

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF MARYLAND  
(Greenbelt Division)

In re:	:	
	:	
CRYSTAL ENTERPRISES, INC.,	:	Case Number 16-22565-WIL
	:	
Debtor	:	
_____	:	

**SIXTH AMENDED DISCLOSURE STATEMENT  
IN SUPPORT OF CRYSTAL ENTERPRISES, INC.'S  
CHAPTER 11 PLAN OF REORGANIZATION**

CRYSTAL ENTERPRISES, INC. (“Crystal Enterprises” or the “Debtor”), Debtor and debtor-in-possession in the above-captioned case, by undersigned counsel, provides this Disclosure Statement (the “Disclosure Statement”)<sup>1</sup> in order to disclose information believed to be material for holders of claims against, or interests in, the Debtor to arrive at a reasonably informed decision, and to exercise the right to vote on the acceptance of the Debtor’s Sixth Amended Chapter 11 Plan of Reorganization (the “Plan”) filed contemporaneously herewith. A full copy of the Plan is attached to this Disclosure Statement as **Exhibit “A”**.

**Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.**

**A. Purposes of the Disclosure Statement.**

The Disclosure Statement describes the Debtor and significant events during the Debtor’s bankruptcy case, states how the Plan proposes to treat claims or equity interests, states the factors the Bankruptcy Court (the “Court”) will consider when deciding whether to confirm the Plan, and indicates why the Debtor believes the Plan is feasible and why holders of claims will receive

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<sup>1</sup> Unless otherwise defined in the Disclosure Statement, the capitalized terms used herein shall have the respective meanings assigned in the Plan.

greater recovery under the Plan than they would in liquidation of the Debtor, as well as setting forth other matters relevant to the Plan.

**B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**

The Court has granted conditional approval to this Disclosure Statement and has set a final hearing on approval of the Disclosure Statement to be held contemporaneously with a hearing on confirmation of the Plan. The hearing on final approval of the Disclosure Statement and confirmation of the Plan will take place on \_\_\_\_\_, \_\_\_\_\_ at \_\_\_\_\_ in Courtroom 3C at the United States Bankruptcy Court, Greenbelt Division, 6500 Cherrywood Lane, Greenbelt, Maryland 20770. Attached hereto is the Court's Order setting such hearing and describing the deadline for voting to accept or reject the plan and objecting to the Disclosure Statement or Plan.

If you need additional information about the Disclosure Statement or Plan, please contact the Debtor's counsel as follows:

Augustus T. Curtis, Esq.  
Cohen, Baldinger & Greenfeld, LLC  
2600 Tower Oaks Blvd., Suite 103  
Rockville, Maryland 20852  
(301) 881.8300 Phone  
(301) 881.8350 Facsimile

**NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO THE VALUE OF ITS ASSETS) ARE AUTHORIZED OTHER THAN IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE ACCEPTANCE OF THE PLAN WHICH ARE NOT CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY ANY CREDITOR AND SHOULD BE REPORTED TO THE UNDERSIGNED COUNSEL FOR THE DEBTOR. MUCH OF THE INFORMATION CONTAINED IN THIS STATEMENT HAS**

**NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THE RECORDS KEPT BY THE DEBTOR ARE NOT REPRESENTED TO BE WITHOUT INACCURACIES, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.**

**CREDITORS ARE URGED TO READ THE ENTIRE PLAN AND TO CONSULT WITH COUNSEL OR EACH OTHER, IN ORDER TO FULLY UNDERSTAND THE PLAN. A COPY OF THE PLAN HAS BEEN FILED WITH THE CLERK, UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF MARYLAND, 6500 CHERRYWOOD LANE GREENBELT, MARYLAND 20770, AND IS AVAILABLE FOR INSPECTION AND REVIEW.**

**C. Disclaimer**

The Court has conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted. The Court's approval of this Disclosure Statement is subject to final approval at the hearing on confirmation of the Plan.

**II. BACKGROUND OF THE DEBTOR**

**A. Description and History of the Debtor's Business.**

Crystal Enterprises was formed in 1989 for the original purpose of providing janitorial services to public and private organizations under short-term and long-term contracts. Over the years of its operations, the company expanded its business, providing staffing, food service and facility maintenance service solutions to a variety of public and private customers locally and

nationwide. Now having operated for twenty-eight (28) years, Crystal Enterprises is a diversified provider of services under governmental and private contracts throughout the United States.

In 2004, Crystal Enterprises was awarded a designation by the Small Business Administration (SBA) as an “8a” company. Section 8(a) of the United States Small Business Act, codified at 15 U.S.C. §631 *et seq.*, allows the Small Business Administration to grant preferred status in bidding for governmental contracts to qualified companies owned and operated by socially or economically disadvantaged individuals. As a result of receiving a designation as an “8a” company, Crystal Enterprises was entitled to bid on certain governmental contracts awardable only to “8a” companies. From and after 2004, it was awarded six substantial government contracts under the 8a program, including contracts at Whiteman Air Force Base in Missouri, Hurlburt Air Force Base in Florida, the Department of Transportation’s Merchant Marine Administration in Washington, D.C., Walter Reed Military Hospital, Fort Belvoir Military Hospital in Virginia, and the Bethesda Naval Military Hospital. These contracts constituted approximately \$40,000,000 in gross revenue to the company over a several year period.

In 2013, the Debtor “graduated” from the 8a program. Graduation from the program meant that the Debtor was no longer eligible to bid as an 8a company for new contracts or for renewal (upon expiration) of its existing contracts formerly held as an 8a company. As further described below, despite losing its eligibility for such contracts, the Debtor sought to maintain involvement in its 8a contracts by entering into joint ventures and other teaming arrangements with affiliated companies which were allowed to bid as 8a companies for such contracts, a common practice in the Debtor’s industry.

**B. Events Leading to Chapter 11 Filing.**

In 2015, Crystal Enterprises began to experience the financial difficulties which ultimately led to the filing of the Bankruptcy Case. On January 8, 2015, the company was awarded a contract with the State of Maryland's Department of Public Safety and Correctional Services (the "Maryland DPS") to provide food and facility maintenance services to nine (9) correctional facilities in Baltimore, Maryland. The three-year contract was to provide a estimated gross value to Crystal Enterprises of \$37,800,000.00 based on the number of meals provided at the Maryland DPS facilities and scheduled payments for janitorial services.

Shortly before entering the contract, Crystal Enterprises borrowed in excess of \$500,000 from Strategic Funding Source, Inc. ("Strategic Funding") to fund its start-up activities under the new contract, and to secure repayment of the loan, Crystal Enterprises granted Strategic a security interest in substantially all of its assets.

After entering into the contract, Crystal Enterprises became aware that the Maryland DPS had dramatically overstated the number of meals to be provided at its facilities. Through 2015, Crystal Enterprises realized that it was providing only approximately 2/3 of the meals which Maryland DPS had estimated would be necessary, and accordingly the company realized that its revenues from providing food services would be insufficient to defray its fixed costs associated with servicing the contract or to generate any profit for the company.

In addition to this problem, Crystal Enterprises learned after entering into the contract that the correctional facilities it was to service were in an extremely unsanitary condition at the time of the contract, and were overrun with rats, roaches, mice, and birds. Under the contract, the Maryland DPS was responsible for providing pest control services, but it had required Crystal Enterprises to correct preexisting unsanitary conditions within sixty (60) days from the date of

the contract in order for the facilities to pass health inspections. Thus, at the outset of the contract, Crystal Enterprises was confronted with the need to pour hundreds of thousands of dollars into the remediating the facilities, costs which it had not anticipated and which far exceeded its budgeted cost to transition into the contract.

