

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
WESTERN DIVISION**

In re:) Chapter 11
))
Smart Motion Robotics, Inc.,) Case No. 14-82459
))
Debtor.) Honorable Thomas M. Lynch
))
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**SMART MOTION ROBOTIC, INC'S
FOURTH AMENDED DISCLOSURE STATEMENT
IN SUPPORT OF ITS PLAN OF REORGANIZATION**

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Dated: October 31, 2016

**THIS IS A SOLICITATION OF ACCEPTANCE
OR REJECTION OF THE PLAN.**

I. DISCLAIMER

SMART MOTION ROBOTICS, INC. (“DEBTOR” OR “SMR”) IS PROVIDING THIS DISCLOSURE STATEMENT IN CONNECTION WITH THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

NO STATEMENTS OR INFORMATION CONCERNING THE DEBTOR, ITS ASSETS, RESULTS OF OPERATIONS OR FINANCIAL CONDITION ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. THE STATEMENTS AND INFORMATION ABOUT THE DEBTOR INCLUDED IN THIS DISCLOSURE STATEMENT HAVE BEEN PREPARED AND/OR APPROVED BY THE DEBTOR.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER DATE IS SPECIFIED. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH IN THIS DISCLOSURE STATEMENT SINCE THE DATE HEREOF. THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN THE SUBJECT OF A CERTIFIED AUDIT. THIS DISCLOSURE STATEMENT IS ACCURATE TO THE BEST OF DEBTOR’S KNOWLEDGE, INFORMATION AND BELIEF. THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACIES. ANY ESTIMATES OF CLAIMS AND INTERESTS SET FORTH IN THIS DISCLOSURE STATEMENT MAY VARY FROM THE FINAL AMOUNTS OF CLAIMS OR INTERESTS ALLOWED BY THE BANKRUPTCY COURT.

THE DISCLOSURE STATEMENT CONTAINS INFORMATION SUPPLEMENTARY TO THE PLAN AND IS NOT INTENDED TO SUPPLANT OR SUBSTITUTE FOR THE PLAN ITSELF. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO MORE SPECIFIC AND DETAILED INFORMATION SET FORTH IN THE PLAN. ANY PERCEIVED INCONSISTENCIES BETWEEN THE INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN OR ANY EXHIBIT THERETO ARE TO BE RESOLVED IN FAVOR OF THE ACTUAL TERMS OF THE PLAN AS SET FORTH THEREIN. EACH HOLDER OF A CLAIM OR INTEREST ENTITLED TO VOTE ON THE PLAN SHOULD REVIEW THIS DISCLOSURE STATEMENT AND ALL RELATED DOCUMENTS (INCLUDING THE PLAN) BEFORE DECIDING WHETHER TO ACCEPT OR REJECT THE PLAN. IN ADDITION, HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT WITH THEIR OWN COUNSEL.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.

THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTOR OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS AS TO ANY INTERESTED PARTY.

THE DEBTOR BELIEVES THAT THE PLAN WILL PROVIDE THE LARGEST AVAILABLE RECOVERY TO CREDITORS. THE DEBTOR ALSO BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF CREDITORS AND THEREFORE RECOMMENDS THAT ALL CREDITORS VOTE TO ACCEPT THE PLAN.

INTRODUCTION

On August 8, 2014, (“the Petition Date”) the Debtor filed a voluntary petition under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). Since that date, the Debtor has remained in possession of its property and has operated its business as a debtor in possession pursuant to §§1107 and 1108 of the Bankruptcy Code. No committee of unsecured creditors has been appointed. The Debtor submits this Amended Disclosure Statement (the “Disclosure Statement”) to all of the Debtor’s Creditors and holders of Interests in accordance with Section 1125(b) of the Code, Federal Rules of Bankruptcy Procedure 3016 and 3017. Please read this Disclosure Statement and the Plan carefully and follow the instructions set forth below to vote on the Plan. The Debtor believes that the Plan provides the best method of maximizing the recoveries for the holders of Claims against and Interests in the Debtor, and recommend that you vote to accept the Plan.

OVERVIEW OF THE PLAN

The following summary is a general overview only and is qualified in its entirety by, and should be read in conjunction with, the more detailed discussions, information and financial statements and notes thereto appearing elsewhere in this Disclosure Statement and Plan of Reorganization proposed by Smart Motion Robotics, Inc., (“SMR” or “Debtor”). All capitalized terms not defined in this Disclosure Statement have the meanings ascribed to such terms in the

Plan, or as may be provided by or defined in the Bankruptcy Code, the Bankruptcy Rules or applicable judicial decisions.

This Disclosure Statement contains, among other things, descriptions and summaries of the provisions of the Plan being proposed by SMR. Certain provisions of the Plan, and thus the descriptions and summaries contained herein, are subject of continuing negotiations among SMR and various parties, have not been finally agreed upon, and may be modified. Such modifications, however, will not have a material effect on the distributions contemplated by the Plan.

A copy of SMR’s Plan is attached hereto as Exhibit 1. As discussed at greater length below, under the Plan the holders of Unsecured Claims will receive ten (10) bi-annual payments over a period of five years (the “Plan Distributions” or “Plan Payments”), which are estimated to equal approximately four to six percent (4% - 6 %) of the amount of each Unsecured Claim if the Debtor’s conservative projection of its Net Income over the five-year period commencing in January 1, 2017, is realized, and perhaps higher if the Debtor is successfully able to grow its business. Plan Distributions will begin on July 31, 2017 and be made every 6 months thereafter. The payments under the Plan shall come from the operation of the business. Moreover, Debtor’s Plan provides for a much larger distribution to its creditors than if SMR’s assets were liquidated.

