
**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK**

IN RE: CHAPTER 11
FAIRYTALE DAY CARE, INC., CASE NO.: 1-15-42535-CEC
DEBTOR.

THIRD AMENDED DISCLOSURE STATEMENT

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**THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN.
ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A
DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY
COURT. THIS DISCLOSURE STATEMENT
IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE
COURT.**

A. INTRODUCTION

Pursuant to Section 1125 of Title 11 of the United States Code (the “Bankruptcy Code”), Fairytale Day Care, Inc., the debtor and debtor-in possession (the “Debtor”) provides this Third Amended Disclosure Statement (“Disclosure Statement”) to all of its known creditors and other parties in interest in order to provide information deemed by the Debtor to be material and necessary to enable such creditors and parties in interest to make a reasonable informed decision in the exercise of their rights to vote on and participate in the Plan of Reorganization proposed by the Debtor (the "Plan"). The proposed Plan is annexed hereto as **Exhibit "A"**.

The information contained in this Disclosure Statement is based on the representations made by the Debtor in its Petition and Schedules and all other documents provided to counsel for the Debtor and are believed to be accurate. It has not been subjected to a certified audit or independent review. Therefore, no representation or warranty is made as to its accuracy or completeness. However, the Debtor has reasonably endeavored to obtain and supply all material information. The Office of the United States Trustee has not yet reviewed and approved the Disclosure Statement. The Bankruptcy Court will conduct a hearing on the approval of the Disclosure Statement.

THE BANKRUPTCY COURT HAS SET AT _____ ON _____ AS THE DATE AND TIME OF THE HEARING FOR FINAL APPROVAL OF THE DISCLOSURE STATEMENT AND CONFIRMATION OF THE PLAN AND OBJECTIONS THERETO, WHICH HEARING WILL BE HELD IN THE UNITED STATES BANKRUPTCY COURT, EASTERN DISTRICT OF NEW YORK, 271 CADMAN PLAZA EAST, BROOKLYN, NEW YORK 11201-1800. CREDITORS OF AND

HOLDERS OF INTERESTS IN THE DEBTOR MAY ATTEND SUCH HEARING. THE BANKRUPTCY COURT HAS FIXED _____ AS THE DATE AND TIME BY WHICH ALL WRITTEN OBJECTIONS TO CONFIRMATION OF THE PLAN AND/OR THE DISCLOSURE STATEMENT SHALL BE FILED WITH THE BANKRUPTCY COURT AND SERVED SO AS TO BE RECEIVED BY SAID DATE UPON THE ATTORNEYS FOR THE DEBTOR AND THE UNITED STATES TRUSTEE.

A BALLOT ACCOMPANIES THIS DISCLOSURE STATEMENT FOR YOUR USE IN VOTING ON THE PLAN. IN ORDER TO BE CONFIRMED, THE PLAN MUST BE ACCEPTED BY A MAJORITY IN NUMBER AND TWO-THIRDS IN AMOUNT OF THOSE VOTING IN EACH CLASS IMPAIRED UNDER THE PLAN, EXCEPT TO THE EXTENT THAT THE PLAN MAY BE CONFIRMED NOTWITHSTANDING THE FAILURE TO OBTAIN SUCH ACCEPTANCE IN ACCORDANCE WITH SECTION 1129(b) OF THE BANKRUPTCY CODE.

YOU ARE URGED TO REVIEW THE PLAN, THIS DISCLOSURE STATEMENT, AND THE BALLOT WITH COUNSEL OF YOUR CHOICE. HOLDERS OF CLAIMS WHICH ARE IMPAIRED UNDER THE PLAN MAY VOTE TO ACCEPT OR REJECT THE PLAN BY COMPLETING, MAILING AND/OR FAXING THE ENCLOSED BALLOT SO AS TO BE RECEIVED ON OR BEFORE _____ TO DEBTOR'S ATTORNEYS, AT THE ADDRESS, FAX NUMBER, AND/OR E-MAIL ADDRESS SET FORTH BELOW:

Law Offices of Alla Kachan, P.C.
3099 Coney Island Avenue, 3rd Floor
Brooklyn, NY 11235
Tel.: (718) 513-3145

Fax: (347) 342-3156
e-mail: alla@kachanlaw.com

**THE DEBTOR RECOMMENDS AND REQUESTS YOUR ACCEPTANCE OF
THE PLAN.**

Other than the information set forth in this Disclosure Statement, the Debtor has not authorized any person or entity to make representations concerning the Debtor, its business, their future income, the value of the Debtor's assets, or the amounts to be distributed under the Plan. Any representations or inducements made to secure your acceptance of the Plan which is other than as contained in this Disclosure Statement should not be relied upon by you in determining whether to accept or reject the Plan.

