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8 **UNITED STATES BANKRUPTCY COURT**

9 **DISTRICT OF NEVADA**

10 In re:	)	Case No.: 17-12359-ABL
11 QUALITY UPHOLSTERY INC.,	)	Chapter 11
12 Debtor.	)	
	)	<b>Hearing Date:</b>
	)	<b>Hearing Time:</b>

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16 **DISCLOSURE STATEMENT TO ACCOMPANY PLAN OF REORGANIZATION  
PROPOSED BY THE DEBTOR**

17 Debtor QUALITY UPHOLSTERY (“Quality”) hereby provides this disclosure  
18 statement (the “disclosure statement”) which is being distributed for the purpose of acceptances  
19 of the plan. Debtor intends to seek to confirm the plan and to cause the effective date of the  
20 plan to occur as promptly after confirmation of the plan as possible, however there can be no  
21 assurance as to whether or when the confirmation or the effective date of the plan actually will  
22 occur.

23 This disclosure statement has been prepared in accordance with bankruptcy code  
24 section 1125 and bankruptcy rule 3016(b) and not necessarily in accordance with federal or  
25 state securities laws or other nonbankruptcy law. This disclosure statement has been neither  
26 reviewed nor approved by the U.S. Securities and Exchange Commission (the “SEC”) or the  
27 Internal Revenue Service (the “IRS”), nor has the SEC or the IRS passed upon the accuracy or  
28 adequacy of the statements contained herein.

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1 The information in this disclosure statement may not be relied upon for any purpose  
2 other than to provide certain information of potential relevance in determining acceptance of  
3 the plan. No solicitation to accept the plan may be made except pursuant to section 1125 of the  
4 bankruptcy code.

5 A copy of the plan is attached as **Exhibit 1** hereto. All holders of claims against the  
6 debtor that are entitled to vote on the plan are advised and encouraged to read this Disclosure  
7 Statement and the plan in their entirety. Unless otherwise specified herein, the statements  
8 contained in this disclosure statement are made only as of the date hereof, and there can be no  
9 assurance that the statements contained in this disclosure statement will be correct at any later  
10 date. In the event of any conflict between this disclosure statement and the terms of the plan,  
11 the terms of the plan shall govern.

12 As to contested matters, adversary proceedings and other actions or threatened actions,  
13 this Disclosure Statement will not constitute or be construed as an admission of any fact or  
14 liability, or as a stipulation or waiver, but rather as a statement made in settlement negotiations.  
15 This Disclosure Statement will not be admissible in any bankruptcy or nonbankruptcy  
16 proceeding involving the Debtor or any other party (other than in connection with approval of  
17 this Disclosure Statement or confirmation of the plan), nor will it be construed to be conclusive  
18 advice on the tax, securities, or other legal effects of the plan as to holders of claims against, or  
19 equity interests in, the debtor. You are advised to obtain independent expert advice on such  
20 subjects.

21 Safe harbor statement under the private securities litigation reform act of 1995: all  
22 forward-looking statements contained herein or otherwise involve material risks and  
23 uncertainties and are subject to change based on numerous factors, including factors that are  
24 beyond debtor's control. Accordingly, the future performance and financial results may differ  
25 materially from those expressed or implied in any such forward-looking statements. Such  
26 factors include, but are not limited to, those described in this Disclosure Statement. Debtors do  
27 not undertake to publicly update or revise forward-looking statements even if experience or  
28 future changes make it clear that any projected results expressed or implied therein will not be

1 realized.

2 This Disclosure Statement contains, among other things, summaries of the plan, certain  
3 statutory provisions, certain events in the Debtors' chapter 11 case and certain documents  
4 related to the plan that are attached hereto or have been or will be separately filed with the  
5 bankruptcy court. Although debtors believes that these summaries are fair and accurate, these  
6 summaries are qualified in their entirety to the extent that the summaries do not set forth the  
7 entire text of such documents or statutory provisions or every detail of such events. In the  
8 event of any conflict, inconsistency or discrepancy between a description in this disclosure  
9 statement and the terms and provisions of the plan or any other such documents, the plan or  
10 such other documents will govern and control for all purposes, except where otherwise  
11 specifically noted. Factual information contained in this Disclosure Statement has been  
12 provided by the debtors' schedules and the papers and pleadings on file with the court. Subject  
13 to the terms of any definitive documentation to be executed in connection with the plan,  
14 debtors do not represent or warrant that the information contained herein or attached hereto is  
15 without any material inaccuracy or omission.

16 Except as otherwise specifically noted, the financial information contained herein has  
17 not been audited by a certified public accountant and has not necessarily been prepared in  
18 accordance with generally accepted accounting principles. The financial information contained  
19 herein has been produced based upon the Debtors' schedules and the pleading and papers on  
20 file with the court.

21 IRS circular 230 notice: to ensure compliance with irs circular 230, holders of claims  
22 and equity interests are hereby notified that: (a) any discussion of federal tax issues contained  
23 or referred to in this disclosure statement is not intended or written to be used, and cannot be  
24 used, by holders of claims or interests for purposes of avoiding penalties that may be imposed  
25 on them under the internal revenue code; (b) such discussion is written in connection with the  
26 promotion or marketing by the debtor of the transactions or matters addressed herein; and (c)  
27 holders of claims and equity interests should seek advice based on their particular  
28 circumstances from an independent tax advisor.

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1 **1. INTRODUCTION**

2 **1.1 History and Reason for Filing Bankruptcy**

3 The Debtor is a Nevada corporation that was formed on June 9, 1995. The Debtor is  
4 engaged in the business of providing upholstery services throughout Clark County, and  
5 primarily performs re-upholstery services to its customers, including upholstery of furniture,  
6 casino seating, boats, vehicles, and other such items in need of upholstery services. The  
7 Debtor operates primarily out of a warehouse located at 112 W. Wyoming Street in Las  
8 Vegas, Nevada (the "Warehouse"). The Warehouse is owned by the Debtor. The Debtor also  
9 performs services at a rented property located at 619 N. Main Street in Las Vegas, Nevada.  
10 The rented property is used primarily for the upholstering of vehicles and boats, while the  
11 main Warehouse location is used primarily for the upholstering of furniture and casino  
12 seating. The Debtor also performs upholstery services on site at the request of its customers.

13 As of the date of the Debtor's Chapter 11 petition, the Debtor believed that the  
14 Debtor's lender, ReadyCap Lending, LLC, was owed approximately \$583,000.00. However,  
15 on June 28, 2017, ReadyCap filed a proof of claim in the amount of \$673,809.79. The Debtor  
16 has been making monthly payments to ReadyCap throughout these proceedings in the amount  
17 of \$6,024.10, which will reduce the amount owing to ReadyCap.

18 In 2016, the Debtor began to fall seriously behind in its obligations to ReadyCap.  
19 ReadyCap holds a security interest in the Debtor's building, as well as some of its equipment.  
20 ReadyCap contends that it also holds a security interest in the Debtor's cash collateral.  
21 However, the Debtor contests this, as the Security Agreement states as follows:

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2. The Collateral in which this security interest is granted is all of the Debtor's property described below in reference to which an "X" or checkmark has been placed in the box applicable thereto, together with all the proceeds and products therefrom. If two such boxes are so marked, the security interest so designated secures the purchase money from the loan used by the Debtor to acquire title to the Collateral.

- a. All equipment and machinery, including power-driven machinery and equipment, furniture and fixtures now owned or hereafter acquired, together with all replacements thereof, all attachments, accessories, parts and tools belonging thereto or for use in connection therewith, including, without limitation, those items on the attached exhibit 'A', now herein incorporated by this reference.
- b. All passenger and commercial motor vehicles registered for use upon public highways or streets, now owned or hereafter acquired, together with all replacements thereof, all attachments, accessories, parts, equipment and tools belonging thereto or for use in connection therewith.
- c. All inventory, raw materials, work in process and supplies now owned or hereafter acquired.
- d. All accounts, deposit accounts, and health care insurance receivables now outstanding or hereafter arising.
- e. All chattel paper, instruments, and general intangibles now in force or hereafter acquired.

The box stating "All accounts, deposit accounts, and health care insurance receivables now outstanding or hereafter arising" is not checked. ReadyCap asserts that despite this, it is properly secured in the Debtor's accounts and accounts receivable. ReadyCap has a personal guaranty from the Debtor's principal, Richard Jahn, who is currently in his own Chapter 13 bankruptcy proceeding in the United States Bankruptcy Court for the District of Nevada. ReadyCap also has Deeds of Trust against Mr. Jahn's personal residence as well as against two rental properties held by Mr. Jahn.