SUMMARY OF CLASSIFICATIONS AND TREATMENT UNDER THE PLAN¹

CLASS	CLAIMANT(S)	TYPE OF CLAIM(S)	AMOUNT OF CLAIM(S)	TREATMENT
Unclassified Claims	Administrative Claims	Post-Petition Priority Claims (other than ordinary	\$20,000	Trustee’s quarterly fees shall be paid in full on or before the Confirmation Date. Allowed fees

¹ This summary contains only a brief and simplified description of the classification and treatment of claims and Equity Interests under the Plan. This summary does not describe every provision of the Plan. Accordingly, you should refer to the entire Disclosure Statement (including Exhibits) and the Plan for a complete description of the classification and treatment of Claims and Equity Interests.

		course of business claims)		incurred by Debtor's professionals not paid by the Effective Date will be paid from distributions made under the Plan
1	Priority Claims	Pre-petition Priority Claims	No known claims	Unimpaired, deemed to accept. Paid upon entry of a Final Order allowing Claim, or on the Effective Date, whichever is later.
2	Tax Claims	Pre-petition Priority Claims for unpaid taxes	\$3,344.16	Unimpaired, deemed to accept. To be paid from bi-annual Plan distributions. Reorganized Debtor reserves the right to prepay.
3	Richard Voell	Secured Claim	\$493,049.32	Impaired, entitled to vote. To be paid monthly payments of \$2,000 pursuant to the Cash Orders; retention of security interests; the Reorganized Debtor reserves the right to prepay the principal amount of this Claim as cash flow permits.
4	SV Gilmore	Cure-Claim for Lease	\$0	Initially this claim was believed to be a cure claim belonging in its own class where SV Gilmore, the Debtor's Landlord, agreed to a different treatment than payment in full on the Plan's Effective Date. It was subsequently discovered that the Lease had expired resulting in this claim's treatment as unpaid pre-petition rent belonging in class 5 as a general unsecured claim. Consequently, there is no Class 4 cure claim, and the Debtor's Landlord will receive any payment pro-rata along with Class 5 creditors based upon the percentage of each creditor's approved claim to the total of unsecured claims.
5	Unsecured Claims	Unsecured Claims arising prior to the Petition Date	\$3,853,248	Impaired, entitled to vote. It is anticipated Class 5 Claims will receive between 4-6% percent of their Allowed Claims. Payments shall be paid pro-rata among Class 5 creditors based upon the

				percentage of each creditor's approved claim to the total of unsecured claims. No payments shall be made on account of contingent claims or the contingent portion of an allowed claim until it becomes fixed.
6	Shareholders' Interests	Pre-petition stock owned by shareholders	2 shareholders	Unimpaired: deemed to accept. Under the Plan claimants shall retain their respective interest in common stock. However, during the course of the Plan, claimant shall receive no dividends or any payment on account of pre-petition loans or advances to the Debtor.

The Debtor's management believes the only alternative to the Plan is for the Debtor to cease its operations and to liquidate all of its property. However, as discussed in Article V below, the Debtor believes that under a liquidation scenario there would be insufficient funds with which to pay Secured Claims, Administrative Claims, Priority Claims and Tax Claims in full, and therefore the holders of Unsecured Claims would receive nothing.

If the Plan is confirmed by Final Order entered by the Bankruptcy Court, then the Debtor will emerge from the chapter 11 case as a viable and reorganized enterprise capable of sustaining its long-lasting relationships with its customers and suppliers, employing nearly 10 individuals. Moreover, as discussed at greater length below, under the Plan the holders of Unsecured Claims will receive substantial payments over a period of five years, which are estimated to equal approximately 4-6% of the amount of each Unsecured Claim if the Debtor's conservative projection of its Net Income over the five-year period commencing in 2017 is realized. **THEREFORE, THE DEBTOR URGES THE HOLDERS OF UNSECURED CLAIMS THAT ARE CLASSIFIED UNDER CLASS 5 IN THE PLAN TO VOTE TO ACCEPT THE PLAN.**

II HISTORICAL AND BACKGROUND INFORMATION

SMR is a privately held Illinois sub-S corporation with its principal place of business at 805 Thornwood Drive, Sycamore, Illinois, 60178. The Debtor was formed in 1996 by Vickie Gilmore and Scott Gilmore, and is wholly owned by them. Vickie Gilmore, the Debtor's Secretary and Treasurer, owns 51% of the Debtor's shares and acts as its Chief Financial Officer while Scott Gilmore, President of the Debtor, owns 49% of the Debtor's shares and acts as its CEO. Scott Gilmore is primarily responsible for product development and sales while Vickie Gilmore is in charge of the Debtor's financials.

The Debtor is a manufacturer and system integrator of robotic case packing and palletizing systems for various industries. The Debtor's customer base consists largely of producers of food products, including feed for animals, egg producers and candy companies. While its customers are primarily located in the United States, over the last few years the Debtor has been expanding its business and customer base into Latin America due to the increasing interest in its robotic solutions in countries such as Columbia and Venezuela.

Since its inception in 1996, SMR enjoyed modest growth, initially focused on fixed automation equipment for the information packaging industry, specifically loose-leaf binder manufacturers. With the increased use of computer technology SMR realized that its business was declining, and in 2001 changed its focus from fixed automation offerings to systems integrating articulating robots, and signed an agreement with FANUC Robotics as a System Integrator. SMR's product offerings changed to case packing and palletizing, both growth markets in the United States.

From 2001 to 2006, SMR experienced modest growth but was still having difficulty "breaking through" due to competition from much larger companies in the rapidly growing

palletizing sector, requiring SMR to lower its pricing and profit margins to obtain customers. However, in November 2005, SMR held an open house and invited prospective customers to see its palletizing system in action. One of those who attended was one of the largest egg producers in the country, who asked SMR to build and test a prototype head to head with other industry competitors' offerings. The competition was successful; so successful in fact that Midwest Poultry purchased 15 robotic case packers, which were then dubbed "SmartPackers." Since that time, SMR has sold and installed more than 60 SmartPackers. In addition to its robotic innovations for the egg industry, since 2001 the company has developed and installed robotic applications in a number of industries including pharmaceutical, chemical, animal feed and candy. SMR also provides parts, service and support to its customers for its equipment.

