IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

IN RE:	)	
Ken's Custom Upholstery Inc.	)	Bankruptcy No. 16 B 35268
	)	Chapter 11
	)	
Debtor	)	Judge Deborah L. Thorne
	)	Date: May 1, 2017

DISCLOSURE STATEMENT

This Disclosure Statement is issued in conjunction with the Plan of Reorganization dated May 1, 2017.

INTRODUCTION AND SUMMARY OF THE PLAN

The Debtor's Plan of Reorganization provides for payment of $31,295.12 to general unsecured creditors, to be divided among general unsecured creditors pro rata. This amount will be paid over a five-year period, with payments of $1,564.76/quarter. This will be sufficient to pay all general unsecured creditors a payment of 10% of their claim amounts. In addition, the Plan provides for payment of 10% of the lease rejection claims of Marlin Business Bank, for a total payment of $1,611.19. In addition, the Plan provides for a one-time payment of $2,693.80 to "convenience class" creditors, who hold general unsecured claims of $5,000 or less per claim, and this payment will be sufficient to pay those creditors 10% of their claim amounts.

The Debtor will pay the claims on the Internal Revenue Service, in the approximate amount of $55,501.05, in full, with payments of $970.00/month until paid in full.

The Debtor will pay a secured claim of Ally Financial, Inc., secured by the Debtor's 2013 Ford Transit, according to the original contract terms.

The classes of creditors are as follows:

Class	Type of Creditor	# of Creditors	Total $ Amount	Treatment of Creditors
I	Governmental	1-IRS	$55,501.05	In full, 4% interest
II	Priority	None Known	-0-	In full, 5% interest
III	Secured	1-Ally	$12,800	In full, regular payments under contractual terms

IV	Lease rejection	1-Marlin Leasing	$16,111.87	Paid pro rata with other general unsecured creditors 10% @ $80.56/quarter
VI	Convenience/Unsecured	12	$26,937.96	Paid 10% in one-time pmt. Total payment $2,693.80
VII	General Unsecured	14	$312,951.24	Paid pro rata 10% $1,564.76/quarter

The Plan provides for payment in full of priority claims, other than tax claims, on the last day of the month after confirmation of the Plan, but the Debtor is not aware of any such priority tax claims.

The Debtor projects sufficient income to pay all required payments under the plan. The Debtor will pay all costs of administration, such as the fees due to the United States Trustee, attorneys' fees, and accountants' fees, on the Effective Date of the Plan, which is the last day of the calendar month after confirmation of the Plan, unless the parties to whom those costs are payable agree to payment over time.

After confirmation of the Plan, the Debtor will make monthly deposits to a Disbursement Account and make distributions to creditors on a quarterly basis. All unsecured claims, other than Convenience Class claims described above, will be paid from the Disbursement Account on a quarterly basis. Creditors entitled to priority under Section 507(a) of the Bankruptcy Code will be paid in full before general unsecured creditors are paid (the Debtor know of no such claims, except for costs of administration such as attorneys' fees and accountants' fees, and do not anticipate any need to pay any such priority claim). Thereafter, unsecured creditors will share pro rata in all quarterly distributions.

This Disclosure Statement is intended to provide sufficient information to all creditors to allow them to vote on the proposed Plan of Reorganization. Any creditor desiring more information about the Debtor may contact the office of David P. Lloyd, Ltd., attorney for the Debtor, at the address and telephone number shown at the end of this Disclosure Statement.

ASSETS AND LIABILITIES

Assets: At the time of the filing of this case, the Debtor had three checking accounts and a savings account, with a total balance of $17,708. As of the end of March, 2017, the balance in all accounts was approximately $38,000. The cost of liquidation of this liquid asset would be approximately $2,000 in a Chapter 7.

The Debtor owns machinery, equipment, and inventory valued at $11,650 at the time of the filing of this case. The value at present is approximately $10,000. The liquidation value of this property in a Chapter 7 would be approximately $8,000.

The Debtor owns a 2013 Ford Transit, valued at $11,000 at the time of the filing of this case, subject to a lien in favor of Ally Financial in the amount of $12,800. The Debtor owns two other vehicles, valued at a total of $3,000 at the time of the filing of this case. The liquidation value of these vehicles is near zero.

The Debtor has accounts receivable valued at $25,000 at the time of the filing of this case. The amount of accounts receivable at the end of March, 2017, was approximately $41,000. The value of the accounts receivable in a Chapter 7 liquidation would be discounted by at least 50%. The liquidation value of the accounts receivable in a Chapter 7 would be approximately $20,500.