Due to a significant decrease in business, the Debtor also fell behind on its obligations to its garbage provider, Republic Services. In early 2016, Republic Services obtained a judgment against the Debtor for \$38,268.69 plus \$963.00 in interest, plus \$4,070.00 in attorneys' fees, plus \$609.00, plus interest and costs of collection. Republic Services has filed a proof of claim alleging that it is owed approximately \$97,015.33. The Debtor filed this bankruptcy to stop the foreclosure of its building by ReadyCap, and to reorganize the Debtor's obligations.

**1.2 Condition of Debtor's Warehouse**

In approximately September 2017 the Debtor noticed that the North wall of the Debtor's warehouse was separating from the roof because the top 6 inches or so of the wall was leaning out away from the building. The Debtor has contacted an Engineer, who is requiring payment of \$10,000 to perform engineering services to determine how to best

1 reinforce the Debtor's Warehouse. The Debtor has not yet paid this retainer to the engineer.  
2 The Debtor believes that some repairs will need to be made to the building, and estimates that  
3 the repairs could cost up to \$100,000.00. The Debtor has not yet contacted a general  
4 contractor or received a report from the engineer to verify this estimate. However, the Debtor  
5 believes that this condition could adversely effect the value of the Debtor's warehouse and has  
6 therefore disclosed this condition in this Disclosure Statement.

7 **1.3 Plan Proponent**

8 **ALL CLAIM HOLDERS AND INTEREST HOLDERS ARE ENCOURAGED**  
9 **TO READ THE PLAN AND THE DISCLOSURE STATEMENT AND RELATED**  
10 **SOLICITATION MATERIALS IN THEIR ENTIRETY.**

11 **2.1 Purpose of the Disclosure Statement**

12 The purpose of this Disclosure Statement is to ensure that claimants have adequate  
13 information to enable each class to make an informed judgment about the Plan. The assets  
14 and liabilities of the Debtors are summarized herein. To the extent the information contained  
15 in this Disclosure Statement may be inconsistent with the Debtors' Statements and Schedules  
16 filed initially in the Bankruptcy Case, or subsequent amendments thereto, this Disclosure  
17 Statement shall supersede such Statements and Schedules (as amended).

18 This Disclosure Statement describes the background and operating history of the  
19 Debtors before filing of the case. It also summarizes certain significant events that have taken  
20 place during the case and described the terms of the Plan, which divides creditor claims and  
21 the interests of shareholders into classes and provides for the satisfaction of allowed claims  
22 and interests.

23 The Court will set a time and date as the last day to file acceptances or rejections of the  
24 Plan. Thereafter, a hearing on confirmation of the Plan will be held in the United States  
25 Bankruptcy Court for the District of Nevada, located at the U.S. Foley Federal Building &  
26 Courthouse, 3<sup>rd</sup> Floor, Courtroom 1, 300 Las Vegas Boulevard South, Las Vegas, Nevada  
27 89101. Creditors may vote on the Plan by filling out and mailing a special form of ballot. The  
28 form of ballot and special instructions for voting will be forthcoming upon conditional

1 approval of the Disclosure Statement by the Court. Creditors are urged to carefully read the  
2 contents of this Disclosure Statement before making a decision to accept or reject the Plan.

3 **2.2 Acceptance and Confirmation**

4 Debtors Plan Impairs the Allowed Claim Holders and Equity Interest Holders. As a  
5 result, all Allowed Claim Holders are entitled to vote to accept or reject the Plan with the  
6 exception of certain tax creditors, whose claims are unimpaired, and the Equity Interest  
7 Holders, who, as insiders, are not entitled to vote. Consequently, balloting and voting is  
8 required under 11 U.S.C. §1126. A class is “impaired” if the legal, equitable, or contractual  
9 rights attaching to the claims or interests of that class are modified, other than by curing  
10 defaults and reinstating maturities, or by payment in full in cash on the Effective Date.

11 In the event an Allowed Claim Holder is deemed Impaired and votes to reject the plan,  
12 then Debtors may seek to ‘cram down’ the Plan under 11 U.S.C. §1129(b). Acceptances of  
13 the Plan are being solicited only from those persons who hold Allowed Claims or Interests in  
14 Impaired classes.

15 **2.3 Confirmation Without Acceptance by All Impaired Classes**

16 The Bankruptcy Code allows for confirmation of a Plan even if the Plan is not  
17 accepted by all impaired classes, as long as at least one impaired class of claims has accepted  
18 the Plan. These “cram-down” provisions for the confirmation of a Plan, despite non-  
19 acceptance of one or more impaired classes of claims or interest, are set forth in 11 U.S.C. §  
20 1129(b).

21 If a class of unsecured claims rejects the Plan, it may still be confirmed so long as the  
22 Plan provides that (i) each holder of a claim included in the rejecting class receives or retains  
23 on account of that claim, property which has a value as of the Effective Date equal to the  
24 allowed amount of such claim; or that (ii) the holder of any claim or interest that is junior to  
25 the claims of such class will not receive or retain on account of such junior claim or interest  
26 any property at all.

27 If a class of secured claims rejects the Plan, it may still be confirmed so long as the  
28 Plan provides (i) the holders of such claims retain the lien securing such claims; (ii) the

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1 holders of such claims receive on account of such claims deferred cash payments totaling at  
2 least the allowed amount of such claims, of a value, as of the Effective Date of the Plan, of at  
3 least the value of such claimant's interest in the estate's interest in such property; (iii) for the  
4 sale of the property in accordance with 11 U.S.C. § 1129(b)(2)(A)(ii); or (iv) for the  
5 realization by such claims of the indubitable equivalent of the claim.

6 **2.4 Disclaimer**

7 No representations concerning the Debtors are authorized by the Debtors except as set  
8 forth in this Disclosure Statement. Any representations or inducements made to secure your  
9 acceptance or rejection of the Plan other than as contained herein have not been authorized  
10 and should not be relied upon by you in making your decision, and such additional  
11 representations and inducements should be reported to counsel(s) for the Debtors, who in turn  
12 should deliver such information to the Court for such action as may be deemed appropriate.

13 The information contained herein has not been subjected to a certified audit. The records kept  
14 by the Debtors and other information relied on herein are dependent upon investigations and  
15 accounting performed by the Debtors and others employed by the Debtors. The Debtors are  
16 unable to warrant that the information contained herein is without inaccuracy, although a great  
17 effort has been made to be accurate, and the Debtors believe that the information contained  
18 herein is, in fact, accurate.

19 **2.5 Summary of Classification and Treatment of Claims and Equity Interests**  
20 **Under the Plan.**

21 As described more fully herein, the Plan proposes to divide Claims into ten (10) classes.  
22 Administrative Claims and Priority Tax Claims are not classified pursuant to 11 U.S.C. §  
23 1123(a)(1) and the Holders of such Claims will receive the full amount they are entitled to under  
24 the Bankruptcy Code and their legal and equitable rights are unaltered by the Plan.

25 **Class 1** addresses the claims of ReadyCap Lending, LLC, which, as of the petition date,  
26 was owed approximately \$583,304.00. ReadyCap's claim is secured by the Debtor's Warehouse  
27 and by equipment and related collateral. ReadyCap has filed a proof of claim, alleging that it is  
28 owed \$673,809.79 as of June 2017, and that it is secured by the Debtor's real property as well as

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1 by collateral described in two UCC financing statements. ReadyCap has obtained an appraisal  
2 of the Debtor's Warehouse, valuing the Debtor's Warehouse at \$860,000.00. However, since the  
3 appraisal was performed, and since the filing of the Debtor's Chapter 11 petition, the wall on the  
4 North side of the Debtor's building has separated from the roof, causing a separation from the roof  
5 and the North wall, which needs to be repaired. This may negatively impact the value of the  
6 Debtor's Warehouse. ReadyCap's claim shall be reduced to the extent that the Debtor has been  
7 making adequate protection payments, which have been \$6,024.10 per month since the inception  
8 of the Debtor's bankruptcy filing.