In 2011, a former employee initiated a lawsuit against SMR and its CEO, Scott Gilmore. The suit went on for 3 years and was incredibly disruptive to the business. Management was interrupted from pursuing future sales in order to deal with the suit, and a number of key employees were distracted from business operations. The result was a significant reduction in revenue which in turn necessitated a reduction in SMR's workforce to 10 employees from a high of 36 in 2012. This lawsuit resulted in a substantial judgment forcing SMR to seek bankruptcy protection in August, 2014 in order keep its doors open due to the collection attempts by the former employee of a nearly \$700,000 judgment.

Looking Forward

There are approximately 15 different robot manufacturers worldwide, and nearly all sell their products through integrators such as SMR. FANUC Robotics is one of the world's largest manufacturer of industrial robots. SMR purchases its robots from FANUC exclusively, and is one of only 11 integrators with whom FANUC has a strategic alliance partnership specific to the

egg industry. This means all inquiries or requests by an egg producer to FANUC for a robot to case pack eggs are sent to and must go through SMR. In addition, SMR is implementing a marketing strategy to drive future sales by developing new marketing tools such as DVD's of actual field installations and testimonials, developing case studies for trade magazines of actual customer installations, attend trade shows and expos where it can display its products to potential customers. SMR also developed a new packer, the SP2X, which was initially rolled out in January 2016. This new product has so far been successfully deployed at a customer site who then purchased several units. Sales of the SPX2 have been modest to date, but SMR anticipates additional sales in the near future as this unit provides more flexibility than any other packer in the market.

In addition to focusing on the highly profitable and stable egg producer market, SMR is also focusing on the largely untapped markets in Latin America, particularly Columbia and Venezuela, which are particularly poised for sales growth. Since 2010, SMR has sold over \$2 million in egg production robotics in Venezuela and in 2014 sold over \$2.5 million in Columbia. Nearly 50% of the prospects marketed to in these two countries state they expect to purchase robotics of some kind in the next 12 to 24 months. Now that SMR and its employees are able to focus on its business without the distraction of the lawsuit, it is anticipated its business will not only stabilize, but grow.

**SUMMARY OF SCHEDULED ASSETS AND
LIABILITIES AS OF THE DATE OF FILING**

As of the Petition Date the Debtor in its schedules had \$799,999 in total assets which mainly consisted of accounts receivables (\$283,801), inventory (\$367,174), Milling Machines, power tools, saws (\$67,050), computer and electronics (\$18, 200) and 2012 Mitsubishi Truck

(\$15,000). The Debtor had approximately \$3,185,000 in liabilities as of the Petition Date. These liabilities consisted of over \$470,000 owed to its secured creditor, Richard Voell who has a perfected security interest in all of the Debtor's assets. The Debtor scheduled approximately \$2,710,000 in general unsecured claims. These claims include a \$930,000 claim to First Community Bank as a guarantor for the loan to SV Gilmore, LLC which owns the building the Debtor operates its business. Another significant general claim that was listed in the schedules was to Michael Chuipek in the amount of \$691,912. For a more in depth analysis of the Debtor's scheduled assets and liabilities please see the Debtors voluntary petition and schedules which is identified as Docket No. 1 on this Court's Pacer system.

The Debtor's business is a unique business in that it designs and builds systems for its customers and the sales process takes about 8 months to complete a job. The Debtor's business in sum, operates the following:

- Average sale cycle – 8 months (from time of first contact to purchase order);
- Average production cycle is 6 - 10 months depending on project size and complexity;
- Average start to finish cycle is 14 – 18 months (from first contact to completed project);
- Debtor receives progress payments from purchase order to installation;
- Average sales amount is from \$275k to \$475k depending on project size and complexity; and
- Debtor generally averages 2 projects simultaneously, with some overlap.

An example of the Debtor's purchase order, deposit, billings and sales cycle is a client of the Debtor that makes gummy bears. This company could not get people to pack them properly or quick enough. The Debtor designed and built a system that packs the bags quickly and efficiently and then stacks the product onto a palette. The project was just under \$1 million dollars in total. It took ten months from purchase order until it was installed and completed in

November 2009. Since that time, the same customer has purchased three more systems totaling just under \$2.5 million all installed and operational since 2012. During the course of each project the customer made progress payments until each project was completed. In sum, the customer financed the project and the Debtor's profit was at the end. The Debtor receives large payments and the project progresses but these payments do not translate into "sales" on the balance sheet until shipment.

As a result of the Debtor's cycles described above, the Debtor's financials can show it losing money for several months and then make a big profit the next. This is because the months the Debtor ships the machines are the months that the Debtor is extremely profitable. Overall, for its fiscal year 2015 which ended on March 31, 2016, SMR had taxable income of \$585,670. However, SMR was able to offset that income by using net operating loss carryovers. SMR believes that upon its emergence from bankruptcy the machine sales will be more evenly spread over the year and not bunched into a few months. SMR believes October 2016 will show multiple machine sales and a profitable month. Attached hereto as Exhibit 2 are consolidated annual financial statements for 2013 and 2014. Furthermore, attached hereto as Exhibit 3 are consolidated annual financial statements for year ending 2015.

The person(s) responsible for the disbursements called for in the Plan are Dave Roehr, the Debtor's outside accountant and Vickie Gilmore, the Treasurer of SMR. Post-confirmation the Debtor shall be retaining its officers Scott Gilmore as CEO and President and Vickie Gilmore as Secretary and Treasurer.

