

B25B (Official Form 25B) (12/08)

UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF NORTH CAROLINA
DURHAM DIVISION

IN RE:

RFI MANAGEMENT, INC.

DEBTOR

CHAPTER 11

CASE NO. 17-80247

DEBTOR'S DISCLOSURE STATEMENT
DATED OCTOBER 17, 2017

I. INTRODUCTION

This is the disclosure statement (the "Disclosure Statement") in the small business chapter 11 case of RFI Management, Inc. (the "Debtor"). This Disclosure Statement contains information about the Debtor and describes the Chapter 11 Plan (the "Plan") filed by the Debtor on September 25, 2017. 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.

The proposed distributions under the Plan are discussed at pages 5-8 of this Disclosure Statement. General unsecured creditors are classified in Classes 2 and 3, and will receive a distribution of 100% of their allowed claims, to be distributed in 8 quarterly payments, beginning with the 6th quarterly payment that becomes due under the Plan.

A. **Purpose of This Document**

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case,
- How the Plan proposes to treat claims or equity interests of the type you hold (*i.e.*, what you will receive on your claim or equity interest if the plan is confirmed),
- Who can vote on or object to the Plan,
- What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Plan,
- Why the Debtor believes the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation, and
- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

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

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. *Order Regarding Hearing to Finally Approve This Disclosure Statement and Confirm the Plan and Deadline for Voting to Accept or Reject the Plan*

The Bankruptcy Court will set a hearing to finally approve this Disclosure Statement and for confirmation of the Plan to determine whether the Plan has been accepted by the requisite number of creditors and whether the other requirements for confirmation of the Plan have been satisfied. The confirmation hearing will be scheduled by the Bankruptcy Court by court order. Any objection to confirmation must be made in writing and filed with: Clerk, U.S. Bankruptcy Court, Middle District of North Carolina, 101 S. Edgeworth Street, Greensboro, North Carolina 27401 as indicated in the order establishing the date for the confirmation hearing.

2. *Deadline for Voting to Accept or Reject the Plan*

The order establishing the date of the confirmation hearing will also provide the deadline for acceptance or rejection of the Plan. A Ballot to be used for voting to accept or reject the Plan has been enclosed with all copies of this Disclosure Statement mailed to Creditors whose rights are impaired by provisions of the Plan. Any Claim with respect to which the legal, contractual, or equitable rights are altered, modified, or changed by the proposed treatment under the Plan is considered “impaired”. The Debtor believes that Classes 1 through 4 are impaired. After carefully reviewing this Disclosure Statement and its exhibits, please indicate your vote on the enclosed Ballot.

To be counted, your Ballot must be received at the address listed below within the time frame set by the order of the Bankruptcy Court conditionally approving this Disclosure Statement:

James C. White
Parry Tyndall White
100 Europa Drive, Suite 401
Chapel Hill, NC 27517
(919) 246-4676

3. *Identity of Person to Contact for More Information*

If you have any questions with respect to filling out your Ballot, you may contact the Debtor’s attorney at the above address.

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

A. Description and History of the Debtor's Business

The Debtor is a corporation in the business of commercial construction. The Debtor serves as a subcontractor installing a full range of flooring products and wall materials, principally in hotel properties across the United States and Puerto Rico.

B. Insiders of the Debtor

1. Edward Rosa – Mr. Rosa is the sole owner and President of the Debtor. Mr. Rosa supervises all the work performed by the Debtor and performs some of the work himself. The Bankruptcy Court approved post-petition compensation for services provided by Mr. Rosa in the monthly amount of \$8,000.00, which has been paid to Mr. Rosa on a monthly basis since the Petition Date.
2. Anabel Rosa – Ms. Rosa is the spouse of Mr. Rosa. Ms. Rosa manages the Debtor's day-to-day accounting, including invoicing, collections, and bookkeeping. During the year prior to the commencement of the Debtor's bankruptcy case, Ms. Rosa received no compensation, and no compensation has been paid to Ms. Rosa since the Petition Date.

C. Management of the Debtor Before and During the Bankruptcy

During the two years prior to the date on which the bankruptcy petition was filed, Mr. Rosa served as sole owner and President of the Debtor. Mr. Rosa has continued to serve in that role during the Debtor's Chapter 11 case.

After the effective date of the order confirming the Plan, Mr. Rosa and Ms. Rosa will continue their roles in managing the Debtor. The responsibilities and compensation of these Post Confirmation Managers are described in section II.B of this Disclosure Statement.

D. Events Leading to Chapter 11 Filing

In the two years before filing, the Debtor experienced rapid growth. However, the company lacked proper financial controls. As a subcontractor, Debtor is paid through monthly per project draws. The Debtor fell behind on submitting its billing, and encountered some general contractors who were

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slow in making payments. The Debtor began to rely on high-cost short term loans to close funding gaps, which ultimately increased cash flow pressures. As cash began to dry up, the Debtor fell behind on a loan to Swift Capital, which precipitated this filing.

E. Significant Events During the Bankruptcy Case

1. Appointment of Debtor as debtor-in-possession. After the Petition Date, the Debtor continued to handle its own finances as debtor-in-possession under sections 1107 and 1108 of the Bankruptcy Code.
2. Monthly Reports. The Debtor has filed monthly reports with the Bankruptcy Administrator.
3. Operation of the Debtor. The Debtor has taken several steps to reorganize the operation of the business and maximize cash flow.
4. Other Case Information. Copies of the pleadings and orders filed in the Debtor's bankruptcy case are available at Clerk's Office, United States Bankruptcy Court, U.S. Bankruptcy Court, Middle District of North Carolina, 101 S. Edgeworth Street, Greensboro, North Carolina 27401, or via the Internet at www.ncmb.uscourts.gov.