9 Impairment. This class is impaired.

10 Treatment. The Debtor will continue to make monthly payments to ReadyCap in the  
11 amount of \$6,024.10, until the Warehouse is sold or for a period of up to one year from the  
12 Effective Date of the Plan. If Debtor fails to make a payment when due, ReadyCap may send  
13 a default letter, and Debtor shall have 10 days to cure. Debtor will list the Warehouse  
14 Property for sale with a licensed real estate broker, and shall have one year from the Effective  
15 Date of the Plan to sell the Warehouse, with the proceeds to be paid in the order of priority in  
16 satisfaction of ReadyCap's claims. In the event that the Warehouse is not sold within one year  
17 of the effective date, or in the event there are insufficient proceeds from the sale to satisfy  
18 ReadyCap's claims in full by the one year anniversary of the Effective Date of the Plan, the  
19 Property will be deeded to ReadyCap or assignee of ReadyCap, and Debtor will provide an  
20 appraisal of the Warehouse as of the one year anniversary of the Effective Date of the Plan.  
21 ReadyCap's claim will be reduced to the extent that the Debtor shall deliver a special warranty  
22 deed that will transfer all of the Debtor's interest in the Warehouse to ReadyCap in  
23 satisfaction of ReadyCap's claim and all debts owed to it by the Debtor up to the amount of  
24 the appraised value of the Warehouse, minus any liens that are superior to ReadyCap's lien.  
25 The transfer and deed delivery to ReadyCap shall provide the indubitable equivalence and  
26 satisfy all claims of ReadyCap against the Debtor up to the amount of the appraised value of  
27 the Warehouse, minus any superior liens. Upon delivery of such deed, the amount owing to  
28 ReadyCap by the Debtor shall be deemed to be paid in full and all Deeds of Trust, Guarantees,

1 and all related security agreements shall be deemed to be released and/or cancelled, unless the  
2 appraised value of the Warehouse minus the superior liens is less than the amount owing to  
3 ReadyCap as of the one year anniversary of the Effective Date of the Plan. In the event that  
4 the Warehouse is not sold and ReadyCap's claims are satisfied in full, or the appraised value  
5 of the Warehouse minus superior liens are not equal to or more than ReadyCap's claim as of  
6 the one year anniversary of the Effective Date of the Plan, Ready Cap shall retain its claims  
7 against the Debtor and may proceed against any other collateral or guarantor for any amount  
8 still owed to ReadyCap.

9 For purposes of this section, delivery of the deed and acceptance by ReadyCap shall be  
10 deemed to occur when the deed is tendered by physical delivery to ReadyCap at its offices  
11 located at 420 Mountain Avenue, New Providence, New Jersey 07974, of at the offices of its  
12 attorneys, Marilyn Fine and/or Andrea M. Gandara, at their offices located at 400 South  
13 Fourth Street, Third Floor, Las Vegas, Nevada 89101.

14 **Class 2** addresses the claims of City of Las Vegas Sewer Services, which, as of the  
15 petition date, was owed approximately \$592.12. This claim is secured by the Debtor's real  
16 property.

17 **Impairment.** This class is impaired.

18 **Treatment.** The Debtor shall the claims of Class 2 in full within 90 days of the  
19 Effective Date of the Plan.

20 **Class 3** addresses the claims of Clark County Sanitation, which, as of the petition date,  
21 was owed approximately \$2,339.77. This claim is secured by the Debtor's real property.

22 **Impairment.** This class is impaired.

23 **Treatment.** The Debtor shall the claims of Class 3 in full within 90 days of the  
24 Effective Date of the Plan.

25 **Class 4** addresses the claims of the Las Vegas Valley Water District, which, as of the date  
26 of the petition, was owed approximately \$2,209.26. This claim is secured by the Debtor's real  
27 property.

28 **Impairment.** This class is impaired.

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1           Treatment. The Debtor shall the claims of Class 4 in full within 90 days of the  
2 Effective Date of the Plan

3           Class 5 addresses the claims of Republic Services, which, as of the date of the petition,  
4 held a judgment against the Debtor in the principal amount of \$38,268.69, plus \$963.00 in  
5 interest, plus \$4,070.00 in attorney's fees, plus \$609.00, plus interest and costs of collection. This  
6 judgment was entered by the Eighth Judicial District Court on July 1, 2016. This judgment  
7 creates a judgment lien against the Debtor's real property. Republic Services has filed a proof of  
8 claim, alleging that it is owed \$97,015.33. Of that amount, Republic Services claims that  
9 \$75,764.04 is secured, and \$21,251.29 is unsecured.

10           Impairment. This class is impaired.

11           Treatment. The Debtor shall make monthly payments of \$1,000.00 per month until the  
12 claims of Class 5 are paid in full. Republic Services shall retain its lien against the  
13 Warehouse, which lien shall remain in the same priority as if the bankruptcy case had not been  
14 filed. If the Warehouse is sold or transferred (other than a transfer to ReadyCap pursuant to  
15 this Plan), the amount of its remaining claims shall be paid in full upon the sale or transfer of  
16 the Warehouse to a third party.

17           Class 6 addresses the claims of the Internal Revenue Service for payroll taxes. The  
18 IRS has filed a proof of claim, claiming that the amount of their claim is \$129,373.63, and that  
19 of that amount, \$64,403.24 is secured by all of Debtor's right, title and interest to property  
20 under 26 U.S.C.§6321, and that \$64,920.39 is unsecured.

21           Impairment. This class is impaired.

22           Treatment. The Debtor shall the claims of Class 6 in equal quarterly installments so  
23 that the claims are paid in full within five (5) years of the date of filing of the Debtor's  
24 petition, or such other time as agreed between the IRS and the Debtor. The IRS shall retain  
25 any pre-petition liens it had on any of the Debtor's Property, if any.

26           Class 7 addresses the claims of the State of Nevada Department of Taxation, which  
27 has filed a claim in the amount of \$39,378.30. The State of Nevada claims that of that  
28 amount, \$35,261.70 is secured, \$3,873.09 is a priority claim, and that \$243.51 is unsecured.

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1 The State of Nevada has recorded liens as of 3/27/2017 in the Clark County Recorder's  
2 Office at instrument number 201703270001204.

3 Impairment. This class is impaired.

4 Treatment. The Debtor shall the claims of Class 7 in equal quarterly installments so  
5 that the claims are paid in full within five (5) years of the date of filing of the Debtor's  
6 petition, or such other time as agreed between the State of Nevada and the Debtor. The State  
7 of Nevada shall retain any pre-petition liens it had on any of the Debtor's Property, if any.

8 **Class 8** addresses the claims of the Clark County Treasurer, which has filed a proof of  
9 claim in the amount of \$17,522.22, for real property taxes on the Debtor's Warehouse. This  
10 claim is secured by the Debtor's real property.

11 Impairment. This class is not impaired.

12 Treatment. The Clark County, Nevada, Treasurer, shall retain its lien on the  
13 Debtor's Warehouse after the Debtor transfers the Property to ReadyCap, and shall be paid in  
14 full with statutory interest, on the date of sale or transfer if the Warehouse is sold to a third  
15 party, or if the Property is transferred to ReadyCapy, on the date of any subsequent sale or  
16 transfer of the property on which the Treasurer has a lien.

17 **Class 9** addresses the claims of the general unsecured creditors, which were owed, as of  
18 the petition date, approximately \$89,405.70.

19 Impairment. This class is impaired.

20 Treatment. The holders of allowed unsecured claims shall be paid a pro-rata share of  
21 \$40,000.00, which shall be paid, in part, from proceeds of the Debtor's operations, in quarterly  
22 payments of \$1,000.00 over a five year period, and in part, from the equity infusion made by  
23 the Debtor's principal, Richard Jahn, in the amount of \$20,000.00, as set forth below. At the  
24 Debtor's Option, Debtor may pre-pay any payment due without penalty.

25 **Class 10** addresses the claim of Richard Jahn, who holds the Equity Interest in the  
26 Debtor.

27 Impairment. This class is impaired.  
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1 Treatment. Richard Jahn's equity interest in the Debtor will be cancelled, and new  
2 equity interest will be issued to Richard Jahn shall infuse new value in the amount of  
3 \$20,000.00, which shall be paid in 48 equal monthly payments commencing on the first day of  
4 the month following the anniversary of the Effective Date. At the option of Jahn, Jahn may pre-  
5 pay any payment without penalty.

6 2.6 Distributions and Impairment. Distributions will be made to creditors as funds are  
7 available with payments made pursuant to specific agreements between the respective  
8 Reorganized Debtor and recipients after the Debtor or Reorganized Debtor and the Claimant  
9 agree upon the amount of the Claim or the Claim is allowed by the Court.

10 2.7 Miscellaneous Plan Provisions. The Reorganized Debtor will, from and after  
11 confirmation of the Plan, be indebted for and obligated to pay those obligations and liabilities  
12 as set forth herein. The Bankruptcy Court shall retain jurisdiction post-confirmation.

13 The Plan distributions will be in various amounts and will take various forms, depending  
14 on the classification and treatment of any particular Claim. The following tables summarize the  
15 classification and treatment of Claims and Equity Interests under the Plan. For a more detailed  
16 description of the classification and treatment of Claims and Equity Interests under the Plan.

17 The following chart is a summary of the classification and treatment of claims and equity  
18 interests and the potential distributions under the plan.