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE

COMMENCEMENT OF THE CHAPTER 11 CASE

On August 8, 2014, the Debtor filed a voluntary petition under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). This case was assigned to the Honorable Thomas M. Lynch, United States Bankruptcy Judge for the Northern District of Illinois, Western Division. Since the Petition Date, the Debtor has continued to operate its business as debtor-in-possession under Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or Committee has been appointed in this Chapter 11 case.

“FIRST DAY” ORDERS

Shortly after the Petition Date, the Bankruptcy Court entered orders authorizing the Debtor to pay certain claims and granting other relief necessary to help SMR stabilize its day-to-day operations. These orders were designed to allow the Debtor to continue business operations and to ease the strain on SMR’s relationship with its employees and other parties. Included among the orders entered by the Bankruptcy Court were orders authorizing the Debtor to: 1) make payment of all amounts due on account of Employee Obligations that accrued pre-petition; and 2) ensuring continued utility service.

DEBTOR’S USE OF CASH COLLATERAL

Subsequent to the Petition Date, in order to provide the Debtor with sufficient capital to continue operation and successfully reorganize, the Court authorized the Debtor to use cash collateral pursuant to Agreed Interim and Final Cash Collateral Orders. The Debtor and its secured creditor Richard Voell (“Lender”), had submitted an Agreed Motion for Entry of an Order Authorizing the Use of Cash Collateral. The Court entered Interim Orders authorizing SMR to use cash collateral and granting adequate protection to on August 19, 2014, October 20,

2014, and December 12, 2014. On February 12, 2015, the Court entered a Final Cash Collateral Order, which was amended on February 17, 2015, authorizing the Debtor to use cash collateral each month pursuant to amounts which were set forth in a Budget. In addition to approving adequate protection payments by the Debtor to the Lender in the amount of \$2,000 per month, the Final Cash Collateral Order required the Debtor to maintain casualty insurance on all of the Lenders collateral in an amount equal to the pre-petition indebtedness to the Lender and provide the Lender with Replacement Liens on the Debtor's post-petition personal property assets and rights to the extent of any diminution in the value of the Lender's pre-petition collateral (with certain exceptions made for: proceeds of the Chapter 5 causes of action; valid perfected and enforceable pre-petition liens which were senior to those of the Lender; payments of the United States Trustee's fees made pursuant to 28 U.S.C. §1930; any unpaid professional fees incurred prior to the Termination Date up to \$35,000 agreed to as a Professional Carve-Out for counsel for the Debtor and / or counsel for any Committee appointed; and the Lender's security interests and liens which already existed as of the Petition Date on the Collateral), and further granted the Lender "Super-priority Claim", meaning an administrative claim with priority over all other administrative claims in the Chapter 11 case, including all claims of the kind specified under §503(b) of the Bankruptcy Code, subject only to the US Trustee's Fees.

RETENTION OF PROFESSIONALS

On September 24, 2014, the Bankruptcy Court entered an order authorizing the Debtor to retain Coman & Anderson, P.C. as its bankruptcy and reorganization counsel. Also on September 24, 2014, the Bankruptcy Court entered an order authorizing the Debtor to retain Hartman & Roehr CPA's Ltd. as its accountants. On June 17, 2015, the Court entered an Order

allowing the law firm of Clingen Callow & McLean, LLC to substitute as counsel for the Debtor and the law firm of Coman & Anderson, P.C. was allowed to withdraw its representation.

BAR DATE FOR FILING PROOFS OF CLAIM

On November 19, 2014, the Bankruptcy Court granted the Debtor's Motion to Set a Last Day to File Proofs of Claim ("Bar Date"), setting a Bar Date of February 6, 2015 for the holders of claims to submit their proof of claims. The Bar Date for governmental units as defined in Section 101(27) of the Bankruptcy Code was set as 180 days after the order for relief, or April 8, 2015. Fifteen (15) proofs of claim were filed totaling \$3,978,652.64, consisting of \$493,049.32 in secured claims, \$2,682.00 in Priority Claims, \$662.00 in Administrative Claims, with the balance 3,482,259.29 being General Unsecured Claims. The Debtor continues to review filed proofs of claim and analyze the amounts and classes asserted in these claims for inclusion and treatment in its proposed Plan of Reorganization.

III SUMMARY OF THE PLAN

The following is a brief summary of the more significant provisions of the Plan. The purpose of the Plan is to provide realistic and acceptable recoveries to each valid claim against the Debtor, while expediting the reorganization of the Debtor. The Debtor believes the Plan accomplishes this purpose in the best manner available to it. This summary is qualified in its entirety by the full text of the Plan, which all creditors and shareholders are urged to review carefully. The Plan, if confirmed, will be binding upon the Debtor, its creditors and shareholders.

In general, a Chapter 11 plan of reorganization: (a) divides claims and equity interests into separate classes; (b) specifies the property that each class is to receive under the plan; and (c) contains other provisions necessary to the reorganization of the Debtor. A Chapter 11 plan

may provide that certain classes of claims or equity interests either: (i) are to be paid in full upon the Effective Date of the plan; (ii) reinstated; or (iii) have their legal, equitable and contractual rights remain unchanged by the reorganization or liquidation effectuated by the plan. These classes are referred to under the Bankruptcy Code as “unimpaired” and, because of such favorable treatment, are deemed to accept the plan. Accordingly, it is not necessary to solicit votes from the holders of claims or equity interests in such unimpaired classes. A Chapter 11 plan may also provide that certain classes will not receive any distributions of property. Such classes are deemed to reject the plan, and it is not necessary to solicit votes from the holders of claims or equity interests in such classes.