E. Projected Recovery of Avoidable Transfers

The Debtor does not expect that any funds may be realized from the recovery of fraudulent, preferential or other avoidable transfers. The results of litigation cannot be predicted with certainty and it is possible that causes of action may be identified.

G. Claims Objections

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 your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

H. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in the liquidation analysis attached as **Exhibit B**.

The liquidation analysis attached as **Exhibit B** values accounts receivable as of July 31, 2017.

The most recent post-petition operating report filed since the commencement of the Debtor's bankruptcy case is set forth in **Exhibit C**.

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

A. What is the Purpose of the Plan of Reorganization?

As required by the Code, the Plan places claims and equity interests in various 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, your recovery will be limited to the amount provided by the Plan.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Debtor has *not* placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses are costs or expenses of administering the Debtor's Chapter 11 case which are allowed under § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtor's estimated administrative expenses, and their proposed treatment under the Plan:

<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Professional Fees, as approved by the Court.	\$29,000.00	Paid in full on the effective date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the effective date of the Plan
Clerk's Office Fees	\$0.00	Paid in full on the effective date of the Plan
TOTAL	\$29,000.00	

2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, and other taxes described by section 507(a)(8) of the Code. Unless the holder of such a section 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

The following chart lists the Debtor's estimated section 507(a)(8) priority tax claims and their

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proposed treatment under the Plan:

Description (name and type of tax)	Estimated Amount Owed	Date of Assessment	Treatment
None	N/A	N/A	N/A

C. Classes of Claims and Equity Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

1. *Classes of Secured Claims*

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under section 506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim.

The following chart lists all classes containing Debtor's secured prepetition claims and their proposed treatment under the Plan:

Class #	Description	Impairment	Treatment
1	Secured Claim of Swift Financial Corporation d/b/a Swift Capital Total amount of claim = \$113,838.02	Impaired	Paid in full over six (6) quarterly payments.

2. *Classes of General Unsecured Claims*

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code. Pursuant to § 1122(b), a plan may designate a separate class of claims consisting only of every unsecured claim that is less than or reduced to an amount that the court approves as reasonable and necessary for administrative convenience. This class will be paid interest at the Federal Judgment Rate, which is presently 1.26%, until paid in full.

The following chart identifies the Plan's proposed treatment of Classes 2 through 4, which contain general unsecured claims against the Debtor:

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Class #	Description	Impairment	Treatment
2	§ 1122(b) Administrative Convenience Class	Impaired	Paid 100% in the first quarterly payment due under the Plan.
3	General Unsecured Class	Impaired	Quarterly Payments Begin with the 6 th payment = \$8,551.98 Payments continue from the 7 th payment through the 12 th payment = \$20,400.00 Final, 13 th payment = \$17,011.68 Estimated percent of claim paid = 100%

4. *Class of Equity Interest Holders*

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company (“LLC”), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

The following chart sets forth the Plan’s proposed treatment of the class of equity interest holders:

Class #	Description	Impairment	Treatment
4	Equity interest holders	Impaired	Retain current interests.

D. **Means of Implementing the Plan**

Payments and distributions under the Plan will be funded by cash flow from operations.

E. **Executory Contracts and Unexpired Leases**

The Plan lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under

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such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any. The Plan also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults.

If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your 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 that are not listed in the Plan will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases. If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of a Lease or Contract Is Thirty (30) Days After the Date of the Order Confirming the Plan. 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. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in sections 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the Plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in section 1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that classes 1 through 4 are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline for filing a proof of claim in this case was July 25, 2017.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in section 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

3. *Who is **Not** Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;
- holders of other claims or equity interests that are not “allowed claims” or “allowed equity interests” (as discussed above), unless they have been “allowed” for voting purposes.
- holders of claims or equity interests in unimpaired classes;
- holders of claims entitled to priority pursuant to sections 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- administrative expenses.

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan and to the Adequacy of the Disclosure Statement.

5. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by “cram down” on non-accepting classes, as discussed later in Section B.2.

1. *Votes Necessary for a Class to Accept the Plan*

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. *Treatment of Nonaccepting Classes*

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner prescribed by section 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a “cram down” plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of section 1129(a)(8) of the Code, does not “discriminate unfairly,” and is “fair and equitable” toward each impaired class that has not voted to accept the Plan.

You should consult your own attorney if a “cramdown” confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Liquidation Analysis

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. A liquidation analysis is attached to this Disclosure Statement as **Exhibit B**.

D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

1. *Ability to Make Future Plan Payments and Operate Without Further Reorganization*

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The Plan Proponent believes that the Debtor will have enough cash on hand and cash flow to fund the Plan. Plan payments are equal to \$6,800.00 per month, the amount that the Debtor has consistently paid since filing to Swift as adequate protection payments. The Debtor's Monthly Reports demonstrate the cash on hand and cash flow of the Debtor for the months after filing this Chapter 11 Plan.

V. EFFECT OF CONFIRMATION OF PLAN

A. DISCHARGE OF DEBTOR

Discharge. On the effective date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the effective date, to the extent specified in section 1141(d)(1)(A) of the Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in section 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in section 1141(d)(6)(B). After the effective date of the Plan your claims against the Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

B. MODIFICATION OF PLAN

The Debtor may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or revoting on the Plan.

The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Court authorizes the proposed modifications after notice and a hearing.

C. FINAL DECREE

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Debtor, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

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Dated October 17, 2017

/s/ Edward Rosa

Edward Rosa

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