The foregoing expenditures (and the diminished revenues from the contract) dramatically affected Crystal Enterprises' working capital and caused the company to face severe, unexpected cash flow problems. The incurred substantial debts for purchases of food and supplies, and within weeks after entering into the contract, it recognized that it could not afford to continue payments for food, staff, and supplies. The company attempted to mitigate problems under the contract and to negotiate modifications with Maryland DPS, but after Maryland DPS failed to enter into such negotiations, the company gave written notice that it would cease operations under the contract.

After termination of the Maryland DPS contract, Crystal Enterprises was saddled with more than \$2.6 million in debt arising from the contract. After initially considering closing its business, the company fought to gain control over its financial circumstances and remediate its business. However, despite paying down approximately \$1.2 million in debt over the year after collapse of the DPS contract, its efforts to regain financial stability were ultimately unsuccessful. In 2016, the company faced collection efforts by several creditors, including litigation by the State of Maryland relating to the Maryland DPS contract. The State of Maryland's Central Collection Unit ultimately attempted to sequester accounts receivable due to the Debtor and to Associated Receivables Funding, Inc. ("Associated Receivables"), a company which performed receivables factoring for the Debtor. Twice in 2016, the Maryland Central Collection Unit sequestered tens of thousands of dollars in receivables, bringing Crystal Systems to the brink of

closing its doors and causing Associated Receivables to declare defaults under its agreements with the Debtor. After the second sequester resulted froze more than \$400,000 in receivables due from the United States Department of Defense and Department of Transportation (the company's two largest customers) the company was forced to seek protection under Chapter 11. It filed its Chapter 11 petition on September 19, 2016, seeking to obtain the release of its accounts receivable, to restructure its debts and arrange feasible payment terms.

**C. Management of the Debtor.**

Crystal Enterprises is owned and operated by Saundra Thurman-Custis, its President and Chief Executive Officer. Ms. Thurman-Custis founded the company in 1989, and she provides the overall leadership for the company and oversees Crystal Enterprises' workforce, budget and customer relations. Since 2015, Ms. Thurman-Custis has received an annual salary of approximately \$128,000.00 She receives no other salary or distributions from the company.

In addition to Ms. Thurman-Custis, the company is also managed by Teri McDonald, who serves as its Human Resource and Compliance Manager. Ms. McDonald is not a shareholder or the company and has no ownership interest of any kind in the Debtor. Under the Plan, both Saundra Thurman-Custis and Teri McDonald shall continue their work for the Debtor after the Effective Date.

**D. The Debtor's Affiliates.**

During its existence, the Debtor has from time to time entered into teaming arrangements and joint ventures with other companies. It is currently affiliated with four (4) companies (the "Affiliated Companies") in the ways described herein:

*1. Crystal Maids, LLC*

Crystal Maids, LLC (hereinafter "Crystal Maids") is a residential cleaning company which serves customers in Maryland. The Debtor and Crystal Maids are both wholly owned by

Saundra Thurman-Custis, and both companies operate from offices located at 10837 Lanham-Severn Road, Glenn Dale, Maryland 20769.

Before and during the Bankruptcy Case, the Debtor has managed Crystal Maids' general and administrative operations, including its human resources, record-keeping, website, scheduling, and client contacts.<sup>2</sup> In addition, Crystal Enterprises leases to Crystal Maids four 2012 Toyota Scion vehicles owned by Crystal Enterprises. Crystal Enterprises receives a monthly administrative fee for its administration of Crystal Maids' general and administrative expenses, and it receives lease payments on the four Toyota Scion vehicles. During the case, the total monthly fees due from Crystal Maids have been \$5,000, an amount which the Debtor has treated as including \$1,519.76 in lease payment for the vehicles (\$379.94 for each vehicle).

## 2. *Alcryst, LLC*

Alcryst, LLC (hereinafter "Alcryst") is a Texas limited liability company formed through a joint venture between the Debtor and Alankar, Inc. ("Alankar"), a Texas corporation.<sup>3</sup> The Debtor and Alankar formed Alcryst on August 7, 2016 in order to bid on a renewed food services contract at Hurlburt Air Force Base in Pensacola, Florida. As set forth above, the Debtor was awarded the Hurlburt Field contract in or about 2004 as an "8a" company, but the Debtor was aware at the time the Bankruptcy Case was filed that the Hurlburt contract would expire in 2017 and that the Debtor would be ineligible to bid on the renewed contract because it was no longer an 8a company. Accordingly, the Debtor entered into the joint venture agreement with Alankar (which *is* an 8a company) so that it could participate, at least indirectly, in the renewed contract.

Alcryst was awarded the new Hurlburt Field contract on January 24, 2017, and it continues to

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<sup>2</sup> Prior to case filing, Crystal Enterprises also paid employees of Crystal Maids and was reimbursed for such payments by Crystal Maids. It ceased this arrangement at the time the case was filed, although it continued to assist Crystal Maids in administering other payments.

<sup>3</sup> AllenKar owns 51% of Alcryst, and the Debtor owns 49% of the company.



service the contract. The Debtor serves as a sub-contractor on the contract, and Alcryst pays the Debtor an administrative fee of \$6,000.00 per month for its work as subcontractor on the contract.<sup>4</sup> Ms. Thurman-Custis receives no compensation from Alcryst or any other entity relating to the Hurlbert Field contract.

### *3. The Principle Group, LLC*

The Principle Group, LLC (hereinafter “The Principle Group”) is a limited liability company organized in Maryland in 2009 as part of a joint venture between the Debtor and Brooks & Brooks Services, Inc. (“Brooks”). The Principle Group was organized to bid for commercial cleaning contracts with government agencies. The Debtor owns fifty-one percent (51%) of The Principle Group, and Brooks owns the remaining 49%. The company was formed with the Debtor as its majority shareholder because Brooks had “graduated” from the 8a program and was no longer eligible to bid on renewals of its 8a contracts, while (in 2009), the Debtor remained an “8a” company, and accordingly The Principle Group was entitled to bid on contracts allowed to such companies.

Under the terms of the joint venture agreement, the Debtor manages and supervises the administrative aspects of the Principle Group’s operations. At the time the Bankruptcy Case was filed, the Principle Group held three contracts with governmental agencies, a janitorial contract at the United States Holocaust Museum, a Port Everglades Museum janitorial contract in Florida and a floor cleaning contract with Baltimore County, Maryland. The Principle Group paid the Debtor administration fees in exchange for the Debtor’s services as well as its share of the profits from the contracts. Although the Debtor received approximately \$100,000 in fees and profits

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<sup>4</sup> As shown in its operating reports in this case, the Debtor (when it still serviced the Hurlbert Field contract directly) received approximately \$80,000 per month as *gross revenue* from the contract. Although this is a far larger amount than the administrative fee now paid to the Debtor, the \$80,000 amount constituted gross revenue from the contract, and the Debtor directly paid all of the expenses of the contract. Under the renewed contract, Alcryst pays such expenses directly, and the \$6,000 administrative payment received by the Debtor is “net” of all such expenses.

from the Principle Group at the time the Bankruptcy Case was filed, two of the three contracts subsequently expired and were not renewed to the Principle Group. The company now retains its single remaining contract, the Baltimore County floor cleaning contract, and it now pays a small amount of annual profit (approximately \$5,000 per year) to the Debtor relating to that contract.

#### *4. The Levi Group, LLC*

The Levi Group, LLC (hereinafter “The Levi Group”), a Maryland limited liability company organized by Sandra Thurman-Custis and Dwight Custis (her spouse). Mr. and Ms. Custis each own 50% of the membership interest of the company. The Levi Group owns real property at 10837 Lanham-Severn Road, Glenn Dale, Maryland 20769. The property is leased to Crystal Enterprises and Crystal Maids under separate leases for use as their offices. Under the terms of its lease, the Debtor pays \$3,200.00 per month as rent. (Crystal Maids pays \$2,700 per month in rent for its share of the property). The Debtor (and Crystal Maids) are current on rental payments to The Levi Group. Neither Mr. Custis nor Ms. Thurman-Custis receive any salary or distributions from the Levi Group.