19 **THE FOLLOWING CHART IS A SUMMARY OF THE CLASSIFICATION AND**  
20 **TREATMENT OF CLAIMS AND EQUITY INTERESTS AND THE POTENTIAL**  
21 **DISTRIBUTIONS UNDER THE PLAN. THE AMOUNTS SET FORTH BELOW ARE**  
22 **ESTIMATES ONLY. ANY ESTIMATES OF CLAIMS OR EQUITY INTERESTS IN THIS**  
23 **DISCLOSURE STATEMENT MAY VARY FROM THE FINAL AMOUNTS ALLOWED**  
24 **BY THE BANKRUPTCY COURT. AS A RESULT OF THE FOREGOING AND OTHER**  
25 **UNCERTAINTIES WHICH ARE INHERENT IN THE ESTIMATES, THE ESTIMATED**  
26 **RECOVERIES IN THIS DISCLOSURE STATEMENT MAY VARY FROM THE ACTUAL**  
27 **RECOVERIES RECEIVED. IN ADDITION, THE ABILITY TO RECEIVE**  
28 **DISTRIBUTIONS UNDER THE PLAN DEPENDS UPON THE ABILITY OF THE**  
**DEBTOR TO OBTAIN CONFIRMATION OF THE PLAN AND MEET THE**  
**CONDITIONS TO CONFIRMATION AND EFFECTIVENESS OF THE PLAN, AS**  
**DISCUSSED IN THIS DISCLOSURE STATEMENT. THE RECOVERIES SET FORTH**  
**BELOW ARE PROJECTED RECOVERIES ONLY AND MAY CHANGE BASED UPON**  
**CHANGES IN THE AMOUNT OF ALLOWED CLAIMS AS WELL AS OTHER**  
**FACTORS RELATED TO THE DEBTOR'S BUSINESS OPERATIONS AND GENERAL**  
**ECONOMIC CONDITIONS. REFERENCE SHOULD BE MADE TO THE ENTIRE**  
**DISCLOSURE STATEMENT AND THE PLAN FOR A COMPLETE DESCRIPTION OF**  
**THE CLASSIFICATION AND TREATMENT OF ALLOWED CLAIMS AGAINST AND**  
**EQUITY INTERESTS IN THE DEBTOR.**

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1                    **Summary of Classification and Treatment of Classified Claims and Equity Interests**

2

Class	Claimholder	Status & Voting Rights	Projected Recovery
Class 1	ReadyCap	Secured -Impaired	100%
Class 2	Las Vegas -Sewer	Secured - Impaired	100%
Class 3	Clark County Sanitation	Secured - Impaired	100%
Class 4	Las Vegas - Water	Secured - Impaired	100%
Class 5	Republic Services	Secured - Impaired	100%
Class 6	IRS	Secured - Impaired	100%
Class 7	Nevada - Taxes	Secured - Impaired	100%
Class 8	Clark County Treasurer	Secured - Unimpaired	100% upon sale
Class 9	Unsecured Creditors	Unsecured - Impaired	approx. 45%
Class 10	Richard Jahn	Unsecured - Impaired	0%

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13                    **3.1    *Hearings on Confirmation and Objections***

14                    The Debtors are seeking conditional approval of this Disclosure Statement. At a hearing  
15 that will take place on \_\_\_\_\_ at \_\_\_\_:\_\_\_\_.m., or an earlier date to be set by the  
16 Court, the Court will entertain final approval of the Disclosure Statement (subject to certain  
17 revisions), and will simultaneously hold a hearing to confirm the Debtor's Plan (the "Confirmation  
18 Hearing"), which will also be held on \_\_\_\_\_ at \_\_\_\_:\_\_\_\_.m., or on an earlier  
19 date to be set by the Court, which hearing may be continued from time to time without further  
20 notice other than an adjournment announced in open court at the Confirmation Hearing or at any  
21 subsequent adjourned Confirmation Hearing. The following deadlines will apply:

- 22                    1. The deadline for creditors to vote to accept or reject the Plan is \_\_\_\_\_, **2018.**
- 23                    2. The deadline for creditors and parties in interest to object to confirmation of the Plan and  
24 to serve and file any supporting declarations is \_\_\_\_\_, **2018.**
- 25                    3. The deadline for the Debtor to file replies to objections to the adequacy of the Disclosure  
26 Statement and/or confirmation of the Plan and submit its points and authorities and declarations  
27 in support of confirmation of the plan is \_\_\_\_\_, **2018.**
- 28

1 4. Any objections to the confirmation of the Plan must be filed by the deadline set forth  
2 above and must: (a) be in writing; (b) conform to the Bankruptcy Rules; (c) state the name and  
3 address of the objecting party and the amount and nature of the Claim of such Person; (d) state  
4 with particularity the basis and nature of any objection to the Plan and, if practicable, a proposed  
5 modification to the Plan that would resolve such objection; and (e) be filed with the Court,  
6 contemporaneously with proof of service, and served so that it is actually received by the Debtor  
7 no later than such deadline. Any objections to the Plan that fail to satisfy these conditions shall  
8 not be valid. All objections must be served on counsel for the Debtor, **Matthew L. Johnson, Esq.**,  
9 Lakes Business Park, 8831 West Sahara Avenue, Las Vegas, Nevada 89117.

10 The above hearings may be adjourned from time to time by the Bankruptcy Court without  
11 further notice except for the announcement of the adjournment date made at the hearing.

12 With respect to the Confirmation Hearing, the Bankruptcy Court will: (a) determine  
13 whether the Plan has been accepted by the requisite majorities of each Voting Class; (b) resolve  
14 all objections to the Plan and to Confirmation of the Plan; (c) determine whether the Plan meets  
15 the requirements for Confirmation of the Plan; (d) determine whether the Plan meets the  
16 requirements of the Bankruptcy Code and has been proposed in good faith; and (e) order the Plan  
17 confirmed or deny confirmation of the Plan. Separate notices will be served which reflect the dates  
18 and deadlines set forth above, or any change in the dates.

19 **HISTORY OF THE DEBTORS AND EVENTS LEADING TO THE FILING**  
20 **OF THE CHAPTER 11 CASE**

21 **4.1 Description of the Business and Events Leading to the Chapter 11 Filing**  
22 **Significant Developments During the Course of the Chapter 11 Case**

23 During the course of this case, the City of Las Vegas learned that one of the outside walls  
24 of the Debtor's Warehouse has become unstable. As a result, the City has ordered the Debtor to  
25 retain a structural engineer to determine what will need to be done to repair this wall. Due to the  
26 Debtor's financial status, the Debtor has elected to turn over possession and title of the Warehouse  
27 to the lender, ReadyCap, in exchange for full satisfaction of its claim. The Reorganized Debtor will  
28

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1 then either rent space back from ReadyCap, operate at its other location, or find additional rental  
2 space from which to operate its business.

3 The business of the Debtor has increased significantly during the case due to additional  
4 contracts with Boyd Gaming, which is refurbishing much of its casino furniture and has requested  
5 that the Debtor perform these services.

6 **5.1 Ongoing Business**

7 The Debtor anticipates that its business will continue to perform as it has done during the pendency  
8 of the case.

9 **5.2 Meeting of Creditors**

10 The United States Trustee conducted its Initial Debtor Interview (the “IDI”) on June 8,  
11 2017 for Debtor and the meeting of creditors of the Debtor pursuant to 11 U.S.C. § 341 of the  
12 Bankruptcy Code on June 8, 2017 and concluded the meeting on June 8, 2017.

13 **5.3 Schedules and Statement of Affairs**

14 On May 3, 2017 the Debtor filed for Chapter 11 bankruptcy protection. The Debtor filed  
15 its schedules, Statement of Financial Affairs (the “SOFA”), and any amendments thereto which  
16 lists all the Debtors’ respective assets and liabilities. Those schedules and statements have been  
17 amended from time to time, and may be viewed online at [www.nvb.uscourts.gov](http://www.nvb.uscourts.gov) or may be  
18 obtained from the Bankruptcy Clerk.

19 **6.1 Monthly Operating Reports**

20 During the pendency of the case, the Debtors have filed monthly operating reports  
21 which reflect its ongoing financial status. Those reports along with the other important  
22 documents and Bankruptcy Court Filings concerning this Chapter 11 Case may be viewed  
23 online at [www.nvb.uscourts.gov](http://www.nvb.uscourts.gov) or may be obtained from the Bankruptcy Clerk. To comply  
24 with the U.S. Trustee’s guidelines and Bankruptcy Code, the Debtor may file amendments to  
25 its operating reports from time to time.