All other classes of claims and equity interests contain “impaired” claims and equity interests that have the right to vote on the Plan. An “impaired” class is generally a class whose members will receive something less than their full claim under the plan of reorganization. Before a plan can be confirmed by the Bankruptcy Court, Chapter 11 generally requires that each impaired class of claims or equity interests votes to accept a plan. Acceptances must be received (a) from the holders of claims constituting at least two-thirds in dollar amount and more than one-half in number of the allowed claims in each impaired class of claims that have voted to accept or reject the plan, and (b) from the holders of at least two-thirds in dollar amount and of the allowed equity interests in each impaired class of equity interests that have voted to accept or reject the plan. Even if an “impaired” Class rejects the plan, however, the Bankruptcy Court may confirm the plan if certain minimum treatment standards are met with respect to such class or classes.

Chapter 11 does require each holder of a claim or equity interest to vote in favor of a plan or reorganization in order for the Bankruptcy Court to confirm the plan. Nonetheless, the

Bankruptcy Court must find that the plan of reorganization meets a number of tests (other than the voting requirements described in this section) before it may confirm, or approve, the plan of reorganization. Many of these tests are designed to protect the interests of holders of claims or equity interests who do not vote to accept the plan of reorganization but who will nonetheless be bound by the Plan's provisions if it is confirmed by the Bankruptcy Court.

A) CLASSES OF CLAIMS:

The following describes the Plan's classifications of Claims against the Debtor and Equity Interests in the Debtor and the treatment of holders of Allowed Claims and Allowed Equity Interests will receive under the Plan.

The Plan's classes of claimants are as follows:

Unclassified Claims. Unclassified Claims consist of all Administrative Claims against the Debtor for which application or allowance has been filed prior to the distribution date or such other date or dates as the Court determines, as the same are allowed, approved and ordered paid by the court under §503 of the Bankruptcy Code, including post-petition claims of governmental units as defined in 11 U.S.C. §507(a)(7), post-petition claims of unsecured creditors arising in the ordinary course of the debtor's business, and the Claims of professional persons employed by the Debtor. As provided in section 1123(a)(1) of the Bankruptcy Code, Administrative Claims are not classified for purposes of voting on, or receiving distributions under this Plan. Holders of such claims are not entitled to vote on this Plan. All such claims are instead treated separately in accordance with this Plan in an accordance with the requirements of the Bankruptcy Code.

All fees due and payable under 28 U.S.C. §1930, including all quarterly fees required to be paid to the United States trustee, shall be paid in full by the Debtor on or before the

Confirmation Date. Until the earlier of dismissal, conversion or closure of this chapter 11 case, the Reorganized Debtor shall continue to be responsible for and pay all fees payable under 28 U.S.C. §1930. Such fees shall be based on all disbursements made in the case and shall not be limited to payments made to Creditors or other parties in interest under the Plan. In addition, until the earlier of dismissal, conversion or closure of this chapter 11 case, the Reorganized Debtor shall file with the Bankruptcy Court and transmit to the Office of the United States Trustee the U.S. Trustee Quarterly Fee Statement and U.S. Trustee Quarterly Report on Status of Plan Payments, as provided in the United States Trustee Chapter 11 Operating Instructions and Reporting Requirements in effect in this judicial district.

The Claim of Debtor's counsel for fees and expenses is included in Unclassified Administrative Claims. The Debtor estimates that, after the application of the retainer to any compensation awarded by the Bankruptcy Court, the unpaid Claim of its bankruptcy counsel will be approximately \$20,000.00 as of the Confirmation Date. In order to facilitate the implementation of the Debtor's Plan, counsel has agreed to be paid any of its Allowed Administrative Claim which has not been paid by the Plan Confirmation Date from disbursements made pursuant to the Plan until paid in full.

Administrative Claims incurred by the Debtor in the ordinary course of its business shall be paid by the Reorganized Debtor in the ordinary course of its business upon the same terms and conditions as agreed to by the Debtor. The Debtor believes that all of its accounts payable incurred since the Petition Date will be aged less than 60 days as of the Confirmation Date, and all such accounts payable will be paid by the Reorganized Debtor in the ordinary course of its financial affairs.

Class 1 claims shall be the allowed claims entitled to priority under 11 U.S.C. §§507(a)(4) as the same are allowed by order of court or operation of law.

Class 2 consists of the allowed prepetition claims for taxes entitled to priority under 11 U.S.C. §§507(a)(8).

A. Class 3 consists of the secured claims of Debtor's lender Richard Voell ("Mr. Voell" or "Lender"). Mr. Voell is a relative of one of the principals of SMR and consequently, pursuant to §101 of the Bankruptcy Code, an Insider of the Debtor. Prior to the Petition Date, Mr. Voell made certain loans to SMR as evidenced by (1) a Secured Promissory Note dated November 4, 2010, in the original principal amount of One Hundred and Fifty Thousand Dollars and 00/100 (\$150,000.00) from Lender, as amended, modified and restated from time to time, the last amendment evidenced by Amendment No. 3 to Amended and Restated Secured Promissory Note dated June 2, 2011 (together, the "Note"), whereby the amount of the indebtedness was increased to Four Hundred and Seventy-Five Thousand Dollars and 00/100 (\$475,000.00) (the "Pre-Petition Financing") and (2) a Security Agreement dated November 4, 2010 (the "Security Agreement"), as amended, modified and restated, whereby the Debtor granted a security interest in and lien as to the Lender in all of the personal property of the Debtor, which includes but is not limited to, inter alia: (a) all accounts; (b) all chattel paper; (c) all inventory; (d) all equipment; (e) all instruments; (f) all general intangibles, including intellectual property rights, along with other assets of the Debtor (collectively, the "Pre-Petition Collateral") and the Lender perfected its interest in the Pre-Petition Collateral by recording a UCC Financing Statement on June 6, 2011 with the Illinois Secretary of State which is identified as 09114412. Mr. Voell qualifies under the Bankruptcy Code's definition of an "Insider" because he is the uncle of Scott Gilmore, one of the principals of SMR, however, this does not

alter how the parties stand in relationship to one another as borrower and lender, or affect the validity or perfection of his pre-petition security interests in the assets of SMR. Since the Petition Date SMR and Mr. Voell entered into several interim Cash Collateral Orders with a Final Order Granting Motion to Use Cash Collateral entered by the Bankruptcy Court on February 12, 2015, as amended on February 17, 2015.