B. DEBTOR'S BACKGROUND

(i) Description of the Debtor and History of Debtor's Business

The Debtor is a corporation formed under the laws of the State of New York. Since April, 2011, the Debtor has been operating Fairytale Day Care, Inc., currently located at 99-13/17 63rd Road, Rego Park, NY 11374 (collectively, the "Property").

(ii) Debtor's Insiders

The sole insiders of the Debtor as defined by § 101(31) of the Bankruptcy Code are: Maria Isakova ("Ms. Iskatova") as the President, and George Borok ("Mr. Borok") as the secretary, and are the two sole shareholders of the Debtor, holding a ninety percent (90%) interest and ten percent (10%) interest, respectively. Ms. Isakova is currently a debtor in her own Chapter 7 Bankruptcy case. As a result, her Chapter 7 Trustee, David J. Doyaga, Sr. ("Chapter 7 Trustee") holds title to her shares in the Debtor. The wages paid to Ms. Isakova for the two year period prior to the Petition Date were \$144,575.17 and approximately \$34,661.48 respectively since the Petition Date. The wages paid to Mr. Borok for the two year period prior to the Petition

Date is \$26,997.91 and approximately \$17,258.54 respectively since the Petition Date.

Management of the Debtor Before and During the Bankruptcy

During the two (2) years prior to the date on which the bankruptcy petition was filed, and during the pendency of the Debtor's chapter 11 case, Ms. Isakova and Mr. Borak, were the sole officers and directors, of the Debtor. Post petition, Ms. Isakova and Mr. Borak, continued to be the sole officers and directors of the Debtor. Subject to the consent of her Chapter 7 Trustee, Ms. Isakova will continue in the management of the business and her compensation will remain \$4,000.00 as approved by the court on March 9, 2016 and Mr. Borak will continue in the management of the business and his compensation will remain \$3,000.00 as approved by the court on March 9, 2016.

(iii) Events Leading to Chapter 11 Filing

The Debtor is a Day Care located at 99-13/17 63rd Road, Rego Park, NY 11374.

The filing of the instant Chapter 11 proceeding by Fairytale Day Care, Inc. were brought about by a long standing dispute and litigation between Fairytale Day Care, Inc. and the landlords of the premises where the day care is located. The parties were engaged in landlord/tenant litigation (the "Landlord /Tenant Action") in Queens County for a protracted period of time, which precipitated the filing.

C. HISTORY

The Debtor commenced this proceeding by filing a voluntary petition in the United States Bankruptcy Court for the Eastern District of New York under Chapter 11 of the Bankruptcy Code, on May 29, 2015 (the "Petition Date").

On July 13, 2015 the Debtor filed a motion seeking the retention of Alla Kachan, Esq. as bankruptcy counsel for the Debtor.

The Objection of the U.S. Trustee to the Debtor's Application to Employ Law Offices of Alla Kachan, P.C, as counsel to the Debtor was filed on July 22, 2016 that was resolved by filing of Affirmation in Opposition to the Objection of the US Trustee to the debtor's application to retain the Law Offices Of Alla Kachan, P.C., as attorney for the Debtor.

By an Order of the Court dated June 13, 2016, Alla Kachan's retention was approved on behalf of the Debtor.

On July 13, 2015 the Debtor filed a motion seeking the retention of Wisdom Professional Services Inc. as bankruptcy accountant for the Debtor.

The supplemental affidavit of Michael Shtarkman, in support of that application was filed on August 4, 2015.

By an Order of the Court dated February 12, 2016, Wisdom Professional Services Inc. retention was approved on behalf of the Debtor.

Pursuant to Section 341 of the Bankruptcy Code, a meeting of creditors was held on July 17, 2015.

An order setting forth the last day to file proofs of claim was entered on July 21, 2015, scheduling the claims bar date as November 30, 2015.

On January 3, 2014, Maria Isakova, one of the two principal of the Debtor, filed her voluntary petition for Chapter 13 bankruptcy relief.

Upon motion of Maria Isakova, the Chapter 13 Case was converted to one under Title 11, Chapter 11, U.S.C. pursuant to order of the Court dated and entered June 6, 2016.

On August 13, 2015 the Chapter 11 Case was converted to one under Title 11, Chapter 7, U.S.C. As noted above, the Chapter 7 Trustee was appointed and qualified as Trustee.

On August 14, 2015, the Landlords filed proofs of claim against the Debtor.

On August 18 2015, the Landlords filed a motion (the “365(d)(3) Motion”) seeking allowance of certain postpetition claims arising under the leases with the Debtor and further seeking an order directing Debtor to comply with alleged lease obligations.

On September 15, 2015, the Debtor objected to the 365(d)(3) Motion.