26 **7.1 Employment and Payment of Professionals**

27 General Counsel: Matthew L. Johnson, Esq. for Debtor.  
28

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1 The Debtor filed an application for each to employ Matthew L. Johnson, Esq. as general  
2 bankruptcy and reorganization counsel in this case. The estimated total fees incurred by counsel,  
3 less the retainers received, is estimated to be approximately \$20,000-\$30,000.

4 On information and belief, no other professionals have been proposed or retained.

5 **8. DESCRIPTION OF DEBTORS' ASSETS**

6 **8.1 Real Property.**

7 The Debtor owns commercial real property located at 112 W. Wyoming, Las Vegas,  
8 Nevada 89102, APN 162-04-608-008 (the "Wyoming Property" or the "Warehouse"). The  
9 Wyoming Property is the Debtor's principal place of business and is encumbered by a deed of trust  
10 in favor of ReadyCap Lending, LLC and by liens in favor of local utility companies. This Property  
11 will be listed for sale with an licensed real estate broker, and the Debtor shall attempt to sell the  
12 Warehouse withing one year of the Effective Date of the Plan. In the event that the Property is not  
13 sold within such one year period, it shall be turned over to ReadyCap in satisfaction of its claims,  
14 with an appraisal being conducted to determine the value of the Warehouse at or around the one  
15 year period. ReadyCap's claim shall be reduced by the value of the Warehouse, minus any liens  
16 on the Warehouse that are superior to that held by ReadyCap. The utilities, taxing authorities, and  
17 any other entities that hold liens against the Wyoming Property shall retain their liens until they  
18 are paid in full.

19 **8.2 Personal Property.**

20 The Debtor owns personal property relating to the operation of its' upholstery business  
21 including office furniture, upholstery tools, sewing machines and supplies, and accounts  
22 receivable. The Debtor's personal property is outlined in greater detail on the Debtor's Schedules  
23 and Statements filed with the Debtor's Voluntary Petition as Docket No. 1.

24 **9. DESCRIPTION OF DEBTOR'S LIABILITIES**

25 The following is intended to provide a summary of the Debtor's liabilities. The Debtor's use and  
26 reference to the claims filed by various creditors in describing its liabilities is for estimation  
27 purposes, and does not constitute a waiver of any dispute.  
28

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1                   **9.1 Administrative Claims**

2                   It is expected upon confirmation followed by distributions under the plan, the Debtor will  
3 have incurred unpaid administrative claims, under 28 U.S.C. §1930, of approximately \$30,000.00,  
4 consisting of unpaid third quarter federal employment taxes, penalties, and interest, and unpaid  
5 fees to counsel of approximately \$25,000.00. Administrative claims include all post-petition  
6 unpaid expenses incurred by the Debtor. As of the filing of this Plan, the estimated post-petition  
7 administrative expenses of Debtor, include (1) unpaid third quarter taxes, and (2) attorney’s fees  
8 for the JOHNSON & GUBLER, P.C. Law Firm that are estimated at \$25,000.00.

9                   At the time of confirmation, the Debtors are estimated to have incurred unpaid attorney  
10 fees and costs of approximately \$25,000 associated with their counsel.

11                   It is anticipated the Debtors will remain current on all remaining post-petition obligations  
12 and as such, the Debtors do not anticipate any additional administrative claims.

13                   **9.2 Taxes – Priority Unsecured Creditors**

14                   The Debtor has unpaid third quarter employment taxes that shall be paid in full on  
15 the Effective Date. Any priority taxes not incurred during the pendency of the case shall be paid  
16 within 5-years of the date that the petition was filed, consistent with 11 U.S.C. 1129(a)(9).

17                   **9.3 Real and Personal Property**

18                   Any personal property taxes shall be paid in full on the Effective Date.

19                   **9.4 Unsecured Creditors**

20                   Unsecured Creditors shall be paid a pro rata share of \$40,000.00 over a five year period.  
21 \$20,000.00 of this amount shall be paid from earnings of the Debtor, and \$20,000 shall be paid  
22 from the Debtor's principal, Richard Jahn.

23                   **9.5 Claims Bar Dates**

24                   March 17, 2018, is the Claims bar date for creditors. The Administrative Claims Bar Date  
25 is as set forth in the Plan.

26 **10. OVERVIEW OF THE PLAN**

27                   THE AMOUNTS SET FORTH BELOW ARE ESTIMATES ONLY. ANY ESTIMATES  
28 OF CLAIMS OR EQUITY INTERESTS IN THIS DISCLOSURE STATEMENT MAY VARY

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1 FROM THE FINAL AMOUNTS ALLOWED BY THE BANKRUPTCY COURT. AS A  
2 RESULT OF THE FOREGOING AND OTHER UNCERTAINTIES WHICH ARE INHERENT  
3 IN THE ESTIMATES, THE ESTIMATED RECOVERIES IN THIS DISCLOSURE  
4 STATEMENT MAY VARY FROM THE ACTUAL RECOVERIES RECEIVED. IN  
5 ADDITION, THE ABILITY TO RECEIVE DISTRIBUTIONS UNDER THE PLAN DEPENDS  
6 UPON THE ABILITY OF REORGANIZED DEBTOR TO OBTAIN CONFIRMATION OF THE  
7 PLAN AND MEET THE CONDITIONS TO CONFIRMATION AND EFFECTIVENESS OF  
8 THE PLAN, AS DISCUSSED IN THIS DISCLOSURE STATEMENT. THE RECOVERIES SET  
9 FORTH BELOW ARE PROJECTED RECOVERIES ONLY AND MAY CHANGE BASED  
10 UPON CHANGES IN THE AMOUNT OF ALLOWED CLAIMS AS WELL AS OTHER  
11 FACTORS, SUCH AS GENERAL ECONOMIC CONDITIONS. REFERENCE SHOULD BE  
12 MADE TO THE ENTIRE DISCLOSURE STATEMENT AND THE PLAN FOR A COMPLETE  
13 DESCRIPTION OF THE CLASSIFICATION AND TREATMENT OF ALLOWED CLAIMS  
14 AGAINST AND EQUITY INTERESTS IN THE DEBTOR.

15 10.1 Unclassified Claims

16 a) Administrative Claims

17 *Deadline to File Administrative Claims.* The Holder of an Administrative Claim, must file  
18 with the Bankruptcy Court and serve notice of such Administrative Claim on or before the  
19 Administrative Claim Bar Date. Such notice must include, at minimum, (i) the name of the Holder  
20 of such Claim, (ii) the basis of the Claim, and (iii) the amount of the Claim. Failure to file such  
21 notice timely and properly shall result in the Administrative Expense Claim being forever barred  
22 and discharged.

23 *Payment Provisions.* Subject to the provisions of Bankruptcy Code sections 330(a), 331  
24 and 503(b) and any objection to any Administrative Claim, each Holder of an Administrative  
25 Claim shall be paid, either: (i) the Allowed amount of any such Claim, on, or as soon as reasonably  
26 practicable after, the later of, (A) the Effective Date, (B) the date upon which such Administrative  
27 Claim becomes Allowed, or (C) such date as is otherwise agreed by Reorganized Debtor and the  
28

1 Holder of such Claim; or (ii) if Allowed, receive such other treatment as is agreed to by the Holder  
2 of an Administrative Claim and Reorganized Debtor.

3 *Voting:* An administrative claim arises under 11 U.S.C. §503, consequently, Administrative  
4 Claimants are barred from voting under 11 U.S.C. §1126(a).

5 **b) United States Trustee Fees.**

6 Notwithstanding the foregoing or anything to the contrary in the Plan, QUALITY  
7 UPHOLSTERY INC., shall pay, or cause to be paid, all its respective accrued U.S. Trustee Fees  
8 on or before the Effective Date of the Plan. All U.S. Trustee Fees have been paid to date.  
9 Following the Effective Date, Reorganized Debtor shall be responsible for timely payment of all  
10 U.S. Trustee Fees until such time as the Final Decree closing this Chapter 11 Case are entered and  
11 all U.S. Trustee Fees due are paid in full.

12 The Debtor shall file with the Bankruptcy Court and serve on the U.S. Trustee a quarterly  
13 financial report for each quarter (or portion thereof) that the Chapter 11 Case remains open, in such  
14 format as reasonably may be required by the U.S. Trustee.

15 *Voting:* U.S. Trustee's fees arise under 28 U.S.C. §1930, therefore they may not vote under  
16 11 U.S.C. §1126(a).

17 **(c) Priority Tax Claims.**

18 *Deadline to File Tax Claims.* The Holder Holders of Priority Tax Claims must be filed  
19 before the claims filing bar date.