Additionally, on the Petition Date, Hitachi was a secured creditor of SMR who was owed a relatively small balance. Since that time, regular payments made in the ordinary course of business have resulted in the debt to Hitachi being paid off. Consequently, Hitachi is no longer a creditor and will it be receiving any payments under SMR's proposed Plan.

Class 4 previously consisted of cure claim for unpaid rent owed to the Debtor's Landlord, SV Gilmore, LLC, for which the Landlord agreed to different treatment than payment in full on the Effective Date of the Plan. The Landlord's Lease terminated as a matter of law, consequently, there are no Class 4 Claims and the Landlord's claim for unpaid rent has been reclassified as a Class 5 Claim and will be paid along with all other Class 5 Allowed Unsecured Claims.

Class 5 consists of all Allowed Claims against Debtor that are Unsecured Claims, including contingent claims, claims arising from the rejection of executory contracts, and including claims of secured creditors whose security had a value less than the amount of the allowed claims asserted, to the extent of the insufficiency of the security, but excepting Administrative Claims and Priority Claims. A Contingent Claim will be treated as a Disputed Claim for purposes of distributions under the Plan; the holder of a Contingent Claim will only be entitled to distributions beginning on the date such Contingent Claim becomes an Allowed Claim in a fixed and absolute amount.

Class 6 consists of the equity security interests of the holders of common stock of the Debtor.

B) CLASSIFICATION OF PARTICULAR CLAIMS

The amounts of claims and the classification of claims not determined by the Plan will be resolved either by Court approved settlement or by the claims allowance process.

C) TREATMENT OF CLASSES

Upon confirmation of the Plan, the respective classes of claims shall be treated as follows:

i. Unclassified Claims (Administrative Claims). On the Effective Date, or as soon thereafter as a claim becomes an Administrative Claim, the Debtor shall pay the holder of each Administrative Claim cash equal to the amount of such claims, unless such holder has agreed to a different treatment. In the case of the Debtor's counsel's allowed claims for legal fees and expenses, Debtor's counsel has agreed that any amounts still owing as of the Effective Date will be paid in the Plan in installments.

ii. Class 1 Priority Wage Claims. On the Effective Date or as soon thereafter a claim becomes a Class 1 Claim, the Debtor shall pay the holder of each Class 1 Claim cash equal to the amount of such claim. No distributions shall be made on account of Claims in Class 1 which are Contested Claims. Instead, the Debtors shall reserve and hold distributions which otherwise would have been disbursed had such Contested Claims been Allowed Claims on the disbursement date. As soon as practicable after a Contested Claim becomes an Allowed Claim, the Debtor shall distribute the appropriate distribution to the Creditor holding such a claim. The

Debtor does not believe there are any pre-petition claims entitled to priority under §507(a)(4) left to be paid.

iii. Class 2 Priority Tax Claims. Class 2 consists of the tax claims of the Illinois Department of Economic Security (“IDES”) and the Internal Revenue Service (“IRS”) for which priority status is asserted pursuant to §507(a)(8) of the Bankruptcy Code. The holder of each Class 2 Claim shall be paid on account thereof regular installment payments in Cash of a total value, as of the Effective Date, equal to the allowed amount of such Claim, over a period ending not later than five (5) years after the Petition Date, and in a manner not less favorable than the treatment of Class 2 Claims. There are no allowed Class 2 claims to be paid under the Plan.

iv. Class 3 Secured Claims. Until such time as the Class 3 Claim is paid in full, the holder of the Class 3 Claim shall continue to hold a valid, perfected and enforceable lien and security interest in and to all property of the Debtor, the Reorganized Debtor and the guarantors of the Class 3 Claim in order of priority and as set forth in the Financing Orders. All of the non-monetary provisions of the Secured Lender’s loan and security documents shall remain in full force and effect and shall be binding on the Reorganized Debtor. The Reorganized Debtor shall pay the sum of two thousand dollars (\$2,000.00) per month to the Secured Lender, and the payments are due to the Secured Creditor on the fifteenth (15th) day of each month after the Effective Date. The Reorganized Debtor shall maintain at all times a policy of casualty insurance in effect on all of the Secured Lender’s collateral for an amount at least equal to the Allowed Secured Claim, naming the Secured Lender as an additional loss payee. At such time as the Class 3 Claim is paid in full, the holder of the Class 3 Claim shall execute and deliver to the Reorganized Debtor and to the guarantors of the Class 3 Claim any and all documents as may be requested, necessary or required to cancel, terminate, expunge, release or assign all liens and security interests held by the holder of the Class 3 Claim in and to property of the Debtor, the Reorganized Debtor and the guarantors of the Class 3 Claim.

v. Class 4 Cure Claim: There is no longer any Class 4 Cure Claim, and no payments will be made on account of such claim.

vi. Class 5 Unsecured Non-priority Claims. Class 5 claims constitute the claims of Unsecured Creditors. It is anticipated that the net income derived from the Debtor's operations will allow Class 5 Claims be paid 4% - 6% of their Allowed Claim. Plan Distributions will be made on a bi-annual basis commencing on July 31, 2017. Payments will only begin to be made to Class 5 Allowed Claims *after* each superior class of claims has been paid in full. Class 5 Allowed Claims will be made on a pro-rata basis based upon the percentage of each Class 5 creditor's Allowed Claim in relation to amount to the total amount of Unsecured Claims. It is anticipated that Class 5 Claimants will begin receiving Plan payments by the Debtor's fifth bi-annual distribution. No interest will be due or paid on account of such claims. No distribution shall be made on account of Claims in Class 5 which are Contingent or Disputed Claims². Instead, the Debtor shall reserve and hold distributions which would otherwise have been disbursed had such Contingent or Disputed Claims been Allowed Claims on the Distribution Dates. As soon as practicable after a Contingent or Contested Claim becomes an Allowed Claim, the Debtor shall distribute the appropriate distribution to the creditor holding such claim. THE PLAN AS PROPOSED DOES NOT ESTABLISH THE FLOOR AMOUNT, IF ANY, THAT THE REORGANIZED DEBTOR WILL DISTRIBUTE TO CLASS 5 UNSECURED CREDITORS UNDER THE PLAN, AND PROVIDES ONLY THAT THE PLAN ALLOWS THE DEBTOR TO PAY THESE CLAIMS FROM ITS "NET INCOME" AFTER SUPERIOR CLAIMS HAVE BEEN PAID IN FULL.