On September 16, 2015, the Court held an initial hearing on the 365(d)(3) Motion and gave the Debtor and the Landlords an opportunity to mediate the disputes between them.

On October 26, 2015, the Debtor and Landlords entered into a first stipulation addressing certain issues of dispute in the 365(d)(3) Motion.

On November 12, 2015, the Landlord’s filed in the Isakova chapter 7 case proofs of claim based on Ms. Isakova’s guaranties of the Fairytale Day Care leases.

On November 19, 2015, this Court entered an order appointing Bruce Weiner, Esq. as mediator concerning the 365(d)(3) Motion.

On December 7, 2015, the Landlords filed a motion (the “365(d)(4) Motion”) seeking to deem the leases with Fairytale rejected.

On December 16, 2015, December 22, 2015, and January 7, 2016, the Debtor and the Landlords met in mediations sessions.

On January 8, 2016, the Debtor filed opposition to the 365(d)(4) Motion.

On January 25, 2016, this Court entered a second stipulation and order between the Debtor and Landlords partially resolving certain additional issues in the 365(d)(3) Motion.

On February 26, 2016, the Debtor and the Landlord’s executed a memorandum of understanding subject to the execution of a a definitive settlement agreement and replacement leases for the Property.

On March 8, 2016, this Court entered a third stipulation and order between the Debtor

and Landlords partially resolving certain additional issues in the 365(d)(3) Motion.

On April 13, 2016, this Court entered a fourth stipulation and order between the Debtor and Landlords partially resolving certain additional issues in the 365(d)(3) Motion.

On or about June 10, 2016, the Debtor and Landlords executed, subject to final Court approval, a global settlement agreement (the “Global Stipulation”) and replacement leases for the Property (“Replacement Leases”), which once approved by the Court, and subject to confirmation of a chapter 11 plan acceptable in form to the Landlords and the Debtor’s compliance with such chapter 11 plan, resolve the 365(d)(3) Motion, the 365(d)(4) Motion, and all the proofs of claim asserted by the Landlords in the Isakova chapter 7 case and in this chapter 11 case.

The Chapter 7 Trustee is holding in an attorney escrow account approximately \$114,000.00 turned over to the Trustee from the Chapter 11 case (the “Isakova Account”). The Chapter 7 Trustee has agreed to consent to this Plan and Disclosure Statement being filed and approved and confirmed by the Court as part of a global settlement wherein all claims and Administrative expenses in the Chapter 7 will be paid in full Including the claims of New York State entities which have been reduced as oper a court approved settlement). Upon the payment of all Claims and Administrative expenses in full, the Trustee will abandon Ms. Isakova’s interest in the Debtor, either by motion or by filing a final report, which does not administer that asset.

PROJECTED RECOVERY OF AVOIDABLE TRANSFERS

The Debtor does not intend to pursue any preference, fraudulent conveyance, or other avoidance actions.

D. PLAN FUNDING

The entity's reorganization plan is to utilize funds earned from its thriving operation of the business to fund a Global Stipulation resolving all motions and issues in dispute and enter into new leases for the premises located at 99-13 and 99-17 63rd. Please see Exhibit "I". Projected 5 year Profit and Loss Statement.

E. CLASSIFICATION, AMOUNT AND NUMBER OF CLAIMS

The Plan divides all Claims and Interests into the following Classes, plus Administrative, Priority Tax Claims and Statutory Fees.

1. Administrative Claims

Administrative claims consist of the Debtor's duly retained professionals and any other administrative expenses allowed under Section 503 of the Bankruptcy Code.

Administrative Claims will include the fees and expenses of the Debtor's Counsel, Alla Kachan, Esq., in the approximate amount of \$10,000.00 (through confirmation, exclusive of the pre-petition retainer received prior to the Petition Date in the amount of \$5,000.00 from the Debtor).

Wisdom Professional Services Inc. asserts a claim for the fees and expenses as accountants for the Debtor, in the approximate amount of \$5,000.00. Wisdom Professional Services Inc. has not received an initial retainer fee prior to filing.

Administrative Claims of Internal Revenue Service in the amount of \$94,222.82 comprised of the administrative claim and accumulated interest and penalties, shall be paid in the following manner: the sum of \$50,000.00 will be paid on the Confirmation Date and the remaining balance of \$44,222.82 will be paid in 3 subsequent monthly instalment payments in equal monthly installments of \$14,740.94. The IRS has consented to this treatment in spite of the fact that they

are entitled to the payment of the entire amount at confirmation of the plan with the applicable statutory interest and penalties. Penalties and interest will continue to accrue until the full repayment of the claim. The amount of the 3rd payment may change to reflect the accrued penalties and interest.