### **E. Significant Events During the Bankruptcy Case.**

#### *1. The Debtor’s “First Day” Motions and Adversary Proceedings Seeking Release of Sequestered Accounts Receivable and Repayment of Preferential Payments.*

On the Petition Date, the Debtor began efforts to recover the accounts receivable frozen as a result of the State of Maryland’s actions, filing two adversary proceedings for that purpose. In the proceeding entitled Crystal Enterprises v. State of Maryland Central Collection Unit, Adv. Pro. No. 16-00433, the Debtor sought release of funds intercepted by the State of Maryland prior to the Petition Date, and in Crystal Enterprises v. Associated Receivables Funding, Inc., Adv. Pro. No. 16-00434, it sought release of one hundred forty-four thousand dollars allegedly held

back from receivables by Associated Receivables.<sup>5</sup> The Debtor, Associated Receivables and the State of Maryland shortly thereafter resolved the adversary proceedings, entering into consent orders by which Maryland agreed to release accounts receivable to Associated Receivables and the Debtor. The State of Maryland released \$315,000 to Associated Receivables, representing receivables Associated Receivables had already advanced to the Debtor, and released an additional \$93,000 to the Debtor directly. Associated Receivables was substantially repaid through this transaction, and it has filed no proof of claim in the Bankruptcy Case.

On the same date, the Debtor also filed an emergency motion seeking authority to use cash collateral [Docket No. 4], seeking authority to use cash collateral, as three creditors, Associated Receivables, Strategic Funding, and US Foods, Inc. (“US Foods”), a supplier of goods, all held cash collateral rights against the Debtor. After an interim hearing on September 22, 2016, the Court entered an interim order approving the use of cash collateral, and parties thereafter agreed to a consent order granting final authority for the Debtor to use cash collateral, which was entered on October 31, 2016 [Docket No. 94] (hereinafter, the “Cash Collateral Order”). In order to obtain consent to the use of cash collateral, the Debtor agreed to pay \$6,000.00 per week to Strategic Funding as adequate protection of its interest in cash collateral and granted liens to Strategic Funding and US Foods on after-acquired assets and accounts.

On the Petition Date, the Debtor also filed a complaint to recover pre-petition preferential transfers totaling \$110,040.00 to LA Foods, LLC, initiating the adversary proceeding entitled

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<sup>5</sup> Under its pre-bankruptcy factoring agreement with Associated Receivables, Associated Receivables’ practice was to pay the Debtor amounts based on a preliminary determination whether particular receivables were likely be paid by the Debtor’s customers. Prior to the Petition Date, Associated Receivables had released approximately \$315,000 to the Debtor based on receivables later sequestered by the State of Maryland, but had later refused to release a remaining balance of approximately \$140,000. The Debtor’s adversary proceedings sought to obtain release of funds due *both* to the Debtor and to Associated Receivables from the State of Maryland, and to secure the additional funds which should have been paid to the Debtor from Associated Receivables based on such receivables.

Crystal Enterprises v. LA Foods, LLC, Adv. Pro. No. 16-00435. The Debtor settled this claim for \$60,000.00, which amount was paid to the Debtor by LA Foods.

*2. The Debtor's Payroll and Related Matters.*

Shortly after the Petition Date, the Debtor sought to negotiate certain claims concerning its pension fund and health care benefits obligations with the Industrial Technical Professional Employees Union ("ITPEU"), which represents substantially all of the employees of the Debtor, in late 2016. ITPEU filed proofs of claim asserting rights to certain unpaid employee pension and health and welfare benefits, and the Debtor and ITPEU entered into discussions concerning the balances due concerning such benefits. As a result of these discussions, the Debtor satisfied such unpaid benefits and, on February 13, 2017, ITPEU withdrew its proofs of claim filed in the Bankruptcy Case, indicating the Debtor had brought required payments current.

*3. Non-Bankruptcy Litigation.*

On the Petition Date, the Debtor was involved as defendant in litigation in the United States District Court for the Western District of Missouri entitled Sue LaCaprucia v. Crystal Enterprises, Inc., Case No. 16-cv-00395 (the "Class Action Litigation"), concerning "health and welfare" benefits allegedly due to employees under the Debtor's food service contract at the United States Air Force at Whiteman Air Force Base in Missouri. After filing the Bankruptcy Case, the Debtor employed Lathrop & Gage, LLP, as special litigation counsel to the Debtor. The District Court, however, stayed the action as a result of the Bankruptcy Case, and no further proceedings have occurred in the District Court. Neither Ms. LaCaprucia nor any other party has filed a claim in the Bankruptcy Case relating to the Class Action Litigation.

In 2017, the Debtor was made subject to a claim in the National Labor Relations Board by employees claiming underpayment of employee benefits,

*4. The Debtor's Post-Petition Business Activities.*

The Debtor has continued to operate its business since the Petition Date. The Debtor is currently engaged in a food service contracts with the United States Department of Transportation (Merchant Marine division) and United States Army (Georgia National Guard), as well as a staffing project with the Madigan Army Medical Center in Tacoma, Washington, a catering contract at the Prince George's County Evening Reporting Centers, and a retail sales support contract with the Department of Transportation Merchant Marine's Seafarer program. As further described below, the Debtor is also bidding on several additional contracts.

During the Bankruptcy Case, the Debtor has made significant payments on its secured indebtedness. As a result of its adequate protection payments to Strategic Funding under the Cash Collateral Order (\$6,000 per week), the balance due on Strategic Funding's claim has been dramatically reduced. Strategic Funding's filed proof of claim [Proof of Claim 7-2] shows a balance of \$528,016.40 due on the Petition date, however, Strategic Funding has indicated that the remaining balance due on its claim has been reduced to approximately \$80,000.

The Debtor also has paid off claims of several vehicle lenders since the Petition Date through regular monthly payments. These include the claims of Citizens Bank, N.A. [Proofs of Claim 1-1 and 2-1] and Toyota Motor Credit [Proofs of Claim 11-1 and 19-1] related to the Debtor's four Toyota Scion vehicles. All of these claims have been paid in full prior to the filing of this Disclosure Statement.

At the same time, the Debtor has had difficulty maintaining current payments of its taxes during the Bankruptcy Case. Although the Debtor has only a *de minimis* pre-petition tax liability

(a non-priority unsecured claim filed by the Internal Revenue Service for \$2,340) the Debtor has a significant administrative tax liability. Shortly before the case, the Debtor severed its relationship with a payroll processing company and began to process its own payroll and withholdings. During the last months of 2016 and during 2017, the Debtor did not pay all of its post-petition payroll taxes and other tax obligation, although it made payments totaling in excess of \$516,000 on such liabilities to the Internal Revenue Service. During the time it processed its own payroll, the Internal Revenue Service asserts that the Debtor underpaid its post-petition tax obligations by approximately \$267,000, and the Internal Revenue Service filed an Administrative Tax Claim for this amount, plus penalties and interest, totaling \$413,635.80.

At the beginning of 2018, the Debtor retained ADP Payroll Solutions to process its payroll and file withholding tax returns. Since retaining ADP, the Debtor has paid tax liabilities as they came due and has filed all necessary tax returns. The Debtor is working with the Internal Revenue Service to resolve and pay its unpaid administrative tax liability.

