved exit financing.

B. ***Tax Claims:***

1. **Internal Revenue Service:** This class consists of Claim #2 filed by the IRS in the aggregate amount of $12,223.31, which consists of a secured claim of $5,638.75 and an unsecured claim of $6,584.56. This claim shall be paid pursuant to the terms set forth below in Class One and Class Three.

C. ***Other Claims:***

1. **Class One – Secured Claim Internal Revenue Service**: The Secured Claim of the IRS in the amount of $5,638.75 is secured by personal property owned by the Debtor. As of Effective Date, the Debtor shall pay the $5,638.75 with 4% interest amortized over twelve (12) months at $480.14 per month. The IRS has filed a proof of claim in this matter. The claim is impaired.

2. **Class Two – Secured Claim Nutter McClennan & Fish, LLP**: The secured claim of Nutter Clennan & Fish, LLP in the amount of $629,805.40 shall be paid in full, without interest, bi-annually over five (5) years as more fully set forth below. As set forth in their Proof of Claim, the remainder of the claim in the amount of $250,576.46

is unsecured and shall be treated in Class Three.

a. **July 31, 2018:** $25,000.00

b. **December 31, 2018**: $25,000.00

c. **July 31, 2019:** $50,000.00

d. **December 31, 2019**: $50,000.00

e. **July 31, 2020:** $75,000.00

f. **December 31, 2020**: $75,000.00

g. **July 31, 2021:** $75,000.00

h. **December 31, 2021**: $75,000.00

i. **July 31, 2022:** $75,000.00

j. **December 31, 2022**: $104,805.40

The Debtor reserves the right to pay this claim in full prior to the expiration of the five (5) year period if funds are available. This claim is impaired.

3. **Class Three (General Unsecured Claims):** The General Unsecured claims include all allowed deficiency unsecured claims, and other allowed claims of Unsecured Creditors, subject to any objections that are filed and sustained by the Court. The Debtor estimates that allowed general unsecured claims under Scenario B, after objections, will total $4,776,033.62. The holder of an allowed general unsecured claim shall be paid twenty-five percent (25%) of net revenue at the end of each calendar year beginning in 2018, until all allowed unsecured claims are paid in full without interest. The payments shall be calculated and paid to each allowed creditor on or before January 31st of the following calendar year. The total amount to the allowed general unsecured creditors listed in the projections are estimations based on projected net

revenue. These claims are impaired.

4. **Class Four (Equity Shareholders)**: All equity security holders listed in the Bankruptcy Petition shall continue to each own their respective shares of common and/or preferred stock in the Reorganized Debtor as set forth in the attached **Exhibit "F"**.

IX. POST-CONFIRMATION EQUITY INTEREST AND MANAGEMENT OF THE DEBTOR

9.2 The Debtor shall continue to be operated by John Mark Ossenmacher as Chief Executive Officer.

9.3 The Board of Directors shall consist of the following three (3) members:

1. John Mark Ossenmacher
2. Larry Rudolph
3. Mark Butler

9.4 The Board of Advisors shall consist of the following three (3) members (their biographies are attached as **Exhibit "H"**).

Charles Ciongoli
Marc Ferrari
Harvey Geller

9.5 All equity security holders listed in shall continue to each own their respective shares of common and/or preferred stock as listed therein and attached hereto as **Exhibit "F"**.

X. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

10.1 The Debtor is not a party to any executory contracts or unexpired leases.

XI. LIQUIDATION ANALYSIS

11.1 As with any Plan, an alternative would be a conversion of the Chapter 11

case to a Chapter 7 case, and subsequent liquidation of the Debtor by a duly appointed or elected Trustee. In the event of a liquidation under Chapter 7, the following is likely to occur: (a) an additional tier of administrative expenses entitled to priority over general Unsecured Claims under Section 507(a)(1) of the Bankruptcy Code would be incurred. Such administrative expenses would include, Trustee's commissions and fees to the Trustee's accountant, attorney's fees and other professionals likely to be retained for the purposes of liquidating the assets of the Debtor; and (b) Substantially less than market value will be realized for the Debtor's property (as set forth in Schedule B of the Bankruptcy Petition filed in this case, a copy of which is attached hereto and made a part hereof as **Exhibit "C"**). A Liquidation Analysis of the Debtor is attached hereto as **Exhibit "B"**.

In a Chapter 7 liquidation, the secured assets of the Debtor would go back to secured creditors, thus, resulting in substantial unsecured deficiency claims that would be added to the class of general unsecured creditors. The remaining creditors would, therefore, have very limited or no resources from which to receive any payment on their claims.

Predicated upon the foregoing and under a comparison of Chapter 11 reorganization versus Chapter 7 liquidation, the Debtor believes that the Creditors will receive substantially more money under a Chapter 11 Plan than they would under a Chapter 7 proceeding. As evidenced by the Liquidation Analysis attached hereto as **Exhibit "B"**, the Debtor's net assets are insufficient to satisfy the priority tax, administrative claims and secured claims of the Debtor and there would be no funds available to the general unsecured creditors in the unfortunate event of a conversion to

a Chapter 7 Liquidation proceeding.