² Claim 9 by the SBA and Claim 12 by 1st Community Bank are Contingent Claims which are included in Class 5 and used in calculating pro-rata distributions amount to this class. These claims will be treated in the same manner as a Disputed Claim pursuant to paragraph 11.1 of the Plan; pro-rata payments on account of the SBA or 1st Community Bank Claims will be withheld until such time as each becomes an Allowed Claim in a definite and final amount and is no longer a Contingent Claim.

vii. Class 6 Claims. The present holders of the common stock of SMR or their successors in interest shall retain their respective interest in common stock. No dividends shall be paid to Class 6 until after SMR has fulfilled all of its obligations under Paragraph 9.1 of the Plan.

Impairment of Claims. Class 3 and 5 are impaired.

Payment of Claims in Full. Unclassified, Class 1, Class 2, and Class 6 claims are not impaired.

D) COVENANTS OF THE DEBTOR

Pursuant to Article XIII of the Plan, the Debtor makes several covenants to its creditors. Specifically, the Debtor covenants for the benefit of the holders of the Plan that it shall:

i. Furnish information. The Debtor shall make available for inspection to each holder of Plan debt, upon timely written request:

a. As soon as available and in any event within 45 days after the Debtor's fiscal year ends on March 31, balance sheets of income (loss) and retained earnings and changes in financial position of the Debtor for the period commencing at the end of the previous fiscal year and ending with the end of the fiscal year, all in reasonable detail and certified by the Debtor that it fairly and accurately represents the financial position, results of operations and changes in financial position of the Debtor for the periods indicated therein.

b. The holder of plan debt requesting the same promptly following the request therefore, such other information and data with respect to the Debtor as may be from time to time reasonably requested by such holder.

c. It is contemplated that in connection with the confirmation of the Plan, the Debtor may report its financial statements on the basis that reorganization has been

effected. In connection with such reportings, the Debtor shall continue to follow generally accepted accounting principles in preparing its statements. A new accounting period would begin on the Effective Date and it will not be possible to restate the financial information for prior periods on a comparable basis. Accordingly, no financial statement to be furnished under this section shall be required to contain comparative information relating to a date or period which precedes the Effective Date.

ii. Insurance and Taxes. SMR shall maintain insurance coverage in substantial conformity with the coverage in effect on the Confirmation Date and shall make current payment on account of all liability incurred after the Confirmation Date except to the extent that such debt is being contracted in good faith and by appropriate procedures.

iii. Post Confirmation Liabilities. SMR shall make current payment on account of all liability incurred after the Confirmation Date except to the extent that such debt is being contracted in good faith and by appropriate procedures in the ordinary course of its business and operations.

E) OBJECTIONS TO CLAIMS

Notwithstanding the occurrence of the Effective Date, and except as to any Claim that has been allowed before the Effective Date, the Debtor shall have the right to file and serve objections to the allowance of any Claim or Interest. All objections to claims must be filed within three months of the Effective Date.

F) EFFECT OF CONFIRMATION

Upon the Confirmation Date, any debt that arose before the Confirmation Date, and any debt of a kind specified in Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, shall be

discharged, except as otherwise provided in the Plan. This discharge shall be effective regardless of whether or not a proof of claim is filed or deemed filed, a claim is an Allowed Claim or the holder of a claim has accepted the Plan.

The provisions of the Plan shall be binding upon the Debtor and any creditor or equity security holder, whether or not such creditor or equity security holder has accepted the Plan and regardless of whether the claims of such creditor or equity security holder are impaired under the Plan. Upon the Confirmation Date, all Property of the Estate shall vest in the Debtor. Except as otherwise provided in the Plan, all property dealt with in the Plan shall be free and clear of all claims and interests of creditors and equity security holders.

G) EXECUTORY CONTRACTS AND LEASES

Pursuant to the Code, a debtor has the right, subject to court approval, to assume or reject any executory contract or unexpired lease entered into prior to the filing of the bankruptcy petition. Any claim resulting from a rejection is treated as an unsecured claim arising prior to the filing of the petition and is included in the appropriate class to the extent such claim is allowed by the court. On the Confirmation Date, all executory contracts and unexpired leases (as such terms are defined in the Code) not previously assumed or rejected by order of the Court, will be assumed except those contracts with respect to which Debtor has served notice of its intention to reject prior to the date of hearing on the Confirmation of the Plan. Any Claims arising out of such rejections after the Confirmation Date and pursuant to the Plan must be Filed and served on counsel for the Debtors pursuant to the procedures described in the Confirmation Order no later than 30 days after the Effective Date, or such Creditors will be forever barred from asserting such Claims. Additional details regarding such Claims are provided in Article XII of the Plan. The Debtor upon the confirmation of the Plan will enter into a Commercial Building Lease with

SV Gilmore, LLC pursuant to the exact terms it had in its February 1, 2011 Lease. The lease will be for five years expiring on March 31, 2021.

