

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

IN RE:)
) Case No. 17-08627
REDBOX WORKSHOP, LTD.) Chapter 11
) Judge Carol A. Doyle
Debtor/Debtor-in-Possession.)

DEBTOR’S SECOND AMENDED DISCLOSURE STATEMENT

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REDBOX WORKSHOP, LTD., Debtor/Debtor-in-Possession (“Debtor”), by and through its Attorneys, submits its Second Amended Disclosure Statement (“Disclosure Statement”) pursuant to Section 1125 of the Bankruptcy Code and in conjunction with its First Amended Plan of Reorganization (“Plan”). A copy of the Plan is attached to this Disclosure Statement as **Exhibit A.**¹

INTRODUCTION

On March 20, 2017, the Debtor filed its voluntary petition for relief under Chapter 11 of the Bankruptcy Code (“Petition Date”). The Debtor is operating its business and managing its financial affairs as a Debtor-in-Possession pursuant to Sections 1101, 1107 and 1108 of the Bankruptcy Code. No trustee, examiner or committee of unsecured creditors has been appointed to serve in this Chapter 11 case. The Debtor is an Illinois Corporation that is a specialty design, fabrication and print workshop that mainly designs, fabricates and installs interactive exhibits at children’s museums and libraries across the country. The Debtor also produces high definition large format printing.

¹Capitalized terms not defined in this Disclosure Statement shall have the meanings ascribed to them in the Plan.

The Debtor is the proponent of the Plan. The Plan provides for distributions to the holders of Allowed Claims from funds realized by the Debtor from continued operations and from existing cash deposits and cash resources of the Debtor.

**SUMMARY OF TREATMENT OF CLAIMS
AND INTERESTS UNDER THE PLAN**

The Plan has one (1) category of Administrative Claims, one (1) category of Tax Claims, three (3) Classes of creditors (Classes 1, 2 and 3) and one (1) Class of Interests (Class 4). These Claims and Interests, and the treatment thereof, under the Plan consist of the following:

Administrative Claims²

Administrative Claims are provided for in Article IV, Section 4.1 of the Plan, are unimpaired under the Plan and primarily consist of Allowed Claims comprised of fees and expenses of Debtors' Counsel retained pursuant to an Order entered by the Bankruptcy Court, a claim for product delivered within twenty (20) days of the filing of the Bankruptcy Case and a funding source. These administrative fees are projected as follows:

<u>Professional</u>	<u>Amount</u>
Crane, Heyman, Simon, Welch & Clar Debtor's Counsel	\$25,000.00 ³
McMaster Carr - Supplier	\$8,983.39

²Since the Debtor's Chapter 11 Cases was commenced as a voluntary proceeding, no claims under Sections 507(a)(3) and 502(f) of the Bankruptcy Code exist.

³ This amount is merely the Debtor's estimate and is, therefore, subject to change. Furthermore, in projecting this amount, the Debtor does not expect a contested Confirmation hearing. In the event of a contested Confirmation hearing, Administrative Claims of professionals will significantly increase.

Dennis Fellhauer

\$25,000.00

The amounts projected to professionals holding Allowed Administrative Claims are in addition to the amount of \$21,717.00 previously paid as a pre-petition retainer to Debtor's Counsel.

No professional shall be paid unless and until the Bankruptcy Court has entered appropriate Orders allowing the compensation and reimbursement of expenses requested by such professionals.

Also included in this category of Administrative Claims are post-petition payables. Under the Plan, post-petition payables will be paid in the ordinary course of business pursuant to the credit terms existing at the time the Claim was incurred.

Other than post-petition trade payables, all Administrative Claims, to the extent allowed, will be paid in full in cash on the Effective Date or as soon as practicable thereafter (and in the case of professionals, after allowance by the Bankruptcy Court) or as agreed to by the holder of each Allowed Administrative Claim. The source of funds for payment of such Administrative Claims will be the cash resources of the Debtor or such other cash as may be generated by the Debtor from continued operation of its business.

