

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

IN RE:)	
Midwest Biomedical Resources, Inc.)	Bankruptcy No. 17 B 35380
)	Chapter 11
)	
Debtor)	Judge Donald R. Cassling
)	
)	Date: October 23, 2018

DISCLOSURE STATEMENT

This Disclosure Statement is issued in conjunction with the Plan of Reorganization dated October 23, 2018.

INTRODUCTION AND SUMMARY OF THE PLAN

The Debtor's Plan of Reorganization provides for payment of \$109,629 to general unsecured creditors, to be divided among general unsecured creditors pro rata. This amount will be paid over a five-year period, with an initial payment of \$1,922 to holders of small claims in a "convenience class," and quarterly payments of \$5,385/quarter. General unsecured claims total \$438,516.83. General unsecured creditors will receive a distribution of approximately 25% on their allowed claims.

The Plan provides for the deposit of a \$1,795 monthly payment to a distribution account. The Debtor will pay the \$5,385 quarterly payment, divided pro rata among holders of allowed secured claims, each quarter, until the end of the five-year term of the Plan. The Debtor will distribute the amount in the distribution account each quarter immediately upon availability of the funds in the distribution account.

The Debtor will pay the priority claim of the Internal Revenue Service, in the amount of \$117,483.02, in full, with interest at 3%, in approximately 45 monthly payments (as necessary to pay the claim in full within the statutory 60-month period after the filing of this case). The remaining balance of the Internal Revenue Service claim, in the amount of \$125,992.15, is a general unsecured claim and will be paid a 25% distribution in quarterly payments over five years.

The Debtor will pay the priority claim of the Illinois Department of Employment Security, in the amount of \$3,218.91, in full, with interest at 3%, in approximately 45 monthly payments (as necessary to pay the claim in full within the statutory 60-month period after the filing of this case). The remaining balance of the Illinois Department of Revenue claim, in the amount of \$32,930.38, is a general unsecured claim and will be paid a 25% distribution in quarterly payments over five years.

The Debtor will pay the priority claim of the Illinois Department of Revenue, in the amount of \$973.73, in full, with interest at 3%, in approximately 45 monthly payments (as necessary to pay the claim in full within the statutory 60-month period after the filing of this case). The remaining balance of the Illinois Department of Revenue claim, in the amount of \$45,858.21, is a general unsecured claim and will be paid a 25% distribution in quarterly payments over five years.

The Debtor will pay the secured claim of JPMorgan Chase, secured by substantially all of the Debtor's personal property, including furniture and fixtures, machinery and equipment, and accounts receivable, with interest at 5% per annum, in equal monthly payments over a five year period.

The classes of creditors are as follows:

<u>Class</u>	<u>Type of Creditor</u>	<u># of Creditors</u>	<u>Total \$ Amount</u>	<u>Treatment of Creditors</u>
I	Governmental	3	\$121,675.66 \$204,780.74	Priority paid over 45 months with 3% interest General unsecured paid 25% over five years
II	Priority	None Known	-0-	Paid in full over 5 years
III	Secured	1-JPMorgan Chase	\$141,543.86	In full, monthly payments, 5% interest, over 5 years
IV	Unsecured	22	\$226,047.49	Paid 25% over five years
V	Unsecured (Convenience)	16	\$7,688.60	Paid 25% within first quarter

The Plan provides for payment in full of priority claims, other than tax claims, over a five year period, with interest at 5%, but the Debtor is not aware of any such priority claims.

The Debtor projects sufficient income to pay all required payments under the plan.

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. The Debtor will pay the priority portion of the claim of the Internal Revenue Service, Illinois Department of Employment Security, and Illinois Department of Revenue monthly payments starting with the first month after the Effective Date. Other creditors entitled to priority under Section 507(a) of the Bankruptcy Code will be paid over a five year period (the Debtor know of no such claims, except for costs of administration such as attorneys' fees and accountants' fees, and does 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.