The claims of Debtor's professionals shall be subject to final fees applications pursuant to Bankruptcy Code Section 330 and orders of the Court approving the fees and expenses as sought by this application. The Debtor estimates that the total administrative fees will equal to **\$109,222.82.**

2. Priority Claims

Class I - Priority Tax Claims:

- (i) Unsecured Priority claim of New York State Department of Labor with a priority claim in the amount of \$20,149.39;
- (ii) Unsecured Priority claim of New York State Department of Taxation and Finance in the amount of \$333.86 comprising base taxes and accumulated interest;
- (iii) Unsecured Priority claim of NYC Department of finance in the amount of \$2,687.04 comprising base taxes and accumulated interest;
- (iv) Unsecured Priority claim of Internal Revenue Service in the amount of \$41,691.44 comprising base taxes and accumulated interest.

3. In addition to Administrative, Priority, and general unsecured claims, there exist **statutory fees** due and payable by the Debtor to the Office of the United States Trustee pursuant to 28 U.S.C. § 1930(a)(6) and any applicable interest thereon shall be paid in cash by the Effective Date. United States Trustee fees and any applicable interest thereon shall continue to be paid by the Debtor until the earlier of Debtor's case being closed by entry of a final

decree, converted, or dismissed.

4. **Class II** consists of the claims of general unsecured creditors in the Debtor's case totaling approximately \$10,072.22:

Penalties assessed New York State Department of Taxation and Finance is \$2,585.42;

Penalties assessed Internal Revenue Service is \$5,023.74;

ConEdison is \$2,463.06.

5. **Class III** consists of the two claims for pre petition rent, filed by Ilya Mitelman, on behalf of the Landlord of the Property, in the amount of \$105,154.41 and \$115,000.00. As per the Global Stipulation, the Class III claims are deemed allowed and are not disputed by the Debtor.

6. Maria Isakova and George Borok, the **Class IV** interest holders.

F. **REQUIREMENTS FOR CONFIRMATION OF THE PLAN**

1. **Confirmation Hearing**

The Bankruptcy Court has set _____ as the date and time for a hearing 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. Each Creditor will receive notice of the Confirmation Hearing.

2. **Requirements for Confirmation**

In order to confirm the Plan, Section 1129 of the Bankruptcy Code requires the Court to make a series of determinations concerning the Plan, including that:

- a. the Plan classifies Claims and Interests in a permissible manner;
- b. the Plan complies with the technical requirements of Chapter 11 of the

Bankruptcy Code;

c. the proponent of the Plan (here the Debtor) has proposed the Plan in good faith;

d. the Plan proponent's disclosures concerning the Plan have been adequate and have included information concerning all payments and distributions to be made in connection with the Plan.

The Debtor believes that all of these conditions have been met or will be met by the time of the Confirmation Hearing, and the Debtor will seek a determination of the Court to this effect at the Confirmation Hearing.

3. Acceptances Necessary for Confirmation

The Bankruptcy Code requires that the Plan be accepted by requisite votes of Creditors, except to the extent that "cram down" is available under Section 1129(b) of the Bankruptcy Code. The Bankruptcy Code requires that the Plan be feasible. Because the funds required for The Plan shall be provided from revenue derived from the business, the Debtor anticipates increasing its business volume by promoting special events in addition to the daily operations, enhancing Debtor's ability to make regular payments required under this Plan.

The Bankruptcy Code also requires that the Plan place each Creditor's Claim in a class with other Claims which are substantially similar. The Debtor believes that the classification system in the Plan meets the Bankruptcy Code's standard. Although the Court must independently conclude that the Plan's classification system is legally authorized, any Creditor who believes that the Plan has improperly classified any group of Claims may object to Confirmation of the Plan.

At the Confirmation Hearing, the Court must determine, among other things, whether the Plan has been accepted by each Class of Creditors who's Claims are impaired under the

Plan.

Under Section 1126 of the Bankruptcy Code, any impaired Class is deemed to accept the Plan if it is accepted by at least two-thirds in amount and more than one-half in number of the Allowed Claims of Class members who have voted on the Plan. Further, unless there is unanimous acceptance of the Plan by an impaired Class, the Court must also determine that under the Plan, Class members will receive property of value as of the Effective Date of the Plan that is not less than the amount such Class members would receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code on the Effective Date. This requirement is commonly referred to as the “Best Interests Test.”