Tax Claims

The Plan has a specific provision for the payment of taxes which are of the type entitled to priority under Section 507(a)(8) of the Bankruptcy Code (Article IV, Section 4.2 of the Plan). Governmental entities from Illinois, Mississippi, California and the Federal Government are the holders of tax claims in the approximate amount of \$377,000.00. The Plan provides that to the extent any Tax Claim is allowed, such Tax Claims shall be paid in full, in cash, inclusive of

interest at the applicable statutory interest rate, in graduated quarterly payments, commencing on the first day of the first month of the first calendar quarter following the Effective Date, and with the following payments continuing on the first day of the first month of each calendar quarter thereafter, over a 5 year period from the Petition Date, unless the holder of a Tax Claim agrees to a different treatment. The amounts of the graduated payment schedule are detailed in the projections attached to this Disclosure Statement as Exhibit C. This treatment of Allowed Tax Claims is intended to comply with the requirements of Section 1129(a)(9)(C) of the Bankruptcy Code.

Cornerstone National Bank and Trust Claim

Cornerstone National Bank and Trust (“Cornerstone”) is the holder of a Class 1 Claim and is impaired under the Plan. Cornerstone is the holder of a claim in the approximate amount of \$82,132.86 as a secured claim. Bank alleges that it is secured in all assets of the Debtor. The treatment of the Class 1 Claim is set forth in Article VI, Section 6.1 of the Plan. In full satisfaction, settlement, release and discharge of and in exchange for any Allowed Class 1 Claim, under the Plan, the holder of the Class 1 Claim shall be paid in full, from the existing cash and cash generated from continued business operations of the Debtor. Cornerstone shall be paid on a monthly basis beginning on the first day of the first month following the effective date and continuing each month thereafter, in sixty (60) equal monthly installments. Cornerstone shall be paid the full amount of its claim, plus interest at ten percent (10%), which reflects the contract interest rate on the indebtedness owed to Cornerstone, based on a 5 year amortization schedule, which results in monthly payments of \$1,745.00. Other than the changes pursuant to the Plan,

the loan documents between the Debtor and Cornerstone shall remain in full force and effect and the parties rights and obligations under said loan documents will control.

Other Secured Claims

TCF Equipment Finance and Chase Auto Finance are the holders of Allowed Class 2 Claims and are not impaired under the Plan. TCF Equipment Finance holds a secured claim in the approximate amount of \$97,000.00, secured against a large format printer equipment of the Debtor and Chase Auto Finance holds a secured claim in the approximate amount of \$5,000.00, secured against the Debtor's Subaru automobile. The treatment of the Allowed Class 2 Claims is set forth in Article V, Section 5.1 of the Plan. In full satisfaction, settlement, release and discharge of and in exchange for each and every Allowed Class 2 Claim, the Debtor will continue to pay TCF Equipment Finance and Chase Auto Finance pursuant to the terms of the contracts entered into with those parties regarding the finance of the equipment and vehicle, which results in payment of approximately \$3,026.75 and \$402.40 respectively. Any deficiencies will be capitalized into the contracts. Other than as amended by the Plan, the terms of the TCF Equipment Finance and Chase Auto Finance loan documents shall survive confirmation of the Plan and shall govern. TCF Equipment Finance and Chase Auto Finance shall retain their liens on and security interests in their collateral until they are paid in full pursuant to the terms of the loan documents.

Unsecured Creditors

Unsecured Creditors are the holders of Allowed Class 3 Claims and are impaired under

the Plan. The treatment of the Allowed Class 3 Claims is set forth in Article VI, Section 6.2 of the Plan. The Debtor estimates that the aggregate amount of Allowed Class 3 Claims is approximately \$245,000.00, not including non-priority unsecured claims of the Debtor's shareholders. In full satisfaction, settlement, release and discharge of and in exchange for each and every Allowed Class 3 Claim, the holders of the Allowed Class 3 Claims shall be paid their pro rata share of graduated quarterly installments⁴ over seven (7) quarterly payments, commencing on the first day of the first month of the third calendar quarter of 2021 and continuing for the following six quarters with each payment being made on the first day of the first month of each successive quarter. The amounts of the graduated payment schedule are detailed in the projections attached to this Disclosure Statement as Exhibit C. The Debtor estimates these payments to approximate seventy-seven point five percent (77.5%) of their claims. The payments will be made out of the remaining funds of the Debtor after business operations and the payment of the claims of the other classes. The payments to priority claims will be made first pursuant to Section 507 of the Bankruptcy Code and all remaining unsecured claims will be made following payment of the priority unsecured claims. The Debtor's shareholders, Anthony Labrosse and Pamela Parker ("Shareholders") hold non-priority unsecured claims totaling approximately eighty-five thousand dollars (\$85,000.00) combined. The Shareholders will voluntarily subordinate their claims to other Allowed Claims and will be paid after all other Allowed Claims are paid. The Shareholders subordination is limited to the context

⁴The payments to each creditor are laid out in the projections in Exhibit C. The payments work out to approximately a 77.5% payment of the unsecured claims. The payments in total are as follows: beginning in the third quarter 2021 and for the next six (6) successive quarters, the Debtor will pay unsecured creditors the pro rata share of \$19,852.23, \$19,852.23, \$31,345.83, \$31,345.83, \$31,345.83, \$31,345.83 and \$43,887.08.

of the Plan.