HISTORY OF THE DEBTOR'S FINANCIAL CONDITION

MIDWEST BIOMEDICAL RESOURCES, INC. is a medical service based company that specializes in the maintenance, repair and refurbishing of critical care equipment specific to Respiratory and Cardio Pulmonary departments.

The Company was formed by William Rosas and Stephen Hiser as an Illinois S Corp in October 2002. Both men had more than 20 years of experience each, in the repair and maintenance of respiratory equipment, beginning as field service technicians for a now defunct Naperville based company named Central Medical Services.

The Company presently operates from leased premises at 8910 W. 192nd Street, Suite D, Mokena IL. This is an 1800 square foot facility that houses the Operations office, warehouse and repair center.

Midwest Biomedical Resources is involved in four distinct but related activities:

1. Repair, maintain and refurbish various brands of ventilators and related monitoring items shipped to our service facility from Hospitals, Long Term Care Facilities, Nursing Homes and Home Care providers located all across the country.
2. Purchase and sell used ventilators, parts and associated equipment to the same customer base, as well as medical equipment distributors and suppliers across the United States.
3. Authorized Sales Representatives for Systems Technologies, a Utah based company. Our responsibilities are to sell, install and maintain wireless nurse call systems in various respiratory facilities throughout the Midwest.
4. Providers of on-site service and maintenance to its customer base in Illinois, Wisconsin, Indiana and Ohio.

Midwest Biomedical Resources is an authorized service center for the CareFusion/Pulmonetic Systems line of LTV ventilators and is one of only 4 authorized service centers in the continental United States.

In 2016, Midwest Biomedical Resources signed an agreement with Breas Medical, a Swedish Ventilator manufacturer, to become the authorized service center for its line of new innovative Vivo ventilators. These "authorized service center" agreements allow Midwest Biomedical Resources to act as the local repair and support agent for the aforementioned companies. Midwest Biomedical is authorized to perform warranty work for the local customer base and work with the local manufacturer's representatives as a technical support avenue for

new sales and installations. In many cases, these warranty and sales relationships open up opportunities for further service work by targeting other equipment that is owned and operated by the customer. The strategy is then to offer a more efficient, cost effective service program than the customer is presently using.

In March of 2009, Steve Hiser announced his intent to retire and offered his portion of the business to be acquired by William Rosas. Due to the financial markets at that time, Midwest Biomedical Resources was unable to acquire financing for the buyout through traditional methods. A buyout contract agreement was signed by the two parties with a balloon payment after 24 months beginning January 1, 2010. Still unable to obtain proper financing through our local banks, a forbearance agreement was signed by the two parties in March of 2011 and the interest paid to Mr. Hiser was increased to 12%, with the interest being paid retroactively to January 2011.

This high interest loan had adversely affected the cash flow of Midwest Biomedical Resources. Customer changes in 2011 had also affected the sales income for fiscal 2011. From June of 2009 through the present, Midwest Biomedical Resources had a national pricing contract with Walgreens to maintain all the cardio pulmonary equipment, nationwide, for the Walgreens Homecare and Infusion division. In early 2011, Walgreens began the process of liquidating some of their home care centers to other companies due to government reimbursement changes. The companies that had purchased these entities have their own service departments, eliminating the need for sending repairs to Midwest Biomedical Resources. This same scenario had occurred with our Lincare customers as well, now owned by Linde Gas.

By April of 2014, we laid off all the employees and moved the operation to its present smaller location in Mokena as an effort to minimize costs.

In September of 2016, the company developed an agreement with an internet marketing salesman to begin offering its products and services on line. The company has opened a new revenue stream that has greatly improved the cash flow of the company to a new local, national and international customer base through its website.