*5. Post Petition Contributions by Ms. Thurman-Custis to the Debtor.*

At the time it filed the case, the Debtor lost access to accounts receivable factoring through its pre-petition factoring arrangement with Associated Receivables. The Debtor's business is almost exclusively focused on government contracts, which are often slow and irregular in payments on accounts receivable. As a result, the Debtor began to experience severe cash flow problems during the Bankruptcy Case when government payments were late or irregular. When these cash flow problems reached crises during the case, the Debtor's principal, Ms. Thurman-Custis made contributions to the capital of the company in order to ensure payroll and other expenses were met. In total, Ms. Thurman-Custis made the following contributions directly to the Debtor: (1) a contribution of \$10,000 paid into the Debtor's payroll account on

June 1, 2017 to assist in covering payroll, (2) a contribution of \$30,000 into the Debtor's operating account on December 4, 2017 to assist with operating expenses, and (3) two payments of \$385 to pay vehicle loan payments on September 30, 2016 and October 30, 2016.

Aside from these contributions, Ms. Thurman-Custis also made payments to Alcryst which constituted indirect contributions to the Debtor. At the end of 2016, when Alcryst was awarded the renewed Hurlburt Field contract, it lacked funds necessary to commence operations concerning the contract. Ms. Thurman-Custis contributed funds to Alcryst, including two payments of \$40,000 each (on December 23, 2016 and April 11, 2017, to assist Alcryst with its startup costs. After doing so, and believing that she may not be entitled to repayment of this money from Alcryst, she instructed Alcryst to repay this money directly to the Debtor. It did so in July and December, 2017 and in March, 2018. Although Ms. Thurman-Custis did not originally pay the Debtor the money relating to Alcryst, she did instruct Alcryst to repay the money to the Debtor, thereby conferring a benefit on the Debtor. Since these events, Ms. Thurman-Custis has not made further contributions to the Debtor.

*6. Attempts to Propose Plan.*

During the Bankruptcy Case, the Debtor faced significant challenges proposing a Chapter 11 Plan and Disclosure Statement. It filed its initial Plan and Disclosure Statement on June 30, 2017. Numerous objections were filed, however, including objections by the United States Trustee to the form and substance of the documents. The Debtor amended the Plan and Disclosure Statement on September 19, 2017 and September 26, 2017 (the day preceding the hearing on its initial Disclosure Statement). It withdrew its September 26<sup>th</sup> disclosure statement and filed it again on October 26<sup>th</sup> (the Third Amended Disclosure Statement). The amendments in these documents, however, did not resolve the United States Trustee's objections, and the

Debtor thereafter filed a Fourth Amended Plan and Disclosure Statement on January 15, 2018, still in an effort to resolve objections. After a hearing on this (fourth amended) disclosure statement resulted in denial of approval with leave to amend, the Debtor filed a Fifth Amended Disclosure Statement, to which the United States Trustee renewed its objections. The Debtor filed the present (Sixth Amended) Disclosure Statement to remedy these objections and clarify the treatment of claims.

**F. Assets of the Debtor and Claims Against the Estate.**

*1. The Estate's Assets.*

On the Petition Date, the Debtor's assets included four (4) Toyota Scion vehicles and two Toyota RAV-4 vehicles, as well as cash in its banking accounts totaling approximately \$86,069, its inventory of cleaning supplies and food service items, equipment, computers & computing software, furniture, fixtures, and leasehold improvements at its offices, and its accounts receivable which, at the time of the petition, totaled approximately \$616,762.99.<sup>6</sup> During the case, the Debtor's accounts receivable and cash have fluctuated in the ordinary course of its business operations. As of the date of this Disclosure Statement, the Debtor estimates it has approximately \$480,059 in accounts receivable and approximately \$124,375 in cash in the Debtor's banking accounts.

The Debtor's assets on the Petition Date also included rights to pursue certain avoidance actions allowed under the Bankruptcy Code. Its principal causes of action included its right to turnover of approximately \$400,000 in sequestered accounts receivable from the State of Maryland and, pursuant to Section 547(a) of the Bankruptcy Code, to recover preferential payments made prior to the filing of the Bankruptcy Case. As described above, the Debtor filed

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<sup>6</sup> As discussed elsewhere in the Disclosure Statement, this amount included approximately \$400,000 in accounts receivable from governmental contracts which had been sequestered by the State of Maryland.



adversary proceedings to recover such payments and, as a result, the Debtor received approximately \$93,000 from the State of Maryland in 2016 and recovered \$60,000 from LA Foods in 2017.

The Debtor may hold additional right to recover preferential payments. In Section G.2 of this Disclosure Statement, the Debtor has analyzed its potential to recover such payments and described contemplated actions to do so.

## 2. *Claims Against the Estate.*

The Debtor is aware of the following claims against the estate:

- (1) *Associated Receivables Funding, Inc.* On or about the Petition Date, the Debtor owed approximately \$315,700.76 to Associated Receivables under a pre-petition factoring agreement, secured by a UCC-1 Financing Statement. As a result of the Cash Collateral Order, Associated Receivables was paid \$315,000 in satisfaction of its claim. It filed no proof of claim in the Bankruptcy Case, and the Debtor does not believe any further balance is due and does not anticipate making payments to AR Funding under the Plan.
- (2) *Strategic Funding Source, Inc.* On or about the Petition Date, the Debtor owed approximately \$527,226.40 to Strategic Funding under a pre-petition factoring agreement, secured by a UCC-1 Financing Statement. Under the Cash Collateral Order, the Debtor has made adequate protection payments of \$6,000 per week to Strategic Funding during the Bankruptcy Case, and Strategic Funding has indicated that the balance remaining due on this claim is approximately \$80,000.
- (3) *US Foods Inc.* On or about the Petition Date, the Debtor owed approximately \$289,685.75 to US Foods for goods provided on open account. Of this amount, US Foods claims that \$69,408.41 is entitled to administrative expense priority pursuant to Section 503(b)(9) as a payment due for goods supplied to the Debtor within 20 days prior to the Petition Date, and that \$43,200.76 is entitled to priority payment pursuant to provisions of the Perishable Agricultural Commodities Act ("PACA").
- (4) *Citizens Bank, NA.* On or about the Petition Date, the Debtor owed approximately \$3,190.36 and \$4,445.37 under two vehicle financing loans with Citizens Bank, secured by vehicle title liens against two Toyota Scion vehicles. The Debtor has paid the amounts due on these two loans in full, and no further balance is due.
- (5) *Toyota Motor Credit Corporation.* On or about the Petition Date, the Debtor owed approximately \$6,330.16 and \$5,212.88 under two vehicle financing loans with Citizens Bank, secured by vehicle title liens against two Toyota Scion vehicles. The

Debtor has paid the amounts due on these two loans in full, and no further balance is due.

(6) *Administrative Claims:* Aside from the Administrative Claims of US Foods described above, the Debtor estimates that Administrative Claims due on the Effective Date shall include approximately \$40,000 in professionals' fees due to Cohen, Baldinger & Greenfeld, LLC, as well as \$5,000 due to Mac Claxton, its accountant. In addition, the Internal Revenue Service asserts an Administrative Claim for unpaid taxes of approximately \$413,635.80. The Debtor anticipates that the amount of such claim for treatment in the Plan shall be approximately \$267,830 on the Effective Date.

(7) *Unsecured Claims.* In addition to the foregoing obligations, the Debtor owed approximately \$2,009,645.99 to holders of Unsecured Claims on or about the Petition Date. As part of this amount, the Debtor owed Sandra Thurman-Custis (its sole shareholder) \$300,000 on the Petition Date. As set forth in Class VI of the Plan, Ms. Thurman-Custis has waived her claim for such amounts as a contribution of new value to the Debtor.

**G. Proposed Post-Confirmation Activities of the Debtor.**

*1. The Debtor's Continued Business Activities.*

Under the Plan, the Debtor shall continue its operations after the Confirmation Date and shall make the payments outlined in the Plan. The Debtor shall fund payments under the Plan from revenues received from the operation of its business and from cash on hand prior to the Effective Date. The Debtor has attached hereto as Exhibit "B" its 60-month cash flow projections. The Debtor submits that such projections show it will be able to make the payments required under the Plan, and that the Plan is feasible.