Equity Interests

The shareholders of the Debtor (“Shareholders”) are the holders of Allowed Class 4 Interests. Class 4 Interests are not impaired under the Plan. The Shareholders are Anthony Labrosse and Pamela Parker. Under Article V, Section 5.2 of the Plan, the Shareholders shall retain their respective equity interests in the Debtor after Confirmation of the Plan. Should a creditor object to the Plan based on the absolute priority rule and the Plan fails to be accepted by each class of creditors, at the option of the Debtor an auction may be held for the equity interests. If an auction proceeds, the notice of the auction will be published and will sell the equity interests of the Debtor, subject to compliance with the Plan.

Claims Objections

Except as otherwise ordered by the Bankruptcy Court or as otherwise provided in the Plan, the Debtor shall file any and all objections to the allowance of Claims or Interests on or within one hundred and twenty (120) days of Confirmation of this Plan unless extended by Order of the Bankruptcy Court. Cause shall not be a requirement for an extension of this deadline.

PURPOSE OF DISCLOSURE STATEMENT

This Disclosure Statement is provided to all of the known holders of Claims against the Debtor who are entitled to vote their acceptance or rejection of the Plan. This Disclosure Statement is disseminated in connection with the solicitation of acceptances of the Plan filed by

the Debtor. The purpose of this Disclosure Statement is to provide such information as would enable a hypothetical, reasonable investor, typical of the holder of Claims which are impaired under the Plan, to make an informed judgment about the Plan.

The information contained in this Disclosure Statement has been submitted by the Debtor unless specifically stated to be from other sources. No representations concerning the Debtor or this Plan, other than those set forth in this Disclosure Statement, have been authorized by the Debtor. The Debtor believes that all of the information contained in this Disclosure Statement is accurate. However, the Debtor is unable to warrant that there are no inaccuracies.

Under the Bankruptcy Code, a Class of Claims is considered to have accepted the Plan if both a majority in number and two-thirds (2/3) of the dollar amount of those actually voting vote to accept the Plan. The Claims of those who do not vote are not counted in determining whether the requisite statutory majority in number and dollar amount have voted for acceptance. Acceptance by the statutory majority will bind the minority who dissent and those who fail to vote.

The Plan requires that the holders of Claims in Classes 1 and 3 vote on Confirmation of the Plan. Ballots and objections to confirmation of the Plan must be filed by _____, 2018 with the Clerk of the United States Bankruptcy Court, 219 S. Dearborn St., Chicago, Illinois 60604. The Bankruptcy Court shall conduct a hearing on confirmation of the Plan on _____, 2018 at _____.

HISTORY AND BACKGROUND

_____The Debtor is a corporation that was established pursuant to, and is in good standing under, the laws of the State of Illinois. The Debtor's principal office is located at 3121 N. Rockwell Street, Chicago, Illinois 60618. The Debtor is a specialty design, fabrication and print workshop that mainly designs, fabricates and installs interactive exhibits at children's museums and libraries across the country. The Debtor also produces high definition large format printing. The economic downturn, mainly in the spending in the not-for-profit and government sectors between 2012 and 2015 caused a loss of business for the Debtor, which led to economic difficulties leading to the filing of this Chapter 11 case. Further cuts in spending by not-for-profits has also cut into the profit margins earned by the Debtor and caused delays in payments received by the Debtor.

POST-PETITION ACTIVITIES

The Debtor's focus has always been on implementing an exit strategy from this Chapter 11 case that would provide a mechanism for creditors to be paid. In furtherance of this effort, the Debtor worked with Cornerstone to allow the Debtor to use cash collateral in order to continue operating. During this Chapter 11 Case the Debtor has continued to operate and maintain its business operations. The Debtor also has reduced some staff and added other staff in positions to make it operate more efficiently. The Debtor has increased its efforts to obtain new business and have been working towards increasing revenue to have the ability to propose its Plan

The Debtor has timely filed a confirmable Plan that will successfully conclude this Chapter 11 case in a rapid fashion.