The Court has previously set December 12, 2016 in this case as the claims bar date. All indebtedness scheduled by the Debtor as not disputed, contingent or unliquidated or any indebtedness set forth in a properly executed and timely filed Proof of Claim shall be deemed an allowed claim unless the same is objected to, and the objection thereto is sustained by the Court.

XII. CONFIRMATION REQUEST

13.1 The Debtor reserves the right, in the event that impaired classes reject the Plan, or any amendments or modifications thereto, to seek confirmation of the Plan pursuant to 11 U.S.C. Section 1129(b), if the Court finds at a hearing on confirmation that the Plan does not discriminate unfairly and is fair and equitable with respect to each dissenting class. Furthermore, in order for the Plan to be confirmed, of the ballots or votes cast, Creditors that hold at least 2/3's in amount and more than 1/2 in number of the allowed claims of impaired classes must accept the Plan.

XIII. FEASIBILITY AND BEST INTEREST TEST

14.1 The Debtor submits that the Plan is fair and reasonable in its treatment of the respective classes of claims in this case, and that it is in the best interests of all affected parties to approve the Plans treatment of the classes of claims.

CREDITORS AND OTHER PARTIES IN INTEREST ARE URGED TO READ AND REVIEW THE FULL TEXT OF THE PLAN OF REORGANIZATION, AND ANY AMENDMENTS OR MODIFICATIONS THERETO, PRIOR TO VOTING ON WHETHER TO ACCEPT OR REJECT THE PLAN.

XIV. RISK ANALYSIS

As with any investment, there are risks associated with all Plans of Reorganization, and this matter is no exception. A possible risk includes the possibility of increased competition, as with any business. As with any business venture, there is always the risk that the Debtor may not perform as forecasted, but the Debtor believes that the projections for the future are conservative and reasonable. Plus, the Debtor has established alternative plans for immediate operations upon confirmation of the Plan of Reorganization.

XV. MISCELLANEOUS PROVISIONS

A. Notwithstanding any other provisions of the Plan, and any amendments or modifications thereto, any claim which is scheduled as disputed, contingent, or unliquidated, or which is objected in whole or in part on or before the date for distribution on account of such claim, shall not be paid in accordance with the provisions of the Plan until such claim has become Allowed Claim by a final Order. If allowed, the Claim shall be paid on the same terms as if there has been no dispute.

B. At any time before the confirmation date, the Debtor may amend the Plan, so long as the Plan as amended meets the requirements of Sections 1122, 1123 and 1127 of the Bankruptcy Code. After the Debtor files a and amended Plan with the Bankruptcy Court, the Plan, as amended, shall become the final Plan.

C. At any time after the confirmation date, and before substantial confirmation of the Plan, and any amendments or modifications thereto, the Debtor or the Reorganized Debtor may modify the Plan so long as the Plan, as modified, meets the requirements of Sections 1122, 1123 and 1127 of the Bankruptcy Code. The Plan, as modified under this paragraph, shall become the final Plan subject to and upon

approval by the Court.

D. After the confirmation date, the Debtor may, with approval of the Bankruptcy Court, and so long as it does not materially and adversely affect the interest of creditors, remedy any defect or omission, or reconcile any inconsistencies in the final Plan or in the Confirmation Order, in such manner as may be necessary to carry out the purposes and effect of the final Plan.

E. Except as otherwise provided in the Plan, confirmation of the Plan shall be deemed to have discharged the Debtor, pursuant to Section 1141(d)(1) of the Code, from any claim included in this proceeding that arose on or prior to the Confirmation Date, and any claim of a kind specified in Section 502(g), (h) or (I) of the Bankruptcy Code whether or not: (i) a proof of the claim is filed or deemed to be filed under Sections 501 and 1111(a) of the Bankruptcy Code; (ii) such claim is allowed under Section 502 of the Bankruptcy Code; or (iii) the holder of such claim has accepted the Plan. The payments to be made pursuant to the Plan by the Debtor shall be in full settlement and satisfaction of all Claims against the Debtor.

F. Upon the entry of a Confirmation Order with respect to the Plan, all holders of Claims and Equity Interests and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan, except with respect to actions any such entity may take in connection with the pursuit of appellate rights.

Quarterly Trustee Fees - The Debtor is current in the payment of all quarterly fees to the U.S. Trustee to date. Pursuant to 28 U.S.C. Section 1930(a)(6), the Debtor

shall pay to the U.S. Trustee's office all appropriate quarterly fees based upon post-petition disbursements until This case is closed by the entry of a final decree on the confirmed Plan.

XVI. CONCLUSION

Under the Plan, and any amendments or modifications thereto, all claimants of the Debtor will participate in some manner in the distribution to be made thereunder. The Debtor believes that the distributions contemplated in the Plan are fair and afford all Claimants and interest holders equitable treatment. Accordingly, the Debtor recommends that all Claimants vote to **Accept** the Plan.

This Disclosure Statement has been executed this 26th day of May, 2017.

REDIGI, INC

DEBTOR IN POSSESSION

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