Chapter 7:

To determine the value that the holders of Impaired Claims would receive if the Debtor was liquidated, the Bankruptcy Court must determine the dollar amount that would be generated from the liquidation of assets and properties of the Debtor in the context of a chapter 7 liquidation case. Section 704 of the Bankruptcy Code requires a chapter 7 trustee to collect and reduce to money the property of the estate as expeditiously as is compatible with the best interests of parties in interest. In the case of the Debtor, a chapter 7 trustee would be administering an estate made up largely of the same Assets that are available for Creditors under the Plan. The Cash available for satisfaction of Allowed Claims would consist of the proceeds resulting from the disposition of assets of the Debtor, augmented by Cash, if any, held by the Debtor at the time of the commencement of the chapter 7 case. That Cash amount would then be reduced by the amount of any Claims secured by the assets, the costs and expenses of the liquidation, and additional Administrative Claims and other Priority Claims that may result from the use of chapter 7 for the purposes of liquidation. The costs of liquidation under chapter 7

would include fees payable to the trustee in bankruptcy, as well as those that might be payable to his or her attorneys and to other professionals that the trustee may engage, plus any unpaid expenses incurred by the Debtor during the Chapter 11 Case that would be allowed in the chapter 7 cases, such as compensation for attorneys, accountants or other professionals and costs and expenses of the Debtor. These Administrative Claims would have to be paid in Cash, in full, from the liquidation proceeds before the balance of those proceeds could be made available to pay other Priority Claims and allowed General Unsecured Claims from the Chapter 11 Case. In a chapter 7 case, there would be no payment from any disposable income of the debtor after such conversion. Please see **Exhibit “B”**, Liquidation Analysis.

4. Persons Entitled to Vote on the Plan

Only the votes of Classes who’s Claims are impaired by the Plan will be counted in connection with Confirmation. Generally, this includes any Creditors who, under the Plan, will receive less than payment in full of the Allowed Amount of their Claims on the Effective Date.

In determining the acceptance of the Plan, votes will be counted only if submitted by a Creditor whose Claim is scheduled by the Debtor as undisputed, non-contingent, and liquidated or who timely filed with the Bankruptcy Court a proof of claim which has not been objected to or disallowed.

5. Solicitation of Acceptances

This Disclosure Statement must be finally approved by the Court in accordance with Section 1125 of the Bankruptcy Code and be provided to each Creditor whose Claim has been scheduled by the Debtor or who filed a proof of claim. This Disclosure Statement is intended to assist Creditors whose Claims are impaired in evaluating the Plan and in determining

whether to accept or reject the Plan. Under the Bankruptcy Code, final approval of the Disclosure Statement means that this document sets forth "adequate information" as required by the Bankruptcy Code, and does not constitute a recommendation by the Court either for or against the Plan.

6. How to Vote

A form of Ballot is being provided to the members of Classes II and III by which Creditors in those Class may vote to either accept or reject the Plan. To vote on the Plan, please complete the enclosed Ballot by (1) indicating that you either accept or reject the Plan and (2) signing your name and mailing the Ballot.

BALLOTS MUST BE COMPLETED, SIGNED AND MAILED SO AS TO BE RECEIVED BY DEBTOR'S COUNSEL NO LATER THAN 5:00 STANDARD TIME ON _____ AT THE FOLLOWING ADDRESS OR THEY WILL NOT BE COUNTED:

Law Offices of Alla Kachan, P.C.
3099 Coney Island Avenue, 3rd Floor
Brooklyn, NY 11235

IF YOUR BALLOT IS NOT PROPERLY COMPLETED, SIGNED AND RECEIVED AS DESCRIBED, IT WILL NOT BE COUNTED. IF YOUR BALLOT IS DAMAGED OR LOST, YOU MAY REQUEST A REPLACEMENT BY ADDRESSING A WRITTEN REQUEST TO THE ADDRESS SHOWN ABOVE.

A copy of the proposed ballot has been annexed hereto as **Exhibit "C"**.

7. Objections to Confirmation

Any objections to confirmation of the Plan must be in writing and must be filed with the Bankruptcy Court and served on counsel listed below on or before _____:

Counsel for the Debtor:
Law Offices of Alla Kachan, P.C.

Alla Kachan, Esq.
3099 Coney Island Avenue, 3rd Floor
Brooklyn, NY 11235

G. DESCRIPTION OF THE PLAN

The following is a summary of certain provisions of the Plan.

A DISCUSSION OF THE PRINCIPAL PROVISIONS OF THE PLAN AS THEY RELATE TO THE TREATMENT OF CLASSES OF ALLOWED CLAIMS ARE SUMMARIZED BELOW. THE DISCUSSION OF THE PLAN THAT FOLLOWS CONSTITUTES A SUMMARY ONLY AND SHOULD NOT BE RELIED UPON FOR VOTING PURPOSES. YOU ARE URGED TO READ THE PLAN IN FULL IN EVALUATING WHETHER TO ACCEPT OR REJECT THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THIS SUMMARY AND THE PLAN, THE TERMS OF THE PLAN CONTROL. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED HAVE THE MEANINGS ASCRIBED TO THEM IN THE PLAN.