OTHER ASPECTS OF THE PLAN

The Debtor shall be the disbursing agent charged with making the payments required under the Plan to the holders of Allowed Claims.

Upon Confirmation of the Plan, the Debtor shall be revested with its assets, subject only to the terms and conditions of the Plan. The Debtor shall be entitled to continue to operate and manage its business and financial affairs without further Order of the Bankruptcy Court, except as hereinafter set forth. Payments to creditors pursuant to the Plan will be made from existing cash deposits and from funds from continued business operations.

Upon Confirmation, an injunction under Section 524 of the Bankruptcy Code shall arise to prevent any party from foreclosing its lien or security interest or otherwise enforcing its Claims against the Debtor and its assets in this bankruptcy case except as authorized in the Plan. Such injunction shall not affect any secured creditor's right to foreclose upon any security interest provided in the Plan in the event of any uncured post-Confirmation default under the Plan. This injunction will remain in effect until all distributions under the Plan have been made.

The Plan is self-executing. The Debtor shall not be required to execute any newly created documents to effectuate the terms of the Plan. Upon payment as required by the Plan, any liens supporting such Claims shall be deemed released and discharged.

All executory contracts and unexpired leases which exist between the Debtor and any other party, whether such executory contract be in writing or oral, which have not been previously assumed, assigned, rejected or otherwise terminated by the Debtor shall be assumed upon Confirmation of the Plan pursuant to Sections 365 and 1123(b)(2) of the Bankruptcy Code. Any and all Claims asserted by any party arising from the rejection of executory contracts and unexpired leases pursuant to the Plan must be filed on or within thirty (30) days following the

rejection. Further, with respect to Claims for default relating to any unexpired lease or executory contract that is assumed pursuant to the Plan, any and all such Claims must also be filed on or within thirty (30) days following Confirmation. Allowed Claims emanating from the rejection of unexpired leases and executory contracts will be treated as Class 3 Claims. Allowed Claims for default emanating from the assumption of unexpired leases and executory contracts will be treated as Administrative Claims. Any person failing to file such a Claim within the time provided in the Plan shall be forever barred from asserting such Claim and shall not receive any distribution under the Plan. The provisions for assumption, assignment and rejection shall be equally applicable to executory contracts and unexpired leases of real and personal property.

The Debtor intends to assume the leases for its two office locations, assuming the Debtor can agree to terms with the landlords regarding cure claims and any other lease issues. The Debtor has already filed a Motion to reject the equipment leases with Stratosphere Networks, LLC and Avaya Financial Services. There are no other leases or executory contracts other than the contracts for the Debtor to provide services to customers.

The Bankruptcy Court shall retain jurisdiction for certain specified purposes. Any distribution under the Plan that remains unclaimed sixty (60) days after the distribution is made will become property of the Debtor, and will not be recouped in subsequent distributions. The Debtor will have the right to make any distribution to creditors earlier than required by the Plan. The Debtor shall have the right, power and authority after Confirmation of the Plan to commence any preference, fraudulent conveyance or other litigation it deems appropriate.⁵ The Bankruptcy Court shall retain jurisdiction for such litigation.

⁵ The Debtor has not completed an analysis of potential preference and fraudulent conveyance claims. The Debtor believes that no litigation claims exist.

The provisions of the Plan shall bind all creditors, Interest holders and parties in interest. Except as expressly provided in the Plan or the Bankruptcy Code, no interest or penalties accruing on or after March 20, 2017 shall be paid on any Claim nor shall any creditor claiming any such interest or penalty be entitled to have its Claim for interest or penalty allowed for payment.

To the extent necessary, pursuant to Section 1129(b) of the Bankruptcy Code, the Debtor intends to request that the Bankruptcy Court confirm the Plan if all applicable requirements of Section 1129(a) of the Bankruptcy Code, other than Section 1129(a)(8), are met.

LIQUIDATION ANALYSIS

Failure of the Debtor to obtain Confirmation of the Plan could result in a forced liquidation or a conversion to a case under Chapter 7 of the Bankruptcy Code and immediate termination of the Debtor's business operations. Under the Plan, all creditors are being paid more than they will receive in a liquidation. All creditors are being paid in full under the Plan.