20 *Payment Provisions.* The legal and equitable rights of the Holders of Priority Tax Claims  
21 will be altered and paid out over time. The Holders of Priority Tax Claims are entitled to a priority  
22 under 11 U.S.C. 507(a)(8) and the claim will be paid in full the Allowed amount of any such Claim  
23 within 5-years of the date that the petition was filed, consistent with 11 U.S.C. 1129(a)(9).

24 Under the Plan, Holders of Allowed Priority Tax Claims against Reorganized Debtor shall  
25 not be entitled to any payments on account of any post-Petition Date interest or penalty with  
26 respect to or in connection with an Allowed Priority Tax Claim. Any such Claim or demand for  
27 any post-Petition Date interest or penalty will be discharged upon the entry of the Confirmation  
28 Order by Bankruptcy Code section 1141(d)(1), and the Allowed Priority Tax Claim Holder shall

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1 not assess or attempt to collect such accrued interest or penalty from the Debtor, Reorganized  
2 Debtor, or by lien on Reorganized Debtor's Property.

3 **10.2 Executory Contracts and Unexpired Leases**

4 The Debtors have listed their executory contracts and leases in their respective  
5 Schedules. Those executory contracts consist of contracts with customers for which the Debtor is  
6 performing upholstery work. To ensure confidentiality and to protect its customers from  
7 competitors, they are not independently listed in the schedules. Any upholstery work contracts will  
8 be assumed. All other executory contracts, if any, shall be rejected unless otherwise accepted, in  
9 writing, by the Debtor.

10 **Rejection of Executory Contracts and Unexpired Leases.**

11 The entry of the Confirmation Order shall constitute the rejection of the executory  
12 contracts and unexpired leases as described in Section 4.1 above, (except those for upholstery  
13 work) as of the Effective Date, pursuant to Bankruptcy Code sections 365(a) and 1123(b)(2), and  
14 thus a timely Proof of Claim or Administrative Claim, as the case may be, may be filed. Any such  
15 claim(s) shall be filed no later than 30 days from the Effective Date or such claim(s) shall be  
16 forever barred.

17 Any holder of a Claim whose Claim arises from the rejection of an executory  
18 contract or unexpired lease with the Debtor shall have the rights of a holder of a General  
19 Unsecured Claim and shall receive the treatment provided to Holders of Class 4 General  
20 Unsecured Claims as set forth in this Plan.

21 **Filing of Rejection Claims.**

22 Any Person or Entity who believes they are entitled to assert a Claim against  
23 Reorganized Debtors by virtue of the rejection of an executory contract or unexpired lease may  
24 file a Claim with the Clerk of the Bankruptcy Court by the Claims Bar Date or the Administrative  
25 Claims Bar Date, as applicable.

26 **10.5 Objections to Claims**

27 Any Claim set forth on a Proof of Claim that was filed with the Bankruptcy Court prior to  
28 the Bar Date shall be deemed to be an Allowed Claim unless the Debtor, the Committee, or any

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1 Creditor or other party in interest files an Objection to the allowance of such Claim, the amount  
2 of such Claim, or the classification of such Claim. All Objections to Claims under this Plan,  
3 including Objections as to whether a Claim is an Allowed Claim, the amount of any Allowed  
4 Claim, and the Class to which any Allowed Claim belongs, shall be determined by the Bankruptcy  
5 Court. Unless extended by the Bankruptcy Court, all Objections to Claims in this Plan shall be  
6 filed within sixty (60) days after the Effective Date.

7 **10.6 Vesting of Assets**

8 Except as otherwise expressly provided in the Plan or in the Confirmation Order, on the  
9 Effective Date, but retroactive to the Confirmation Date, without any further action, the  
10 Reorganized Debtor will be vested with all of the property of the Estate, wherever situate, free and  
11 clear of all Claims, Liens and Equity Interests (except for Liens provided or authorized pursuant  
12 to the Plan and Permitted Encumbrances).

13 **10.7 Discharge**

14 In conjunction with Bankruptcy Code Section 1141, except as otherwise provided for in  
15 the Plan, the rights afforded in the Plan and the treatment of all claims and equity interests in the  
16 Plan shall be in exchange for and in complete satisfaction, discharge and release of Claims and  
17 Equity Interests of any nature whatsoever against the Debtor, and of the assets or properties of the  
18 Estate.

19 Without limiting the generality of the foregoing, except as provided in the Confirmation  
20 Order, confirmation will discharge the debtor and the reorganized debtor from all claims, or other  
21 debts that arose before the Effective Date, and all debts of the kind specified in sections 502(g),  
22 502(h) or 502(i) of the bankruptcy code, whether or not: (x) a proof of claim based on such a debt  
23 has been filed, or deemed to have been filed, under bankruptcy code sections 501 or 1111(a); (y)  
24 a claim based on such debt is allowed under bankruptcy code section 502 of the bankruptcy code;  
25 or (z) the holder of a claim based on such debt has accepted the plan.

26 **10.8 Injunctions**

27 **(a) Injunction Against Releasers. All of the Releasers, along with any of their**  
28 **successors or assigns, are permanently enjoined, from and after the Effective Date, from (1)**

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1 commencing or continuing in any manner any action or other proceeding of any kind against  
2 the Releasees (which are specifically identified as Mats and Stephen Costa) or any of their  
3 respective Representatives in respect of any Released Liabilities; (2) enforcing, attaching,  
4 collecting or recovering by any manner or means of any judgment, award, decree or order  
5 against the Releasees or any of their respective Representatives in respect of any Released  
6 Liabilities; (3) creating, perfecting, or enforcing any encumbrance of any kind against any  
7 property in the possession, custody or control of the Releasees or any of their respective  
8 Representatives with respect to any Released Liabilities; or (4) asserting any right of setoff,  
9 subrogation or recoupment of any kind against any obligation due from the Releasees or any  
10 of their respective Representatives or against the property or interests in property of the  
11 Releasees or any of their respective Representatives, with respect to any Released Liabilities;  
12 provided, however, that nothing contained herein shall preclude such Releasers from  
13 exercising their rights pursuant to and consistent with the terms hereof and the contracts,  
14 instruments, releases and other agreements and documents delivered under or in connection  
15 with this Plan; provided, further, that nothing contained herein shall be deemed to enjoin  
16 any Releaser from taking any action against any Releasee or any of its Representatives based  
17 on the release exceptions contained in this Plan. This Release shall not be effective as to any  
18 non-debtor guarantor.

19 (b) Injunction Protecting Exculpation of Debtor. All Claimholders and any other  
20 parties-in-interest, along with any of their Representatives and any of their successors or  
21 assigns are permanently enjoined, from and after the Effective Date, from (1) commencing  
22 or continuing in any manner any action or other proceeding of any kind against Releasees  
23 in respect of any potential liability for which exculpation is granted pursuant to this Plan;  
24 (2) enforcing, attaching, collecting or recovering by any manner or means of any judgment,  
25 award, decree or order against Releasees in respect of any potential liability for which  
26 exculpation is granted pursuant to this Plan; (3) creating, perfecting, or enforcing any  
27 encumbrance of any kind against Releasees in respect of any potential liability for which  
28 exculpation is granted pursuant to this Plan; or (4) asserting any right of setoff, subrogation

1 or recoupment of any kind against any Releasees or against the property or interests in  
2 property any Releasees, in respect of any potential liability for which exculpation is granted  
3 pursuant to this Plan; provided, however, that nothing contained herein shall preclude any  
4 Claimholder or other party-in-interest from exercising its rights pursuant to and consistent  
5 with the terms hereof and the contracts, instruments, releases and other agreements and  
6 documents delivered under or in connection with this Plan.

7 (c) Injunction Against Interference With Plan. Upon the Effective Date, all Claim  
8 Holders and their respective Representatives and any of their successors or assigns shall be  
9 enjoined from taking any actions to interfere with the implementation or consummation of  
10 the Plan.

11 **10.9 Exculpation.**

12 None of the Releasees, nor any of their respective Representatives shall have or incur  
13 any liability to any Claim Holder, or any other party-in-interest, or any of their  
14 Representatives, or any of their successors or assigns, for any act, omission, transaction or  
15 other occurrence in connection with, relating to, or arising out of the Chapter 11 Case, the  
16 pursuit of confirmation of this Plan, or the consummation of this Plan, except and solely to  
17 the extent such liability is based on fraud, gross negligence or willful misconduct. The  
18 Releasees shall be entitled to reasonably rely upon the advice of counsel with respect to any  
19 of their duties and responsibilities under this Plan or in the context of the Chapter 11 Case.  
20 No Claim Holder, or any other party-in-interest, including their respective Representatives,  
21 shall have any right of action against the Releasees or any of their Representatives, for any  
22 act, omission, transaction or other occurrence in connection with, relating to, or arising out  
23 of, the Chapter 11 Case, the pursuit of confirmation of this Plan, the consummation of this  
24 Plan or the administration of this Plan, except to the extent arising from fraud, gross  
25 negligence and willful misconduct. Nothing herein shall be deemed an exculpation by any  
26 Claim Holder, or any other party-in-interest, including their respective Representatives, of  
27 any Releasee or any of its Representatives for any acts, omissions, transactions, events or  
28 other occurrences taking place after the Effective Date or unrelated to this Plan and/or

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1 Chapter 11 Case.