The machinery, equipment, inventory, and accounts receivable of the Debtor are subject to a lien in favor of the Internal Revenue Service in the amount of $27,880.39. In addition, the Internal Revenue Service has filed a priority claim in the amount of $24,527.78.

The total liquidation value of the Debtor's machinery, equipment, inventory, and accounts receivable of the Debtor is approximately $28,500, subject to a lien in favor of the Internal Revenue Service of $27,880.39. The liquidation value of the other assets of the Debtor, consisting primarily of bank accounts, is approximately $36,000. In a Chapter 7 liquidation, these funds would be applied first to the priority claim of the Internal Revenue Service in the amount of $24,527.78, leaving less than $12,000 for payment to general unsecured creditors.

Under the Plan, the Debtor proposed to make a distribution to general unsecured creditors, including the lease rejection claims of Marlin Business Bank, convenience class creditors, and other general unsecured creditors, totaling $35,600. General unsecured creditors will receive substantially more under the Plan as they would if the Debtor's assets were liquidated in a Chapter 7.

Liabilities: In addition to the secured claims and priority claims in the above section on "Assets," the Debtor owe approximately $339,889.20 in general unsecured claims, consisting of $16,111.87 in claims filed by Marlin Business Bank; $26,937.96 in claims of under $5,000 each and placed into the "Convenience Class," and 312.951.24 in other general unsecured claims.

HISTORY OF THE DEBTOR'S FINANCIAL CONDITION

Ken's Custom Upholstery Inc. was established in Oak Forest, Illinois, in 1985, and has been in business continuously for over 32 years. The Debtor provides reupholstery of sofas and chairs at retail, for both consumer and institutional customers. The Debtor started out as a 2-person shop with a 1,500 square foot workshop at 155th & Cicero in Oak Forest. By 1990 The Debtor was able to expand to a 4,500 square foot workshop and showroom. By 1999 the Debtor had moved to a 7,000 square foot facility in Tinley Park. In 2006 the Debtor opened a large workshop in Frankfort, Illinois, and kept the showroom in Tinley Park.

The Debtor's business was severely depressed by the recession of 2008-2010. Gross revenues went from $750,000/year to $425,000/year. The Debtor's business is of a type that is most affected by a downturn in the economy because the repair and improvement of furniture is an expense that consumers can easily defer when there is a loss or reduction of family income, and business customers also defer maintenance when business income is reduced.

For the next three year the Debtor's principals used personal credit cards, savings, and retirement accounts to obtain money to contribute to the company. The owner of the Debtor, Kenneth Kovie, has a claim for at least $99,000 for personal funds that he contributed to the company. In an effort to control expenses, the Debtor closed its Tinley Park location, stopped paying for employees' healthcare and disability insurance, and cut officers' salaries. The Debtor also laid off three employees to reduce payroll. Despite these attempts, the Debtor's operations were not profitable, and the Debtor was not able to pay all of its suppliers or the Internal Revenue Service for withholding taxes. The tax debt of the Debtor now exceeds $55,000.

In 2010, the Debtor contacted a company known as Georgia Peaches, which developed a plan to establish a publicly-traded company known as Upholstery International, which would wholly own the Debtor corporation, and, as a publicy-traded company, would be able to raise sufficient funds to finance the operations of the Debtor over the long term. These efforts were not ultimately successful, distracted the Debtor's managerment, and resulted in more debt for the Debtor (Georgia Peaches is owed $70,000 by the Debtor).

During the years immediately prior to the filing of this Chapter 11, the Debtor's income increased because of the economic recovery; however, it could not service all of its debt and the company filed Chapter 11 on November 8, 2016. No one event led to the filing of the case; the Debtor simply did not have the income to service all of its debt.

During the pendency of this Chapter 11 case, the Debtor has continued to operate at a modest profit; it entered into a repayment agreement with the Internal Revenue Service, rejected two security leases, and has managed its accounts successfully. The Debtor is in a position to make the payments necessary under the proposed Plan, which will pay a dividend of 10% to all holders of general unsecured debt, and pay all secured and priority claims over a 5-year term.