DESCRIPTION OF THE PLAN OF REORGANIZATION

The Debtor has 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. These claims are as follows:

(a) The Internal Revenue Service filed an amended claim in the total amount of \$243,475.17 comprised of a priority claim of \$117,483.02, a secured claim of \$26,500. and a general unsecured claim of \$99,492.15. The secured portion of the claim is junior to the secured claim of JPMorgan Chase Bank and is treated in this Plan as fully unsecured.

(b) The Illinois Dept. of Employment Security filed a claim in the total amount of

\$36,149.29, comprised of a priority claim of \$3,218.91, a secured claim of \$17,003.67 and a general unsecured claim of \$15,926.71. The secured portion of the claim is junior to the secured claim of JPMorgan Chase Bank and is treated in this Plan as fully unsecured.

(c) The claims of Illinois Department of Revenue. The Illinois Department of Revenue filed claims in the amount of \$1,165.13 (Claim 4); \$27,167.23 (Claim 5); and \$18,499.55 (Claim 6). Of those claim amounts, \$973.73 is claimed as a priority claim in Claim 4. To the extent any claim of the Illinois Department of Revenue is filed as a secured claim, the secured portion of the claim is junior to the secured claim of JPMorgan Chase Bank and is treated in this Plan as fully unsecured.

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 is not aware of the existence of any creditors in this class.

CLASS III: The claim of JP Morgan Chase Bank, N.A. secured by inventory, machinery and equipment. The Debtor scheduled the claim in the amount of \$140,000.00 and the creditor filed a claim for \$141,543.86. This claim is treated as fully secured in this Plan.

CLASS IV: The claims of all other unsecured creditors of the Debtor as the same are allowed and ordered paid by the court, other than those claims that are under \$1,000.00, or whose holders agree to reduce their claims to \$1,000.00; these claims are part of the "Convenience Class," Class V.

CLASS V: The claims of all unsecured creditors of the Debtor whose claims are under \$1,000.00, or whose holders agree to reduce their claims to \$1,000.00 for the purpose of an early distribution under this Plan.

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

CLASS I: Governmental Unit Claims: The holders of Governmental Unit Claims shall be treated as follows:

(a) The Internal Revenue Service shall receive payment of its priority claim in the amount of \$117,483.02 in full, with interest at 3% per annum, in equal monthly payments, commencing on the first day of the month following the Effective Date, for a period of approximately 45 months, until paid in full. The claim will be paid within 60 months after the filing of this case. The approximate monthly payment on this claim will be \$2,763.60. The balance of the Internal Revenue Service claim, in the amount of \$125,992.15, will be paid as a general unsecured claim and receive the same treatment as claims in Class IV.

(b) The Illinois Department of Employment Security shall receive payment of its priority claim in the amount of \$3,218.91 in full, with interest at 3% per annum, in equal monthly payments, commencing on the first day of the month following the Effective Date, for a period of approximately 45 months, until paid in full. The claim will be paid within 60 months after the filing of this case. The approximate monthly payment on this claim will be \$75.72. The balance of

the Illinois Department of Employment Security claim, in the amount of \$32,930.38, will be paid as a general unsecured claim and receive the same treatment as claims in Class IV.

(c) The Illinois Department of Revenue shall receive payment of its priority claim in the amount of \$973.73 in full, with interest at 3% per annum, in equal monthly payments, commencing on the first day of the month following the Effective Date, for a period of approximately 45 months, until paid in full. The claim will be paid within 60 months after the filing of this case. The approximate monthly payment on this claim will be \$22.91. The balance of the Illinois Department of Revenue claims, in the amount of \$45,858.21, will be paid as a general unsecured claim and receive the same treatment as claims in Class IV. To the extent that the amount of any claim in this class has been reduced during the pendency of this case, the claim will be paid in the amount determined to be due.

The total amount of general unsecured claims in this class is \$204,780.74. These claims will receive a quarterly payment of approximately \$2,048/quarter.

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. The Debtor is not aware of the existence of any creditors in this class.