In addition, the Debtor prior to the Effective Date shall remain current on fees due to the United States Trustee pursuant to 11 U.S.C. §1930, and after the Confirmation Date shall continue to make timely payment of United States Trustee's fees and to file quarterly operating reports.

2. *Potential Recovery of Avoidable Transfers.*

During the Bankruptcy Case, the Debtor has recovered \$60,000 from LA Foods as the result of its claim that LA Foods received avoidable preferential payments under Section 547(a) of the Bankruptcy Code. The Debtor has reviewed its pre-petition financial records, and believes it may be entitled to recover additional preferential payments, including the following:

- a. *Payments to Sysco Foods, Inc.* The Debtor made payments totaling \$78,000 of Sysco Foods, Inc. within 90 days prior to the Petition Date. The Debtor made two payments to Sysco of \$39,000 each within this period, which appear to have been made based on pre-existing invoices. The Debtor is exploring the potential that it may be entitled to recover such payments.
- b. *Payments to the Maryland Central Collections Unit.* The Debtor made payments totaling \$20,000 to the Maryland CCU during the preference period. The Debtor believes it is entitled to recover such payments, and is exploring the potential for litigation concerning such payments.
- c. *Payments to GAF Seelig.* The Debtor made payments to GAF Seelig totaling \$9,625.71 during the preference period. The Debtor believes it may be entitled to recover such payments and is exploring the potential to file an adversary proceeding to do so.
- d. *Payments to American Express.* The Debtor made payments totaling \$9,487 to American Express during the preference period. The Debtor may believe these payments may have been made in the ordinary course of its business, and that it is unlikely to be entitled to recover such amounts.
- e. *Payments to The Benefit Mall.* The Debtor made payments totaling \$24,087.39 to the Benefit Mall during the preference period. The Debtor believes these payments were for employee health care benefits and that it is unable to recover the payments pursuant to Section 547 of the Bankruptcy Code.
- f. *Payments to Rockland Bakery.* Rockland Bakery is a current supplier of food products to the Debtor. During the preference period, the Debtor made 4 payments to Rockland totaling \$12,201.60. The Debtor believes such payments were likely in the ordinary course of its business, and that it is unlikely to be able to recover such payments as preferential payments pursuant to Section 547 of the Bankruptcy Code.

- g. *Payments to Simplicity IT* The Debtor made payments totaling \$9,928 to Simplicity IT during the preference period. Simplicity is a current vendor of the Debtor. The Debtor believes these payments were made on contemporaneous invoices and that it is unable to recover the payments pursuant to Section 547 of the Bankruptcy Code.

The Debtor is continuing to explore its rights to seek avoidance and recovery of pre-petition transfers and may identify additional payments which can be made to recipients of such payments.

3. *Objections to Claims.*

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if a claim is allowed for voting purposes, the holder of such claim may not be entitled to a distribution if an objection to the claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

**III. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS.**

**A. Treatment of Claims and Interests.**

The Plan places claims and equity interest in the following classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, recovery will be limited to the amount provided by the Plan.

**Class I: Administrative Claims.**<sup>7</sup>

Administrative Claims allowable under Section 507(a) of the Bankruptcy Code are to be paid on the later of the Effective Date or the date on which such Claims are allowed by the Bankruptcy Court. Administrative Claims in this Class consist of claims for professionals' fees as allowed by the Bankruptcy Court and (3) fees due to the United States Trustee's Office. Professionals' fees are to be paid only upon appropriate application for payment of professionals' fees and reimbursement for expenses, and upon Bankruptcy Court approval of such application pursuant to Section 330 of the Bankruptcy Code. Final applications for professionals' fees shall be filed no later than 30 days after the Effective Date. The Debtor anticipates that the total professionals' fees to CBG shall be approximately \$40,000 on the Effective Date, and the total fees due to Claxton on the Effective Date shall be approximately \$5,000.

The Debtor is current on fees due to the United States Trustee. Any outstanding fees due to the United States Trustee shall be paid on or before the Effective Date, and after confirmation, all further fees due to the United States Trustee, as well as any court costs, will be paid when they become due.

Class I is not impaired.

**Class II: Administrative Tax Claims.**

The Internal Revenue Service has filed a proof of claim [Proof of Claim 28-4] asserting an Administrative Claim for unpaid taxes totaling \$413,635.80. In its proof of claim, the Internal Revenue Service indicates that the amounts due are for quarterly payroll taxes due for the 4<sup>th</sup>

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<sup>7</sup> This class, as well as the Class II Administrative Tax Claim and Class III Administrative Claims of US Foods, are created for informational purposes only, as Administrative Claims are not claims requiring classification pursuant to Section 1123(a)(1) of the Bankruptcy Code.

Quarter 2016, as well as the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarters 2017 and annual FUTA taxes for 2016.

If agreed by the Internal Revenue Service, the Debtor shall pay the Class II Administrative Claim by making an initial lump sum payment of \$30,000 on the Effective Date, and thereafter paying the remainder of the claim through thirty-six (36) monthly payments of \$10,656 beginning thirty (30) days after the Effective Date until the Administrative Claim is paid in full. In addition, the Debtor shall maintain current payments on further post-confirmation tax obligations. Upon the failure of the Debtor to make any payment due on any allowed claim of the Internal Revenue Service, or failure to file the necessary tax returns and made adequate deposits, which is not cured within 30 days of the mailing of a notice of default by the Internal Revenue Service, such creditor may exercise all rights and remedies available under non-bankruptcy laws for the collection of its entire claim and/or seek appropriate relief from the Court.

Class II is not impaired.

**Class III: Administrative Priority Claims of US Foods, Inc.**

Class III consists of the Priority Claim of US Foods. US Foods has filed a proof of claim asserting a claim of \$69,408.41 entitled to administrative expense priority pursuant to Section 503(b)(9) as a payment due for goods supplied to the Debtor within 20 days prior to the Petition Date, and a claim of \$43,200.76 for agricultural items delivered to, and held in trust by, the Debtor pursuant to the Perishable Agricultural Commodities Act (the “PACA Claim”).

The Debtor shall pay an amount of \$30,000 in satisfaction of the US Foods Class III Administrative Priority Claims. The Debtor shall make such payment on or before the Effective Date, provided that if the Debtor makes a minimum payment of \$10,000 to US Foods on the Effective Date, the remaining amount of the payment shall not be considered in default under the

Plan if made within thirty (30) days after the Effective Date. The remainder of US Foods' Administrative Priority Claims shall be treated as part of the US Foods Secured Claim and shall be paid in accordance with Class IV below. US Foods has agreed to the treatment according its claims in Class III and IV.

Class III is not impaired.

**Class IV: Secured Claim of U.S. Foods, Inc.**

Class IV is the Secured Claim of US Foods. US Foods' proof of claim asserts a total balance of \$289,685.75 (including the two claims addressed in Class III above). After deducting the amount treated in Class III above, the remaining amount of the US Foods Secured Claim is \$259,685.75. This amount is secured by a UCC-1 Financing Statement filed with the Maryland Department of Assessments and Taxation, perfecting US Foods' security interest in the Debtor's assets.

The Debtor shall pay the Allowed Amount of the US Foods claim, together with interest at a rate of 6% per annum, over a period of thirty-six (36) months beginning on the Effective Date. The Debtor estimates that monthly payments on the claim shall be \$7,900 per month. U.S. Foods shall retain its lien until its Secured Claim is paid in full as provided in the Plan. US Foods has consented to its treatment as set forth in Class III and IV of the Plan.

Class IV is impaired.