7. Overview

The Plan contemplates reconciliation of outstanding Claims against the estate by the Post-Confirmation Debtor, and the making of distributions to Creditors under the Plan in accordance with the priorities established by the Bankruptcy Code by the Post-Confirmation Debtor as Disbursing Agent. The Plan categorizes the Claims against the Debtor into distinct Classes. In accordance with the Bankruptcy Code, Administrative Claims, Priority Tax Claims and Bankruptcy Fees are not classified. The Plan also provides that expenses incurred by the Debtor during the Chapter 11 Case will be paid in full (or as may otherwise be agreed by any party) and specifies the manner in which holders of Allowed Claims in each Class will be

treated. If there is any discrepancy between this description of the Plan's treatment of Creditors and that set forth in the Plan, the terms of the Plan are controlling.

CLASS	CLAIM	STATUS	VOTING
Class II	General Unsecured Claims	Impaired	Entitled to Vote
Class III	General Unsecured Claims	Impaired	Entitled to Vote

8. Unclassified Claims

a. Administrative Claims

Administrative claims consist of the Debtor's duly retained professionals and any other administrative expenses allowed under Section 503 of the Bankruptcy Code.

Administrative Claims will include the fees and expenses of the Debtor's Counsel, Alla Kachan, Esq., in the approximate amount of \$10,000.00 (through confirmation, exclusive of the pre-petition retainer received prior to the Petition Date in the amount of \$5,000.00 from the Debtor).

Wisdom Professional Services Inc. asserts a claim for the fees and expenses as accountants for the Debtor, in the approximate amount of \$5,000.00. Wisdom Professional Services Inc. has not received an initial retainer fee prior to filing.

Administrative Claims of Internal Revenue Service in the amount of \$94,222.82 comprised of the administrative claim and accumulated interest and penalties, shall be paid in the following manner: the sum of \$50,000.00 will be paid on the Confirmation Date and the remaining balance of \$44,222.82 will be paid in 3 subsequent monthly instalment payments in equal monthly installments of \$14,740.94. Penalties and interest will continue to accrue until the full repayment of the claim. The amount of the 3rd payment may change to reflect the accrued penalties and

interest.

The claims of Debtor's professionals shall be subject to final fees applications pursuant to Bankruptcy Code Section 330 and orders of the Court approving the fees and expenses as sought by this application. The Debtor estimates that the total administrative fees will equal to **\$109,222.82.**

b. Priority Claims

Class I – Priority Claims:

(i) Unsecured Priority claim of New York State Department of Labor with a priority claim in the amount of \$20,149.39 comprising base taxes and accumulated interest shall be paid in full within sixty (60) months of the Confirmation Date or have the holder of the Priority Claim agree to a different treatment, together with 6% rate of interest compounded daily in equal monthly installments of **\$389.56**. Please see attached Exhibit “D”;

(ii) Unsecured Priority claim of New York State Department of Taxation and Finance in the amount of \$333.86 comprising base taxes and accumulated interest shall be paid in full within sixty (60) months of the Confirmation Date or have the holder of the Priority Claim agree to a different treatment, together with 6% rate of interest compounded daily in equal monthly installments of **\$6.46**. Please see attached Exhibit “E”;

(iii) Unsecured Priority claim of NYC Department of finance in the amount of **\$2,687.04** comprising base taxes and accumulated interest shall be paid in full within sixty (60) months of the Confirmation Date or have the holder of the Priority Claim agree to a different treatment, together with 6% rate of interest compounded daily in equal monthly installments of **\$51.95**. Please see attached Exhibit “F”;

(iv) Unsecured Priority claim of Internal Revenue Service in the amount of \$41,691.44 comprising base taxes and accumulated interest shall be paid in full within sixty (60) months of the Petition Date or have the holder of the Priority Claim agree to a different treatment, together with 6% rate of interest compounded daily in equal monthly installments of \$1,152.57. Please see attached Exhibit “G”.

The class I creditors are not impaired and are not entitled to vote on the Plan.

c. Statutory Bankruptcy Fee

All Bankruptcy fees and charges assessed against the Debtor under 28 U.S. § 1930(a)(6) payable to the United States Trustee shall be paid in cash by the Effective Date, with any applicable interest thereon. Thereafter, such fees and any applicable interest shall continue to be paid by the Debtor until Debtor’s case is closed by entry of a final decree, converted, or dismissed.