CLASS III: The claim of JP Morgan Chase Bank, N.A. secured by inventory, machinery and equipment. This claim, in the amount of \$141,543.86, will be paid in full, with interest at 5% per annum, , in equal monthly payments, commencing on the first day of the month following the Effective Date, for a period of 60 months, until paid in full. The monthly payment on this claim will be \$2,671.11/month.

CLASS IV: All other general unsecured claims, other than those in the “Convenience Class,” Class V. The total amount of these claims is \$226,047.49. These claims will receive a 20% distribution, in equal quarterly payments commencing on the first day of the calendar quarter following the Effective Date of the Plan, and continuing for five years. The quarterly payment on all claims in this class will be approximately \$2,260/quarter.

CLASS V: The “Convenience Class” of general unsecured claims of \$1,000.00 or less. These claims will receive a one-time payment of 20% of the amount of each claim, on the first day of the calendar quarter following the Effective Date of the Plan, and this payment shall be the sole and final payment on these claims. Claims in this class total \$7,688.60, and the payment on these claims will total \$1,537.72. Any creditor in Class IV who wishes to reduce its claim to \$1,000.00 and participate in the one-time 20% payment (a maximum of \$200.00) and forgo quarterly payments may elect inclusion in this Class.

ADMINISTRATIVE EXPENSES: All 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 \$7,500.00 toward its fees at the time of the filing of this case. Debtor's counsel estimates that its total fees will not exceed \$10,000. The total fees of Debtor's counsel will be subject to determination by the Court, 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 one shareholder, William Rosas, who owns 100% of the stock. William Rosas is the president of the Debtor and will continue to be employed as president. During the pendency of this case, Mr. Rosas has taken a salary averaging \$3,000/month. The Debtor intends that, after confirmation of a Plan, it will pay Mr. Rosas a salary of \$3,000/month if it has the funds after making all payments under the Plan.

The Plan provides for the current shareholder of the Debtor to retain his equity interest 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 with the 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.

EXECUTION OF THE PLAN: FUNDING AND DISTRIBUTION

Payment to Secured Creditors: The Debtor will make monthly deposits to a distribution account, commencing on the first day of the calendar month following the Effective Date, to be distributed monthly to JPMorgan Chase Bank, the sole member of Class II. The deposit to the account, and the payment to JPMorgan Chase, will be approximately \$2,671.11/month.

Payment to Priority Creditors: The Debtor will make monthly deposits to a distribution account, commencing on the first day of the calendar month following the Effective Date, to be distributed monthly to holders of priority claims. The deposit to the account will be approximately \$2,862.22/month.

Payment to General Unsecured Creditors: The Debtor will make deposits of \$1,437/month to a distribution account, commencing on the first day of the month following the Effective Date, to be

distributed in quarterly payments commencing on the first day of the calendar quarter following the Effective Date, pro rata to all holders of allowed general unsecured claims in Class IV, and on account of the general unsecured portion of all governmental unit claims in Class I, for five years.

Payment to Convenience Class Creditors: The Debtor will make a deposit of \$1,537.72, or such higher amount as is necessary to make a 20% distribution to all holders of Convenience Class claims and all holders of Class IV Unsecured claims who elect to reduce their claims to \$1,000.00 and accept treatment as a Convenience Class creditor, on the first day of the calendar quarter following the Effective Date,

The Debtor will make a pro rata distribution to all creditors with allowed general unsecured claims from the distribution account, directly to general unsecured creditors for the term of the Plan. Each quarterly payment will be made immediately upon deposit and clearing of the Debtor's deposits to the distribution account.

The funds for payment of Administrative Expenses (other than those for which the holder of such claim agrees to payment over time), and Class II Priority Claims (the Debtor is not aware of any such 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 the all claims paid under this Plan shall be obtained from the business income of the Debtor over a period of five years.

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,
Midwest Biomedical Resources, Inc.

By: /s/ David P. Lloyd
Its attorney

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