2 10.10 Releases.

3 As of the Effective Date, for good and valuable consideration, the adequacy of which  
4 is hereby confirmed, each Releasor will be deemed to release, waive and forever discharge  
5 all Released Liabilities against each Releasee; provided, however, that, the releases provided  
6 herein shall not constitute a release of any liability based on willful misconduct, gross  
7 negligence or fraud; provided, further, that nothing herein shall be deemed to constitute a  
8 release by any Releasor of any Releasee or any of its Representatives for any acts, omissions,  
9 transactions, events or other occurrences taking place after the Effective Date or unrelated  
10 to this Plan and/or Chapter 11 Case.

11 Except as otherwise provided in the Plan or Confirmation Order, as of the Effective  
12 Date, the Debtor and the Reorganized Debtor, in their respective capacity as such, any of  
13 such parties' respective present or former members, officers, directors, employees, advisors,  
14 attorneys, representatives, financial advisors, and agents, and any such parties' successors  
15 and assigns (collectively, the "Released Parties") shall be released by the Debtor and any  
16 successors in interest of the Debtor from any and all Claims, debts, obligations, rights, suits,  
17 damages, actions, causes of action, remedies, and liabilities whatsoever, whether known or  
18 unknown, foreseen or unforeseen, existing as of the Effective Date or thereafter arising, at  
19 law, in equity, or otherwise, that the Debtor would have been legally entitled to assert in its  
20 own right (whether individually or collectively) or that any holder of a Claim, Interest, or  
21 other person or entity would have been legally entitled to assert on behalf of the Debtor or  
22 its estate, based in whole or in part upon any act or omission, transaction, agreement, event,  
23 or other occurrence taking place before or on the Effective Date but occurring during the  
24 Chapter 11 cases, except for acts constituting willful misconduct, gross negligence, or bad  
25 faith and, in all respects such parties shall be entitled to rely upon the advice of counsel with  
26 respect to their duties and responsibilities under the Plan. Without limiting the generality  
27 of the foregoing, to the extent permitted by law, the Debtor and any successors in interest  
28 of the Debtor shall waive all rights under any statutory provision purporting to limit the

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1 scope or effect of a general release, whether due to lack of knowledge or otherwise.

2           **The Debtor and the Released Parties, and any property of or professionals retained**  
3 **by such parties, or direct or indirect predecessor in interest to any of the foregoing persons,**  
4 **shall not have or incur any liability to any Person or Entity for any act taken or omission,**  
5 **after the Petition Date, in connection with or related to these cases, including but not limited**  
6 **to (i) formulating, preparing, disseminating, implementing, confirming, consummating or**  
7 **administrating the Plan (including soliciting acceptances or rejections thereof); (ii) the**  
8 **Disclosure Statement or any contract, instrument, release or other agreement or document**  
9 **entered into or any action taken or omitted to be taken in connection with the Plan; or (iii)**  
10 **any distributions or transfers made pursuant to the Plan, except for acts constituting willful**  
11 **misconduct, gross negligence, or bad faith occurring during the Chapter 11 Cases, and in all**  
12 **respects such parties shall be entitled to rely upon the advice of counsel with respect to their**  
13 **duties and responsibilities under the Plan.**

14           **The satisfaction, releases and discharge pursuant to Article 9 of the Plan will also act**  
15 **as an injunction against any Person or Entity commencing or continuing any action,**  
16 **employment of process or act to collect, offset, recoup or recover any Claim or Cause of**  
17 **Action satisfied, released or discharged under the Plan to the fullest extent authorized or**  
18 **provided by the Bankruptcy Code.**

19           **10.11 Adequate Protection Liens; Cash Collateral Orders.**

20           (a) As of the Effective Date, all replacement Liens, granted as adequate protection  
21 pursuant to the terms of any Cash Collateral Orders shall be deemed to be terminated, discharged,  
22 eliminated, and of no further force and effect;

23           (b) As of the Effective Date, the Debtor's obligations, if any, under all Cash Collateral  
24 Orders shall be deemed to be fully satisfied, released, discharged, and terminated, and such Cash  
25 Collateral Orders shall be of no further force and effect.

26           (c) All equipment purchased post-petition through confirmation with Bank of  
27 America's cash collateral shall be part of the section 363 sale.

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**1.VII. MISCELLANEOUS**

**A. Retention of Jurisdiction.**

The Court shall retain jurisdiction of this case for the following purposes:

- (1) allowance of compensation and other administrative expenses;
- (2) resolution of objections to claims;
- (3) resolution of all objections, conflicts, controversies or disputes arising out of the sale of assets of the estate and to provide for additional time for sale of any assets if necessary;
- (4) correction of any defect, omission or inconsistency in the Plan, or the order confirming the Plan as may be necessary to carry out the purposes and intent of the Plan;
- (5) modification of the Plan in accordance with the provisions of 11 U.S.C. § 1127;
- (6) resolution of all questions and disputes regarding title to property and resolution of all causes of action, controversies, disputes or conflicts arising out of the Plan, the order confirming the Plan, or any other order issued with respect to the Plan, including, without limitation, disputes arising out of the failure of the Debtors, any creditor, or other party in interest to perform obligations required under the Plan;
- (7) resolution of requests to close or reopen this case; and,
- (8) assumption or rejection of Executory Contracts which are not discovered or proved to be valid as against the Debtor prior to the Confirmation Date, and allowance of claims for damages as to rejection of such Executory Contracts.

**B. Effect of Confirmation**

The Plan provides that the entry of the confirmation order discharges and terminates, as of the Effective Date, all Claims against Quality that arose at any time before the confirmation order was entered. The discharge of Quality under the Plan will be effective as to any claims against Quality, regardless of whether a proof of claim thereof was scheduled or filed, whether the claim is an Allowed Claim or whether the holder thereof has voted to accept or reject the

1 Plan.

2 **C. Effective Date**

3 The Effective Date is defined in the Plan. Many important events under the Plan occur  
4 on or after the Effective Date.

5 **D. Substantial Confirmation**

6 The Plan will be deemed to be substantially consummated upon the Effective Date.

7 **E. Reservation of Rights**

8 The filing of the Plan, any statement or provision contained in the Plan, or any action  
9 by any party with respect to the Plan, shall not be considered an admission against interest or a  
10 waiver of any rights, except as stated in the Plan as finally confirmed. In the event the Plan is  
11 not confirmed, the Plan, any statement or provision contained in the Plan may not be used or  
12 relied upon in any suit, action, controversy or other proceeding.

13 **F. Right to Withhold Confirmation Order or Not to Proceed**

14 If there are any impediments or delays in confirming the Plan, the Debtor reserves the  
15 right to withhold the order confirming the Plan or proceed under the Plan until such time as the  
16 Plan has been confirmed by the Court and the Effective Date under the Plan has passed.

17 **2.VII. RISK FACTORS**

18 In addition to other matters addressed elsewhere in this Disclosure Statement, the Plan  
19 involves certain significant risks that should be taken into consideration, including those  
20 material risk factors set forth below.

21 **A. Risk of Non-Payment**

22 Upon the effectiveness of the Plan, the Debtor will have substantial debt. While the  
23 projections included herein anticipate that the Debtor will be able to meet its debt service  
24 obligations, any forecast of future financial results must be based upon a number of  
25 assumptions that are subject to inherent uncertainties and contingencies, many of which are  
26 beyond the control of the Debtor. Accordingly, there can be no assurance in this regard that  
27 the Debtor will be able to satisfy its debt obligations.

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1 **B. Tax Risks**

2 The federal, state, local and foreign tax consequences of the Plan are complex, and in  
3 many areas, uncertain. Holders of Claims are strongly urged to consult their tax advisers for  
4 specified reference to the federal, state, local and foreign tax consequences of the Plan with  
5 respect to their Claim. The Debtors makes no assurances regarding the federal, state, local and  
6 foreign tax consequences of the Plan with respect to any Claim.