THE FOREGOING IS A BRIEF SUMMARY OF THE PLAN. SUCH SUMMARY IS NOT INTENDED TO BE A COMPREHENSIVE STATEMENT OF THE PLAN AND EACH CREDITOR IS ADVISED TO REVIEW THE PLAN CAREFULLY PRIOR TO VOTING THEREON.

IV. EXCULPATION

Exculpation: Pursuant to the Plan, the Debtor's Officers or Directors, their employees, consultants, agents, advisors, attorneys, accountants or other representatives and Professional Persons, shall not have and shall not incur any liability to any Person, including without limitation any holder of a Claim, any holder of an interest or any parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon the Debtor's officers and attorneys, by the Plan or any order of the Court entered after the Effective Date pursuant to or in furtherance of the Plan, except for the willful misconduct or gross negligence as determined by a Final Order. No holder of a Claim or Interest, or other party interest will have any claim or cause of action against the Debtor, its attorneys, its employees, consultants, agents, advisors, accountants, financial advisors, other representatives and other Professional Persons, for making payments in accordance with the Plan or for implementing the provisions of the Plan. Any act or omission taken pursuant to the Plan or order of the Court will be conclusively deemed not to constitute gross negligence or willful misconduct.

V LIQUIDATION ANALYSIS

Best Interest of Creditors Test: With respect to each Class of Impaired Claims or Equity Interests, either each holder of a Claim or Equity Interest of such Class must have accepted the Plan, or must receive or retain under the Plan or account of such Claim or Equity Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would receive or retain if the Debtor was liquidated on such date under Chapter 7 of the Bankruptcy Code. In a Chapter 7 liquidation, creditors and interest holders of a debtor are paid from available assets generally in the following order, with no lower Class receiving any payments until all amounts due under senior Classes have either been paid in full or payment in full is provided for: (i) first to secured creditors (to the extent of the value of their collateral); (ii) then to administrative claims; (iii) next to priority creditors; (iii) then to unsecured creditors; (iv) then to debt expressly subordinated by its terms or by order of the Bankruptcy Court, and (v) last to holder of Equity Interests. Attached as Exhibit 4 to the Disclosure Statement is a liquidation analysis, prepared by the Debtor on or about May, 2016, which indicates that in light of the foregoing priority scheme if the Chapter 11 Case was converted to a Chapter 7 liquidation, holders of Allowed Claims and Equity Interests would receive no distribution.

Additionally, in the event of a forced liquidation under Chapter 7 of the Bankruptcy Code, there would be substantial additional expenses associated with the administration of the Chapter 7 case. Further, the Chapter 7 trustee and his counsel would be an additional tier of administration expense that would be paid before unsecured creditors would be entitled to a distribution from any remaining liquidation proceeds. There would likely be no funds available for distribution to holders of unsecured claims.

Since no liquidation proceeds would remain for distribution to unsecured creditors and since the Plan proposes payments in time to unsecured creditors and interest holders, the Plan offers substantially more to unsecured creditors and interest holders than would be realized by such claimants and interest holders in a forced liquidation. Accordingly, the Plan is fair and equitable to all classes and offers creditors substantially more than they would receive if this case proceeded as a liquidation case. This Plan represents an opportunity to all claimants and interest holders to recoup more than would otherwise be possible.

VI FEASIBILITY OF PLAN

As a condition to confirmation of the Plan, the Bankruptcy Code requires the Bankruptcy Court to find that confirmation is not likely to be followed by liquidation of the reorganized Debtor or the need for further financial reorganization. To determine whether the Plan meets this feasibility standard, the Debtor has analyzed the ability of the reorganized debtor to meet its obligations under the Plan while retaining a sufficient amount of cash to carry on operations. As part of this analysis, the Debtor has prepared projections of SMR for the period following the Effective Date through June 30, 2020. The projections are attached as Exhibit 5 to this Disclosure Statement. Projections for sales in fiscal year 2016 are based on actual sales in the pipeline and projected orders. The sales projection for 2017, 2018, 2019 and 2020 are based on past performance based on modest growth. You will note that creditors will be paid from the Net Income of the Debtor. Net Income is defined as the difference between Gross Profit and expenses of the Debtor.

I. HOW TO VOTE

Accompanying this Disclosure Statement are copies of the Notice fixing (i) the time for filing acceptances or rejections of the Plan; (ii) the date and time of the hearing to consider confirmation of the Plan; and (iii) the time for filing objections to the Plan.

If you are the holder of a Claim in a Class entitled to vote on the Plan, after carefully reviewing the Plan and this Disclosure Statement, please indicate your vote on the enclosed ballot and return it to the United States Bankruptcy Court at the address set forth below. As a creditor of the Debtor, your vote on the Plan is important.

VII CONCLUSION

THE READER OF THIS DISCLOSURE STATEMENT IS CAUTIONED THAT THE INFORMATION CONTAINED IN THESE PROJECTIONS HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.

THE FOREGOING IS A BRIEF SUMMARY OF THE PLAN. SUCH SUMMARY IS NOT INTENDED TO BE A COMPREHENSIVE STATEMENT OF THE PLAN AND EACH CREDITOR IS ADVISED TO REVIEW THE PLAN CAREFULLY PRIOR TO VOTING ON THE PLAN.

XIII RECOMMENDATIONS CONCERNING THE PLAN

The Debtor believes that the Plan will provide the largest possible distribution to holders of Claims than would otherwise result if the case were converted to Chapter 7. In addition, any alternative other than Confirmation of the Plan could result in extensive delays and increased administrative expenses resulting in no distribution to unsecured creditors. **Accordingly, the**

Debtor recommends confirmation of the Plan and urges all holders of Impaired Claims to vote to accept the Plan and to indicate acceptance by returning their Ballots so as to be received no later than the Voting Deadline.

Smart Motion Robotics, Inc.

By: /s/ Vickie Gilmore
Vickie Gilmore
Officer and Designated Representative of
Smart Motion Robotics, Inc.

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