**Class V: Secured Claim of Strategic Funding Source, Inc.**

Class V is the Secured Claim of Strategic Funding, secured by a UCC-1 Financing Statement filed with the Maryland Department of Assessment and Taxation and including as collateral substantially all of the Debtor's assets. Strategic Funding has filed a Proof of Claim in

the Case asserting a balance of \$527,226.40 due on the Petition Date. Since the Petition Date, the Debtor has made payments to Strategic Funding during the Bankruptcy Case pursuant to the Cash Collateral Order. As a result, the balance due to Strategic Funding has been reduced to \$82,516.40 as of the date of this Disclosure Statement, and the Debtor anticipates that the balance will be further reduced to approximately \$20,000 by the Effective Date.

The Debtor shall treat this class by paying the amount due, together with 6% interest per annum, through payments of \$2,500 per month beginning on the Effective Date, until the claim is paid in full. The Debtor estimates that the Strategic Funding claim shall be fully amortized over a period of nine (9) months after the Effective Date. Strategic Funding will retain its lien until its claim is paid in full as provided under the Plan. Strategic Funding has consented to its treatment as set forth in this class.

Class V is impaired.

**Class VI: Allowed Unsecured Claims.**

Class VI consists of Allowed Unsecured Claims (excluding the claim of Sandra Thurman-Custis, which is treated separately in Class VII of the Plan). The Debtor believes Allowed Unsecured Claims in this Class will total approximately \$1,709,645.99 on the Effective Date. The Debtor has attached as Exhibit "C" hereto a list of its estimated Allowed Unsecured Claims.

Allowed claims in this Class shall share, pro-rata, in all funds remaining after the Debtor has made payments required to holders of claims in Classes I through V above. Although it is difficult to predict what funds will be available to satisfy claims in this Class, holders of Allowed Unsecured Claims shall receive distributions of no less than sixty thousand dollars (\$60,000.00) over a term of five (5) years following the Effective Date. Distributions to this Class shall be



made in quarterly installments totaling \$3,000 per Calendar Quarter, over a period commencing on the first day of the first Calendar Quarter which commences later than ninety days after the Effective Date, and shall continue each Calendar Quarter thereafter over a period of twenty (20) Calendar Quarters.

Class VI is impaired.

**Class VII: Allowed Unsecured Claim of Sandra Thurman-Custis.**

Class VII consists of Allowed Unsecured Claim of Sandra Thurman-Custis. The Debtor scheduled an amount of \$300,000 due to Ms. Thurman-Custis arising from loans made to the Debtor prior to the Petition Date. Ms. Thurman-Custis has agreed to forego payment of any portion of their claims as a contribution of new value to the Debtor, and accordingly claims in this class will not receive any payment under the Plan.

Class VII is not impaired.

**Class VIII: Interests of Equity Holders**

Class VIII consists of Sandra Thurman-Custis' equity Interest in the Debtor. Ms. Thurman-Custis is the owner of 100% of the outstanding shares of the Debtor.

The absolute priority rule of 11 U.S.C. §1129(b) states that a class of equity holders is not entitled to retain an Interest in the Debtor unless unsecured creditors receive payment in full, or unsecured creditors consent to the Plan, or the holders of Interests contribute new value to the Debtor. In the present case, Ms. Thurman-Custis is contributing new value to the Debtor by foregoing any payment on her Class VI Unsecured Claim of \$300,000. In addition to this amount, Ms. Thurman-Custis shall contribute \$50,000 in cash as new value to the Plan on the Effective Date in order to assist the Debtor in meeting its obligations under the Plan.

The Debtor believes that the new value capital contribution set forth by this class of Interests is both fair and reasonable and exceeds the fair market value of the interests to be issued in the reorganized Debtor. The Debtor shall, within five (5) days after approval of the Disclosure Statement, provide notice to all parties in interest indicating the Debtor's intention to reorganize its business through approval of the Plan, and offering bidders an opportunity to submit competing bids for the equity interest in the reorganized Debtor. Any party desiring to offer a higher bid for such membership interest should submit such bid, in writing, along with evidence of his/her ability to satisfy such bid, to the undersigned counsel for the Debtor, by noon (EST) at least two business days prior to the confirmation hearing, and should also appear at the confirmation hearing. The ability to bid, and any subsequent auction of Interests in the Debtor, will only take place in the event that all impaired classes do not accept the Plan. The highest and best bid will be accepted by the Court and the successful bidder will become the owner of the equity interest in the reorganized debtor, subject to the terms of the Plan.

Class VIII is not impaired.

**B. Means for Execution of the Plan**

The Plan will be funded from money currently held by the Debtor, the proceeds of the Debtor's business operations, and by potential avoidance and recovery of preferential transfers pursuant to Section 547 of the Bankruptcy Code. The Debtor has prepared (and attached hereto as Exhibit "B") its cash flow projections for the coming five (5) years. As set forth in its projections, the Debtor believes that its cash flow will be sufficient to meet its obligations in the Plan and to fund ongoing business operations.

*1. Business Operations and Avoidance and Recovery of Pre-Petition Transfers.*

The Debtor believes its continued operations will yield sufficient funds to pay the claims set forth in the Plan. The Debtor is continuing to act as a vendor providing staffing, food and facility maintenance services through its contracts primarily with United States Government agencies. The Debtor continues its food service contracts with the Department of Transportation (Merchant Marine) and the United States Department of the Army (Georgia National Guard), a staffing augmentation project with the Department of the Army's Madigan Army Medical Center in Tacoma, Washington, catering meals at the Prince George's County Evening Reporting Centers, and providing retail sales support to the Department of Transportation Merchant Marine, Seafarer program. In addition, the Debtor continues to receive income from its joint ventures through Alcryst and (although in a minimal amount), the Principle Group. The Debtor's estimated revenues from these existing contracts are as follows:

<b><u>ALL REVENUE SOURCES</u></b>	<b><u>MONTHLY REVENUE</u> <u>(Billed )</u></b>
Dept of Transportation-Merchant Marine	\$324,200.00
Catered Special Events –Merchant Marine	\$5,750.00 (based on annual average)
US Army Reserve-GA	\$18,833.33
Crystal Maids G&A	\$5,000.00
Retail Food Seafarer	\$20,000.00
Alcryst (Administr. Fee – Hurlburt Contract)	\$6,000.00
U.S. Department of the Army Madigan (WA)	\$38,000.00
Federal Reserve	\$450.00
Principle Group (Baltimore County Contract)	\$420.00
Crystal Maids (Rent and Administr. Fee)	\$5,000.00
<b>MONTHLY TOTAL</b>	<b>\$423,653.33</b>

In addition to these contracts, the Debtor is currently bidding on or under consideration for seventeen (17) additional Federal government contracts. The services (and realizable revenues) for these contract solicitations vary, as do the Debtor's chances of being the winning

bidder. Generally, the Debtor only submits bids for projects where it believes it has a substantial chance of winning the contracts, and it anticipates it is likely to obtain awards concerning at least 50% of its outstanding bids. Based on its historical experience, the Debtor expects it will obtain a significant number of the contracts for which it is bidding over the coming 6 to 12 months. In addition, two of the most substantial contracts for which it is bidding, food services contracts at the Army Regional Training Institute Dining Facility and an Air Food Service staffing location in Maryland, are scheduled to be awarded within the next few months, and the Debtor believes it has at least a 70% chance of obtaining the awards for these two contracts. x

If awarded the two food services contracts described above, the Debtor expects a 10% boost to its operating revenues from these two contracts alone. Although it is difficult to estimate the overall likely improvement in its revenues from all of the contracts for which it is bidding, the Debtor estimates that its revenues could increase by as much as 30% over the next year if it is awarded the number of new contracts it expects to receive.

In addition to its revenues from operation, the Debtor believes that it may recover significant amounts as the result of avoidance actions described herein. As described in Section G.2 of the Disclosure Statement, the Debtor believes it has the potential to avoid and recover payments to Sysco Foods, the Maryland Central Collections Unit, and GAF Seelig totaling approximately \$107,000. If the Debtor is successful in such recoveries, it will be able to use such funds in payment of its obligations under the Plan.