The Debtor shall pay all United States Trustee quarterly fees under 28 U.S.C. §1930(a)(6), plus interest due and payable under 31 U.S.C. § 3717 on all disbursements, including Plan payments and disbursements in and outside the ordinary course of the Debtor’s affairs, until the entry of a Final Decree, dismissal of the Chapter 11 Case or conversion of the Chapter 11 Case to a case under chapter 7 of the Bankruptcy Code. Additionally, the Debtor shall file quarterly Post Confirmation Reports and schedule quarterly post-confirmation status conferences with the Court.

d. General Unsecured Claim

Class II – (Unsecured Creditors) consists of the claims of general unsecured creditors in the Debtor’s case totaling approximately \$10,072.22:

Penalties assessed New York State Department of Taxation and Finance is \$2,585.42;

Penalties assessed Internal Revenue Service is \$5,023.74;

ConEdison is \$2,463.06.

The Debtor proposes to pay the Unsecured Creditors ten percent (10%) dividend of their allowed claims in twenty four (24) equal monthly installments of respectively:

Members of Class II	Aggregate Dollar Amount of Claims in Class II	Plan Treatment of Class II	10% Divident	Monthly payment
NYS Department of Taxation and Finance	\$2,585.42	10% dividend in 24 monthly installment payments	\$258.54	\$10.77
IRS	<u>\$5,023.74</u>	10% dividend in 24 monthly installment payments	<u>\$502.37</u>	<u>\$20.93</u>
ConEdison	\$2,463.06	10% dividend in 24 monthly installment payments	\$246.30	\$10.26

The class II creditors are impaired and are entitled to vote on the Plan.

e. **Class III** consists of the two claims of Ilya Mitelman, landlord, in the amounts of \$105,154.41 for 99-13 63rd Road, Rego Park, NY 11374 and \$115,000.00 for 99-17 63rd Road, Rego Park, NY 11374, for pre petition rent and additional rent. The treatment of these claims is fully set forth in the Global Stipulation of Landlords of 99-13 and 99-17 63rd Road, Rego Park, as well as the finalized and executed new lease agreements for the premises located at 99-13 and 99-17 63rd Road, Rego Park, NY 11374, copies of which are attached as Exhibits "A" and "B" to the

Third Amended Chapter 11 Plan. The Global Stipulation is a material term of this Plan and is incorporated herein by reference as if fully set forth herein.

The Debtor and the Landlord, as one of the terms in the Global Stipulation incorporated herein, have agreed and the Debtor has undertaken to obtain a fully executed stipulation of discontinuance of a pending proceeding against the Landlord in Supreme Court. A copy of said stipulation is attached as Exhibit "D" to the Third Amended Chapter 11 Plan.

The Debtor has also agreed to the assignment of the lease from Ilya Mitelman and Diana Mitelman to 99-17 63rd Road LLC and has acknowledged that said assignment does not alter any obligations under the terms of the lease. Said assignment is attached as Exhibit "E" to the Third Amended Chapter 11 Plan.

Namely, the Global Stipulation requires the Debtor to make certain payments to the Landlords including but not limited to the following:

The Landlords shall amend the Global stipulation with regard to the timing and breakdown of the \$95,000.00 payment as follows:

Elevator Credit for 99-13 (10,887.50) Per Global Stipulation

99-17 Isakova Trustee Payment (19,751.00)

99-13 Isakova Trustee Payment (19,751.00)

\$20,000 payment upon confirmation (20,000.00) Per Maria's Proposal

Balance Due: 24,610.50

The balance of the \$24,610.50 will be due and payable in three equal monthly installments of \$8,203.50 with good postdated checks that may be deposited by the Landlords as follows- 1st payment to be paid on December 1 and January 1st and February 1st.

1. From this amount, the first \$20,154.41 shall be allocated as follows: \$15,000.00 shall be paid on account of the pre-petition claim for 99-17 63rd Road and \$5,154.41 shall be paid on account of the pre-petition claim for 99-13 63rd Road, with the balance divided equally between the claims of 99-17 and 99-13.

2. During the first 12 months following confirmation, beginning with the Effective Date of the Plan, the Debtor shall pay to Landlords, in addition to any and all amounts to be paid under the Replacement Leases, the sum of \$3,000.00 per month; and beginning on the 13th month after the Effective Date, and then for the next 17 months of the plan, the Debtor shall pay to Landlords, \$9,000.00 per month. These amounts will adjust as appropriate once (i) the payment from the Isakova Account is made; and (ii) the final amount of the Landlord's legal fees is known (collectively, the "Landlord Settlement Amounts"). The amount of legal fees agreed to through confirmation, was \$10,000. Currently, the additional amount that has accumulated and has been agreed to by the parties is \$2,000/\$3,000, in amendment to the amounts set forth in the Global Stipulation. As set forth in the Global Stipulation and Replacement Leases, the Replacement Leases are interim leases until such time as all of the Landlord Settlement Amounts are paid in full, provided that notwithstanding the foregoing, in the event of any dispute with respect to Debtor's tenancy, the Replacement Leases shall govern. Furthermore, in the event Landlord is required to bring an action in any court against the Debtor, with respect to Debtor's use and occupancy or tenancy at either 99-17 and/or 99-13 63rd Road, Rego Park, NY, then the Replacement Leases (and no other leases) shall govern the relationship between Landlord(s) and Debtor.