Notably, as of November 30, 2017, the Debtor had approximately \$144,000.00 in cash on deposit in its Debtor in Possession operating account. Other than accounts receivable in the approximate amount of \$119,000.00, and cash, the Debtor has no other assets except for raw materials that it uses for its business. These materials have little to no value for resale. Existing cash and further cash generated after Confirmation are to be used by the Debtor for payment of creditors' Claims under the Plan and for costs of operation of the Debtor's business after Confirmation of the Plan.

In the event of a forced liquidation, such as a foreclosure by Cornerstone on its liens and security interests, any proceeds realized from the liquidation of the Debtor's assets would first be

used to pay the costs of collection, which for purposes of this discussion, the Debtor has estimated to be an amount equal to 10% of the gross collection proceeds. Once the costs of collection have been paid, Secured, Administrative and Priority Claims would be paid. Only after making the above disbursements of liquidation proceeds could any distribution be made to general unsecured creditors. Typically, in the event of a foreclosure, no creditor other than the lender would receive funds from the foreclosure. The Debtor asserts that if a foreclosure of its assets by Cornerstone is pursued, Cornerstone would receive over half of the Debtor's cash. This would leave cash and accounts receivable totaling approximately \$171,000.00 to pay all administrative and priority claims. Accounts receivables in non-operating entities are difficult to collect at best. Even assuming full collection, which would unlikely occur, there would not be sufficient funds to pay administrative and priority wage and tax claims. This would result in no payments to unsecured creditors and less than full payment to priority creditors.

Clearly, the dividend being paid to Unsecured Creditors under the Plan represents substantially more than such Unsecured Creditors would ever receive in a liquidation (which according to the above analysis is nothing). The same is also true for priority creditors. Furthermore, the existing trade debt to be paid according to ordinary business terms would also be included in the pool of Administrative Claims thereby substantially increasing the total dollar amount due Administrative Claimants in a liquidation and further reducing the likelihood of any funds being available for Unsecured Creditors. Also, the projected amount allowable for Administrative Claims, in the event of conversion, would further increase to account for the fees and costs attributable to a Chapter 7 Trustee and his administration or Cornerstone and the liquidation of its collateral.

Clearly, upon forced liquidation, Unsecured Creditors would get nothing. In fact, priority unsecured creditors will also likely receive substantially less than that being paid to priority unsecured creditors under the Plan. Accordingly, the Plan offers all creditors substantially more than such creditors would receive in a liquidation.

IMPLEMENTATION OF THE PLAN

As discussed throughout this Disclosure Statement, distributions under the Plan shall be made from cash deposits existing at the time of Confirmation and from proceeds realized from the continued operation of the Debtor's business.

FEASIBILITY AND FAIRNESS OF PLAN

Attached to this Disclosure Statement as **Exhibit B** are summaries of income and expense reports filed by the Debtor since the filing of this Bankruptcy Case. The purpose of this Exhibit is to provide creditors with historical financial information concerning the Debtor's ability to make the payments required under the Plan. These income and expense reports were prepared by the Debtor and are based upon an analysis of actual business activity.

Attached to this Disclosure Statement as **Exhibit C** are financial projections pertaining to the Debtor's projected business activity for the five (5) years following Confirmation of the Plan. The purpose of this Exhibit is to provide creditors with projected financial information concerning the Debtor's ability to make the payments required under the Plan. These projections

were prepared by the Debtor and are based upon an analysis of past business results and projected future business activity. For purposes of these projections, the Debtor has assumed that the Plan will be confirmed by the end of February, 2018. These projections, coupled with the Debtor's available cash and successful business operations in this Chapter 11 Case, establish that the Plan is feasible.

The projections represent reasonable calculations based upon historical progressions of the Debtor's business. These projections clearly reflect the Debtor's ability to perform under the proposed Plan. Furthermore, the Debtor's achievements and performance during the course of this reorganization case further indicate that the Plan is feasible.

Attached to this Disclosure Statement as **Exhibit D** are the Debtor's financials from the year prior to the filing of this Chapter 11 case in compliance with Local Rule 3016-1.

The Debtor believes that the Plan represents an opportunity for the holders of Allowed Claims to receive more than such claimants would receive in a forced liquidation. Given the conservative financial projections and the Debtors' past performance, the Plan is also fair.

RECOMMENDATION

The Debtor strongly recommends that those persons entitled to vote, vote to accept the Plan.

Respectfully Submitted,
REDBOX WORKSHOP, LTD.,
Debtor/Debtor-in-Possession,

By: /s/Jeffrey C. Dan
One of its Attorneys

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