DESCRIPTION OF THE PLAN OF REORGANIZATION

The Debtor have filed a Plan of Reorganization classifying claims as follows:

CLASS I: The claims of all creditors entitled to priority under Section 507(a)(8) of the Code. Such claims shall be known as Governmental Unit Claims. The Internal Revenue Service filed a claim in the total amount of $55,501.05, composed of a secured claim in the amount of $27,880.39, a priority claim of $24,527.78, and a general unsecured claim of $3,092.88. This is the only governmental unit claim known to the Debtor.

CLASS II: The claims of all other creditors entitled to priority under Section 507(a) of the Code, with the exception of holders of administrative expense claims. This class shall be known as Priority Creditors. The Debtor are not aware of the existence of any creditors in this class.

CLASS III: The claim of Ally Financial Inc., in the amount of $12,800, which is secured by the Debtor's 2013 Ford Transit.

CLASS IV: The claims of Marlin Business Bank, d/b/a Marlin Leasing. Marlin filed two claims totaling $16,111.87, arising from two equipment leases.

CLASS V: The claims of all unsecured creditors whose claims are each $5,000.00 or less, or who have agreed to reduce their claims to $5,000.00 each and accept treatment of their claims under this Class. This class shall be known as the Convenience Class.

CLASS VI: The claims of all other unsecured creditors of the Debtor as the same are allowed and ordered paid by the court.

CLASS VII: The claims of all insiders of the Debtor. Ken Kovie, president of the Debtor, holds a claim against the Debtor in the approximate amount of $99,000.

The Plan of Reorganization provides that the Debtor will pay claims as follows:

CLASS I: Goverrnmental Unit Claims: The Internal Revenue Service shall receive on account of such claims a payment in the amount of $970.00/month until paid in full. This amount is calculated to pay the claims of the Internal Revenue Service in full, with interest at 4% per year, within 5 years after the order for relief in this Chapter 11 case as required by Section 1129(a)(9)(C) of the Bankruptcy Code.

CLASS II: The claims of Priority Creditors shall be paid in full, with interest at 5% per annum, in quarterly installments until paid in full. All distributions from the Distribution Account, after payment of the quarterly amount required to pay the claims of Governmental Unit Claimants, will be distributed to Priority Creditors until paid in full. The Debtor are not aware of the existence of any creditors in this class.

CLASS III: The claim of Ally Financial Inc., secured by the Debtor's 2013 Ford Transit. This claim will be paid in full according to its contractual terms. This class is not impaired by the Plan.

CLASS IV: The claims of Marlin Business Bank, d/b/a Marlin Leasing, in the total amount of $16,111.87, will receive a 10% distibution over five years. The total payment will be $1,611.19, payable in quarterly installments of $80.56/quarter. The payment schedule and all other terms of payment shall be the same as those of the holders of general unsecured claims in Class VI.

CLASS V: The claims of all holders of claims of $5,000.00 or less, or those holders of claims in excess of $5,000.00 who are willing to reduce their claims to $5,000.00 and accept treatment under Class VI shall receive a dividend of 10% of the claim amount (or reduced claim amount, if applicable) upon the Effective Date of the Plan, in cash. The balance of any such claim over $5,000.00 shall not be paid and shall be discharged under the applicable provisions of the Code. The approximate balance of Convenience Class claims is $26,937.96, and they will receive payment totaling approximately $2,693.80.

CLASS VI: All other general unsecured claims. The Debtor will make a 10% distribution to all holders of general unsecured claims, paid quarterly over a period of five years. The approximate total amount of claims in this class is $312,951.24, and the distribution will be approximately 31,295.12. The Debtor will pay $1,564.76/quarter, over five years. The Debtor shall be entitled to pay any creditor its 10% distribution in full, in advance of the five-year schedule, without penalty.

Any creditor whose claim is in Class VII may elect to participate in the Convenience Class, Class VI. If a creditor so elects, its claim will be reduced to a maximum of $5,000.00, and it will receive a 10% distribution ($500.00) upon the effective date of the Plan. The balance of the claim over $5,000.00 will not be paid and will be discharged under the applicable provisions of the Bankruptcy Code.

CLASS VII: The claims of all insiders of the Debtor shall not receive any distribution under this Plan.

Administrative Expenses: Administrative expense claims, including claims of the United States Trustee, the Debtor's attorneys, and the Debtor's accountants, will be paid in full at the Effective Date of the Plan; however, the attorneys or accountants may agree to accept payment over time if the Debtor are unable to pay their fees in full. No payment arrangement between the attorneys or accountants and the Debtor will affect the Debtor's obligations to pay other claims over time as provided by the Plan. The Debtor will continue to pay quarterly fees to the United States Trustee as they become due until the case is converted, dismissed, or closed after plan confirmation.