## *2. Payments under the Plan*

Payments on the Effective Date. The Debtor will be responsible for paying allowed Class I Administrative Claims on the later of the Effective Date or the date such claims are allowed. As set forth above, the Debtor anticipates that it shall be current on all United States

Trustee's fees on the Effective Date; however, if any outstanding United States Trustee's fees are unpaid prior to the Effective Date, they shall be paid in full on the Effective Date. After the Effective Date, the Debtor shall continue to make timely payments of United States Trustee's fees until the Chapter 11 case is closed, converted, or dismissed.

Aside from United States Trustee's fees, the Debtor anticipates that its remaining Administrative Claims shall consist of unpaid professional's fees. The Debtor anticipates that it will pay any unpaid professionals' fees to Cohen, Baldinger & Greenfeld, LLC (its current counsel) on the Effective Date, and unpaid fees to its accountant. The Debtor will pay such professionals' fees on the later of the Effective Date or the date any application for payment of such fees is granted by the Bankruptcy Court.

Periodic Payments Under the Plan. On the Effective Date, the Debtor shall begin periodic payments to the Internal Revenue Service regarding its Class II Administrative Claim for unpaid taxes (approximately \$10,656 per month), payments on the Class III US Foods Administrative Claims (\$9,000 per month), US Foods' Class IV Secured Claim (\$3,423 per month) and the Class V Secured Claim of Strategic Funding (\$2,500 per month. The payments on US Foods Administrative Claim and Strategic Funding's Secured Claim shall conclude after approximately 12 months. Payments on the Internal Revenue Service's Class II Administrative Claim shall conclude after 36 months, and payments to US Foods on its Secured Claim shall conclude after 60 months.

Approximately ninety (90) days after the Effective Date, the Debtor shall commence quarterly payments to holders of Class V Allowed Unsecured Claims totaling \$3,000 per calendar quarter distributed *pro rata* to holders of Class VI Allowed Unsecured Claims.

**C. Claims Objections.**

The Debtor reserves the right to file objections to any claims which it deems improper within thirty (30) days after the Effective Date of the Plan. Said deadline may be extended by the Court upon a showing of good cause by the Debtor. Any creditors shall have the right to file objections to claims which they deem improper within thirty (30) days after the expiration of the Debtor's right to object, including any extensions thereof. No creditor shall receive a distribution on account of its claim until and unless such claim is allowed pursuant to Section 502 of the Bankruptcy Code. In the event a claim is disputed, such claim shall receive no payment unless (and to the extent that) it becomes an Allowed Claim. In the event a Disputed Claim is disallowed, any amounts otherwise allocated for payment of such claim shall be made available for distribution in accordance with the terms of the Plan.

**D. Notice of Effective Date.**

Within seven (7) days after the Confirmation Date, the Debtor shall provide all parties in interest of a Notice of Occurrence of Effective Date of the Plan.

**D. Release of Sandra Thurman-Custis.**

Under Article VI of the Plan, the Debtor's principal, Sandra Thurman-Custis, will receive a release of her obligations concerning all indebtedness addressed in the Plan. For the reasons which follow, the Debtor submits that a release of claims against Ms. Thurman-Custis is appropriate under the circumstances of the Bankruptcy Case.

A Chapter 11 plan may enjoin potential claims against a non-debtor in certain cases. Typically, a third party injunction or release is proper where there is an "identity of interests" between the debtor and the third party such that a suit against the third party is, in essence, a suit against the debtor, where the non-debtor has contributed substantial assets to the reorganization,

where reorganization hinges on the debtor being free from indirect suits against parties who would have indemnity or contribution claims against the debtor; and where classes overwhelmingly vote to accept the plan. In this case, a release for Ms. Thurman-Custis is appropriate. Any suit against Ms. Thurman-Custis is, in essence, a suit against the Debtor, as Ms. Thurman-Custis has contributed substantial assets to the reorganization in the form of new value and will likely continue contributing capital to the Debtor. A release of Ms. Thurman-Custis is essential to the reorganization because the reorganization hinges on the Debtor being free from indirect suits against her, particularly as Ms. Thurman-Custis would have indemnity or contribution claims against the Debtor in any such action. Additionally, impacted classes are expected to vote to accept the Plan, and shall receive significant recovery which, but for the Plan, they would not be able to receive. Accordingly, a release of Ms. Custis is appropriate in the circumstances of this case.

#### **E. Executory Contracts and Unexpired Leases.**

Pursuant to Section 365 of the Bankruptcy Code, the Plan calls for the Debtor to assume the leases and executory contracts identified therein. Assumption means that the Debtor has elected to continue to perform its obligations under such contracts and unexpired leases and to cure any defaults of the type that must be cured under the Bankruptcy Code, if any. Under the Plan, the Debtor shall assume the following executor contracts and leases:

- (1) Department of Transportation (Merchant Marine) food services contract,
- (2) United States Department of the Army (Georgia National Guard) food services contract,
- (3) United States Department of the Army (Madigan Medical Center) staff augmentation contract,
- (4) Prince George's County Evening Reporting Centers catering contract;

- (5) Federal Reserve food service auditing contract,
- (6) Merchant Marine (Seafarer) retail sales contract,
- (7) Executory Contracts and Unexpired Leases on Debtor Vehicles.

In addition, the Debtor will assume the following leases:

- (1) Four (4) month-to-month leases of Toyota Scion vehicles to its affiliated company, Crystal Maids, LLC (vehicles include Toyota Scion vehicles bearing Vehicle Identification Numbers JTLZE4FE3CJ0155536, JTLZE4FE0CJ016026, JTLZE4FE3CJ016159 and JTLZE4FE3CJ022936. Crystal Maids, LLC pays Debtor \$379.94 per month for the possession and use of each said vehicle.
- (2) The Debtor's lease of real property located at 10837 Lanham-Severn Road, Glenn Dale, Maryland 20769. Under the terms of the lease agreement, the Debtor pays the Levi Group \$5,200.00 per month as rent of the building used by the Debtor as its corporate headquarters.

If any party objects to the assumption of an unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, the party must file and serve its objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Court has set an earlier time.

All executory contracts and unexpired leases of the Debtor which are not assumed prior to the Confirmation Date, or which the Debtor has not applied to the Court for permission to assume prior to Confirmation Date, shall be deemed rejected. Any creditor asserting a claim for monetary damages as result of the rejection of an executory contract or unexpired lease shall file a proof of claim and serve it upon the Debtor within ten (10) days following the Confirmation Date. Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.



**F. Liquidation Analysis.**

This Plan is an operating plan. It provides for continuing operation of the Debtor's business to fund an orderly repayment of claims within the constraints of the cash flow generated by the Debtor's business.

The Plan provides for monthly payments on Secured Claims, as well as payment of Priority Claims in full over time, and minimum distributions of \$60,000.00 to holders of Allowed Unsecured Claims.

The Debtor believes that neither it nor any other party will be able to propose a Chapter 11 plan of reorganization that is more favorable to creditors than the Plan. Therefore, as a practical matter, the only alternative to the Plan is liquidation of the Debtor's assets under Chapter 7 of the Bankruptcy Code. To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a Chapter 7 liquidation.

The Debtor has attached as Exhibit "D" to this Disclosure Statement a liquidation analysis demonstrating the likely result of liquidation of the Debtor's assets. As set forth on that liquidation analysis, it is extremely unlikely (if not impossible) that liquidation in Chapter 7 would result in any payment to unsecured creditors. The Debtor's principal assets are its accounts receivable, which as of the filing of this Disclosure Statement total approximately \$480,059.84. The likely difficulty in collecting such accounts if the Debtor were to enter liquidation suggests that the estate would receive no more than between 65% and 78% of the proceeds of such accounts in collection. Aside from these accounts receivable, the Debtor's other assets consist primarily of cash on hand in its accounts (currently approximately \$124,375), furniture and equipment, the Debtor's interest in other business ventures, principally its 51% of

the shares of Alcryst. Alcryst has virtually no fixed assets, and its only value consists in its ability to continue servicing a single government contract. The Debtor's share of the net operating profit of Alcryst is no more than \$8,000 per month, and the Debtor believes that any attempt to market its minority interest in Alcryst would yield only nominal value. For the sake of the liquidation analysis, however, the Debtor has assumed it could obtain as much as \$50,000 for its 49% interest.