7 **C. Risk of Non-Confirmation of the Plan**

8 Even if the requisite acceptances are received, the Plan may not be confirmed by the  
9 Bankruptcy Court, which sits as a court of equity and may exercise substantial discretion.  
10 Confirmation of the Plan requires, among other things, a finding by the Bankruptcy Court that  
11 there will not be a need for further financial reorganization, and that the value of distributions  
12 to Classes of dissenting Creditors not be less than the value of distributions such creditors  
13 would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. Although  
14 the Debtor believes that the Plan will not be followed by a further need for financial  
15 reorganization and that dissenting Creditors will receive distributions at least as great as they  
16 would receive in a liquidation under chapter 7 of the Bankruptcy Code, there can be no  
17 assurance that the Bankruptcy Court will conclude that these tests have been met.  
18 Furthermore, the effectiveness of the Plan is subject to certain conditions and there can be no  
19 assurance that such conditions will be satisfied.

20 **ACCEPTANCE AND CONFIRMATION**

21 **A. Voting Procedures**

22 (1) Generally.

23 Only those Classes that are impaired under the Plan are entitled to vote to accept or  
24 reject the Plan. In that regard, the following classes are impaired under the Plan and are  
25 entitled to vote:

26 Classes 1, 2, 3, 4, 5, 6, 7, and 9 are impaired under the Plan and are entitled to  
27 vote. Class 10 is also impaired, but as an insider, Richard Jahn is not entitled to vote. Classes  
28 entitled to Priority Tax Claims and Administrative Claims, as well as Disputed Claims are not

1 impaired under the Plan and are deemed to have accepted the Plan without voting. The Debtor  
2 reserve the rights to supplement this Disclosure Statement (if necessary) and to solicit any of  
3 the Classes which may prove to be impaired, as the Reorganization Case develops further.

4 Ballots will be sent to the known holders of Claims whether or not such Claims are  
5 disputed. However, only the holders of Allowed Claims (or Claims that have been temporarily  
6 allowed or have been estimated by the Bankruptcy Court), who are impaired are entitled to  
7 vote on the Plan. A Claim to which an objection has been filed is not an Allowed Claim unless  
8 and until the Bankruptcy Court rules on the objection and any appeals are determined. The  
9 holders of such Disputed Claims are not entitled to vote on the Plan unless they request that the  
10 Bankruptcy Court, pursuant to Bankruptcy Rule 3018, temporarily allow the Claims in  
11 appropriate amount solely for the purpose of enabling the holders of such Disputed Claims to  
12 vote on the Plan; and the Bankruptcy Court does so.

13 (2) Incomplete Ballots.

14 Ballots that are signed, dated, and timely received, but on which a vote to accept or  
15 reject the Plan has not been indicated, will be regarded as a vote for acceptance of the Plan. In  
16 addition, unless otherwise indicated, a vote cast by a Person will constitute an acceptance or  
17 rejection of the Plan with respect to each Allowed Claim held, directly or indirectly, by such  
18 Person.

19 (3) Waivers of Defects, Irregularities, etc.

20 Unless otherwise directed by the Bankruptcy Court, all questions as to validity, form,  
21 eligibility (including time of receipt), acceptance and revocation or withdrawal of Ballots will  
22 be determined by the Debtors in their sole discretion, whose determination will be final and  
23 binding. As indicated below under “Withdrawal of Ballots”, effective withdrawals of Ballots  
24 must be delivered to the Debtors prior to the voting deadline. The Debtor reserves the absolute  
25 right to contest the validity of such withdrawal. The Debtors also reserves the right to reject  
26 any and all Ballots not in proper form, the acceptance of which would, in the opinion of the  
27 Debtor or its counsel, be unlawful. The Debtor further reserves the right to waive any defects  
28 or irregularities or conditions of delivery as to any particular Ballot. The interpretation

1 (including the Ballot and instructions thereto) by the Debtor, unless otherwise directed by the  
2 Bankruptcy Court, will be final and binding on all parties. Unless waived, any defects or  
3 irregularities have not theretofore been cured or waived) will be invalidated.

4 (4) Withdrawal of Ballots; Revocation.

5 Any creditor holding an Allowed Claim which is impaired who has delivered a Ballot  
6 for or against the acceptance of the Plan may withdraw such acceptance or rejection by  
7 delivering a written notice of withdrawal to the Debtor at any time prior to the voting deadline.

8 A notice of withdrawal, to be valid, must: (i) contain the description of the Claim to  
9 which it relates and the amount of such Claim; (ii) be signed by the voting Creditor, in the  
10 same manner as the Ballot; and (iii) be received by the Debtor’s counsel in a timely manner at  
11 the address et forth below. As indicated above, the Debtor expressly reserves the right to  
12 contest the validity of any such withdrawals of Ballots.

13 Unless otherwise directed by the Bankruptcy Court, a purported notice of withdrawal  
14 of Ballots which is not received in a timely manner will not be effective to withdraw a  
15 previously furnished Ballot.

16 (5) Liquidation Analysis.

17 To confirm the Plan, the Court must find that all creditors and equity interest holders  
18 who do not accept the Plan will receive at least as much under the Plan as such claim and  
19 equity interest holders would receive in a chapter 7 liquidation.

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Non-Exempt Assets Administered through the Plan			
Property	Estimated Value	Secured Debt	Equity
Warehouse	\$850,000	\$673,809.70 -ReadyCap (est) \$ 592.12 - LV Sewer \$ 2,339.77- CC Sanitation \$ 2,209.26 - LV Water \$ <u>97,015.33 - Republic</u> <b>\$775,955.18</b>	\$74,033.82 (minus est. real estate sales fees of \$51,000 minus closing costs of \$10,000 est.= \$13,033.82 est.)
Cash	\$5,000 est.	\$5,000 ReadyCap (on liquidation)	\$5000
Misc. Fabrics/Equipment	\$5,000 (est. liquidation value)	\$5,000 ReadyCap (on liquidation)	\$5000
Vehicles	\$1500 (est. liquidation value)	\$0	\$1500.00
Goodwill/domain name/customer lists/business license	\$0	\$0	\$0
Accounts Receivable	\$10,000 (est. after costs of collection)	\$10,000 ReadyCap (on liquidation)	\$10,000
Office Furniture	\$500 (est. liquidation value)	\$500 ReadyCap (on liquidation)	\$500
<b>TOTAL</b>	<b>\$872,000.00</b>	<b>\$774,955.18</b>	<b>\$35,033.82</b>

The Debtor estimates that in Chapter 7, a Trustee may be able to recover a total of approximately \$35,033.82, and that from that amount, Chapter 7 administrative expenses would need to be paid, leaving a significantly reduced amount for recovery. The Debtor believes that it is highly likely that unsecured creditors would receive nothing in a Chapter 7 case. Under the Debtor's proposed Plan, unsecured creditors will receive a pro-rata share of \$40,000.00, or an estimated 45% of their claims.

(6) Feasibility.

The Court must find that confirmation of the Plan is not likely to be followed by



1 the liquidation, or the need for further financial reorganization, of the Debtor or any successor  
2 to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

3 *Ability to Fund Plan*

4 The Debtor believes that it will have enough cash on hand on the effective date of the  
5 Plan to pay all the claims and expenses that are entitled to be paid on that date.

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

7 The Plan Proponent must also show that it will have enough cash over the life of the  
8 Plan to make the required Plan payments. Debtors believes that it will have sufficient cash  
9 generated through operations to make the payments under the Plan.

10 ***You Should Consult with Your Accountant or other Financial Advisor if You***  
11 ***Have Any Questions Pertaining to These Projections.***

12 (7) Submission of Ballots.

13 The forms of Ballot for each of the Classes entitled to vote on the Plan will be  
14 sent to all Creditors with a copy of the Disclosure Statement approved by the Bankruptcy  
15 Court, the Plan, and the Appendix of Exhibits. Creditors should read the Ballot carefully. If  
16 any Creditor has any questions concerning voting procedures, that Creditor may contact:

17 Matthew L. Johnson, Esq.  
18 JOHNSON & GUBLER, P.C.  
19 8831 W. Sahara Avenue  
20 Las Vegas, Nevada 89117  
(702) 471-0065  
E-Mail: mjohnson@mjohnsonlaw.com

21 Ballot(s) must be returned to:

22 Matthew L. Johnson, Esq.  
23 JOHNSON & GUBLER, P.C.  
24 8831 W. Sahara Avenue  
25 Las Vegas, Nevada 89117  
26 Fax: (702) 471-0075

27 Ballots must be received by no later than 5:00 p.m. on \_\_\_\_\_, 2018.

28 DATED: \_\_\_\_\_, 2018

By: /s/ Richard Jahn  
President of Quality Upholstery Inc.

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**Reviewed by:**  
JOHNSON & GUBLER, P.C.

/s/ Matthew L. Johnson  
Matthew L. Johnson (6004)  
Russell G. Gubler (10889)  
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*Attorneys for Debtor*