The Debtor's counsel, David P. Lloyd, Ltd., received an initial payment of $10,000.00 toward its fees at the time of the conversion of this case to Chapter 11. Debtor's counsel estimates that its total fees will be approximately $10,000. The total fees of Debtor's counsel will be subject to determination by the Court, and the Debtor and, if counsel's fees exceed the amount of the initial payment, the Debtor and its counsel will make arrangements for payment of allowed fees.

EQUITY INTERESTS: The Debtor has two shareholders, Kenneth Kovie, who owns 90% of the corporate stock in the Debtor, and John Walker, who owns 10% of the stock. Kenneth Kovie is the president of the Debtor and will continue to be employed as president.

The Plan provides for the current shareholders of the Debtor to retain their equity interests in the debtor corporation, with payment of $1,000.00 in new value as required to satisfy the "absolute priority rule" under Section 1129(b)(2) of the Bankruptcy Code. In order to determine the value of the corporate stock and the adequacy of the new value contribution by the Debtor's shareholders, the Debtor will conduct an auction of the stock of the Debtor on a date to be determined, at the office of the Debtor's counsel. The auction will be held at least three business days prior to the initial hearing on confirmation of the Plan.

The Debtor will place a notice of the auction in a newspaper of general circulation, for two successive weeks, with the last date of publication no less than 7 days and no more than 14 days prior to the auction. The text of the auction is contained in an exhibit to this Disclosure Statement. The Debtor will serve on all creditors and parties in interest a copy of the notice, concurrent with the first publication of the notice.

LEASES AND EXECUTORY CONTRACTS

The Debtor has the following leases and executory contracts, and will treat each lease and contract as indicated:

Hitachi: Lease on box truck. The Debtor elects to assume this lease.

Marlin Business Bank d/b/a Marlin Leasing: Leases on security cameras. The Debtor rejects these leases. Marlin has filed two claims arising from the rejection of these leases.

Michael Ryan: Store lease on the Debtor's business premises at 22771 Citation Road, Frankfort, Illinois. The Debtor elects to assume this lease.

EXECUTION OF THE PLAN: FUNDING AND DISTRIBUTION

The funds for payment of Administrative Expenses (other than those for which the holder of such claim agrees to payment over time) and the 10% distribution to Class V claims will be obtained from funds on hand with the Debtor as of the Effective Date of the Plan. All funds for the payment of Class II Priority Claims, Class III Secured Claims, and Class IV and VI Unsecured Claims shall be obtained from the business income of the Debtor over a period of five years. The Debtor shall make a one-time payment directly to holders of Class V (Convenience Class) claims from cash on hand at the Effective Date. The Debtor shall make monthly payments directly to holder of Class III Secured Claims. The Debtor shall make monthly deposits to the Disbursement Account. Disbursements shall be made quarterly from the Disbursement Account to all Class II priority creditors, and holders of Class IV and Class VI unsecured creditors in accordance with the Plan, commencing on the beginning of the first calendar quarter after the Effective Date of the Plan. The funds will be distributed to holders of Class II priority creditors until those claims are paid in full, and thereafter to holders of Class IV and VI unsecured creditors. The Debtor does not know of any Class II priority creditors, and expects to begin payments to Class IV and VI unsecured creditors on the beginning of the first calendar quarter after the Effective Date of the Plan.

The Debtor will make payments of $970.00/month to the Internal Revenue Service on its Class I claims. The Debtor will make payments of $430.73/month to Ally Financial Inc. on its secured Class III claim. The Debtor will make payments of $80.56/quarter to Marlin Business Bank on its unsecured Class IV claim. The Debtor will make a one-time payment of approximately $2,693.80 to holders of convenience class claims in Class V (and holders of general unsecured claims in Class VI who elect convenience class treatment). The Debtor will make payments of $1,564.76/quarter to holders of general unsecured claims in Class VI.

Attached hereto are a summary of the Debtor's monthly operating reports, showing income and expenses during this Chapter 11 case; a Liquidation Analysis; Debtor's Income and Expense Projections; and the notice of auction of the shareholder's equity.

Respectfully submitted,
Ken's Custom Upholstery, Inc.

By:___/s/ David P. Lloyd____
Its attorney

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