Even given these assets, there is virtually no chance that liquidation of the Debtor in Chapter 7 would permit recovery for unsecured creditors. Assuming the Debtor entered liquidation with its current cash balance (and this is an unlikely event, since the Debtor periodically makes large payments of payroll which dramatically decrease its banking balances), the value of its cash, accounts receivable and other assets would likely not exceed \$500,000. Measured against this, the secured claims of US Foods and Strategic Funding would consume most of the proceeds of liquidation of the Debtor's assets. In addition, the Administrative Claims of the Debtor's professionals and the Internal Revenue Service total in excess of \$561,000, and thus, even aside from Chapter 7 trustee commissions and fees and expenses, the entire proceeds of liquidation would go to pay administrative claims and would not be available for unsecured creditors. Conversely, under the Plan, the Debtor proposes to pay at least sixty thousand dollars (\$60,000) to holders of Allowed Unsecured Claims. The Debtor submits that creditors will fare considerably better if this case remains in Chapter 11 and the Plan is confirmed.

#### **G. Feasibility of the Plan.**

In order to confirm the Plan, the Court must find that confirmation is not likely to be followed by the liquidation or necessity of further financial reorganization of the Debtor. In this

case, the Debtor believes its Plan is feasible, and that it will be able to perform the obligations set forth in the Plan. As set forth above and in the Debtor's cash flow projections, the Debtor believes it shall have sufficient resources to meet its current obligations and to make the payments provided in the Plan.

#### **H. Modification of the Plan**

The Debtor may modify this Plan at any time before the Confirmation Date without notice or hearing and without additional disclosure pursuant to Section 1125 of the Bankruptcy Code provided that, after notice to the U.S. Trustee, the Court finds that such modification does not materially or adversely affect the Debtor, the estate, any creditor, or any class of creditors. After the Debtor files any such modification with the Court, the Plan as modified shall be deemed to be the Plan.

The Debtor may modify the Plan at any time after the Confirmation Date and before substantial consummation of this Plan with approval by the Court after notice and a hearing, pursuant to Section 1127 of the Bankruptcy Code. Before or after the Confirmation Date, or in the Confirmation Order, the Debtor may, with the approval of the Court, and so long as it does not materially and adversely affect the estate or the interests of creditors, remedy any defect or omission, or such manner as may be necessary to carry out the purposes of the Plan. The Plan may be modified at any time without Court approval to correct errors and make changes not affecting the amount or timing of distributions.

#### **I. Default and Notice of Default.**

The Plan provides that the failure to timely make any payments required under the Plan or the Confirmation Order, or to adhere to any of the deadlines set forth in the Plan or in the Confirmation Order, shall constitute defaults under the Plan. Any party in interest may serve

notice of a default in writing by certified mail, return receipt requested, to counsel for the Debtor, Augustus T. Curtis, Esquire, Cohen Baldinger & Greenfeld, LLC, Suite 103, 2600 Tower Oaks Boulevard, Rockville, MD 20852 and to the Office of the United States Trustee, Suite 600, 6500 Cherrywood Lane, Greenbelt, MD 20770.

**IV. VOTING ON THE PLAN.**

Voting on acceptance or rejection of the Plan is governed by the provision of the Bankruptcy Code. Each creditor whose claim is impaired by the Plan is entitled to vote. A claim is impaired if the Plan alters any legal rights the creditor holding such claim would have but for the provision of the Plan. Each voting creditor will be supplied with an official ballot, in a form prescribed by the Court. Creditors may vote to accept or reject the Plan by filing a completed ballot with the undersigned counsel for the Debtor. A class of creditors will be considered to have accepted the Plan (1) if creditors holding at least two-thirds (2/3) in amount and more than one-half (2) in number of the allowed claims in that class vote for the Plan, or (2) if the class is unimpaired within the meaning of the Bankruptcy Code.

After the time for voting on the Plan passes, the Court will hold a hearing and rule on confirmation of the Plan in accordance with the Bankruptcy Code. If all requirements for confirmation of the Plan under the Bankruptcy Code are satisfied, except that the Plan is not accepted by creditors, the Court may confirm the Plan without the acceptance of creditors if the Court finds that the Plan does not discriminate unfairly, and is fair and equitable (within the meaning of the Bankruptcy Code) with respect to any class of creditors that does not accept the Plan.

**V. TAX CONSEQUENCES OF THE PLAN**

Because the tax consequences to each creditor can vary depending upon such creditor's particular circumstances, all creditors and other persons affected by the Plan should consult their own tax advisor for a complete analysis of the tax consequences resulting from the confirmation of the Plan.

**VI. EFFECT OF PLAN CONFIRMATION**

The provisions of a confirmed chapter 11 plan are binding on all parties to the plan, including the Debtor, its creditors, and all parties in interest. In the event that the Court denies confirmation of the Plan, the Debtor may amend the Plan or the case may be converted to Chapter 7 or be dismissed.

The terms of a confirmed plan are enforceable against the Debtor, its creditors and all parties in interest herein. Should the Plan be confirmed, and should the Debtor default on any provision of the confirmed Plan, creditors and parties in interest shall be free to pursue their available state law remedies to enforce the terms of a confirmed Plan. From and after the Effective Date, the reorganized Debtor may apply to the Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to effect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

The confirmation of the Plan shall constitute a discharge of any indebtedness of the Debtor arising prior to the Confirmation Date.

**VII. RETENTION OF JURISDICTION**

This Court shall retain jurisdiction, after confirmation of the Plan, as to the provisions of the Plan and any litigation which may be pending at the time of confirmation, and any controversies which may arise thereafter which would affect the Debtor's ability to carry out the Plan, until all such disputes shall be concluded and the Plan shall be fully consummated.

**VIII. UNITED STATES TRUSTEE'S FEES AND REPORTS**

In accordance with Section 1129(a)(12) of the Bankruptcy Code and 28 U.S.C. Section 1930, all quarterly fees to the United States Trustee will be paid in full on or before the Effective Date, and shall continue thereafter until such time as a final decree closing the case is entered by the Court. In addition, until such time as the case is closed, dismissed or converted, the Debtor shall continue to report its disbursements each quarter to the United States Trustee.

**IX. APPOINTMENT OF DISBURSING AGENT**

The Debtor shall act as the disbursing agent for any and all funds to be paid to creditors pursuant to the Plan. No bond or other indemnity shall be required of the disbursing agent and no compensation shall be paid for the services to be provided by the disbursing agent.

**X. RETENTION OF JURISDICTION**

The Court shall retain jurisdiction over the case after confirmation pursuant to and for the purposes set forth in §1127(b) of the Bankruptcy Code, and to hear and determine any dispute arising under the Plan, including objections to claims, applications for compensation and other Administrative Claims, to make such orders and give such directions as may be appropriate under Section 1142 of the Bankruptcy Code, and to hear any other causes of action raised by any party in interest on behalf of or against the Debtor or the bankruptcy estate.

**XI. CLOSING OF THE CASE**

Unless the case is closed earlier, upon substantial consummation of the Plan, the Debtor will seek to have the case closed by the Court. To close the case, the Debtor will file an application for final decree showing that the case has been administered and that the Plan has been substantially consummated.

Dated: August 31, 2018.

COHEN BALDINGER & GREENFELD, LLC

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