The stipulated payments do not include the accumulated interest proscribed by the original leases for the premises. As such, the Landlord has waived the collection of that interest.

Therefore, class II creditors are impaired as they are not receiving the full amounts they would be entitled to under the terms of the original leases. The class III creditors are therefore entitled to vote on the Plan.

f. Maria Isakova and George Borok are the **Class IV** interest holders, shall retain their interest in the Debtor following toward the payment of Escrow Funds and Landlord Settlement Amounts pursuant to the Global Stipulation of Settlement, the finalized and executed Replacement Leases for 99-13 and 99-17 63rd Road, Rego Park and general unsecured creditor claims. The new value contribution shall consist of installment contributions of \$1,400.00, over the 29 month term of the Global Stipulation Confirmation in consideration of the new value contribution being made by them as the equity holders of settlement, to equal approximately \$40,000.00 by each of the Principals in total by the conclusion of the term of the Stipulation. Ms. Isakova and Mr. Borak intend to use their monthly salaries from the business.

g. **Classes Impaired Under The Plan**

Under Section 1126 of the Bankruptcy Code, Classes of Claims which are impaired are entitled to vote on a plan of reorganization. Under Section 1124 of the Code, a Class of Claims is impaired unless the Plan, with respect to such Class:

(a) leaves unaltered the legal, equitable and contractual rights to which such Claim or Interest entitles the holder of such Claim or Interest; or

(b) reinstates a previously accelerated Claim or Interest by which (a) curing any prepetition defaults (other than a default under Section 365(b)(2) of the Code, (b) reinstating the maturity of such Claim or Interest as it existed result of reliance on a contractual acceleration provisions or similar applicable law, and (c) not otherwise altering the legal, equitable or contractual rights to which such Claim or Interest entitle the holders of such Claim or

Interest; or

(c) provides on the Effective Date that (a) with respect to a class of Claims, the holders of such Claims receive Cash equal to the allowed amount of their Claims; and (b) with respect to a class of Interests, the holders of such Interests receive the greater of any fixed liquidation preference that they are entitled to under any security, or any fixed price at which the debtor may redeem such security pursuant to the terms of such security.

Classes II and III are impaired under the Plan and entitled to vote. Administrative Claims are not impaired under the Plan and are not entitled to vote.

H. MEANS OF IMPLEMENTING THE PLAN

a. Source of payment

Payments and distributions under the Plan will be funded by the following:

By continued operation and increased earnings of Fairytale Day Care, Inc.

New Value contributions by the principles of Fairytale Day Care, Inc.

b. Post-confirmation Management

The Post-Confirmation Managers of the Debtor, and their compensations, shall be as follows:

Name	Affiliations	Insider (yes or no)?	Position	Compensation
Maria Isakova		Yes	Manager	\$4,000.00 monthly
George Borok		Yes	Assistant Manager	\$3,000.00 monthly

I. CURRENT BALANCE SHEET AND STATEMENTS OF OPERATION

1. Balance Sheet

Annexed hereto as **Exhibit "H"** is a copy of Debtor's balance sheet as of May 31, 2016.

J. CLAIMS OBJECTIONS

The Debtor is currently reviewing its books and records to evaluate which, if any, claims shall be made the subject of an objection.

K. ABSOLUTE PRIORITY RULE

With certain exceptions, one of the requirements for confirmation is that a plan not provide for any payments to a junior class unless all superior classes are paid in full. Since general unsecured creditors are superior to the Debtor, the Debtor may not retain their interests, unless one of three situations occur:

1. The plan provides for full payment to general unsecured creditors; or
2. The stockholders seeking to retain their equity interests contribute “money or money’s worth” in the form of needed capital to the reorganized debtor reasonably equivalent in value to that of the equity interest sought to be retained; or

3. The class of unsecured creditors waive their rights by consenting to the plan as proposed. In the present case, the unsecured creditors are expected to consent to the Plan as proposed, and therefore, the Debtor does not anticipate seeking a “cram down” of the claims of unsecured creditors. The Debtor expects the class of unsecured creditors to vote in favor of the Plan as the Plan establishes a set amount to be paid with regularity toward the payment of the creditors’ claims that is tenable in light of the Debtors priority and post-petition obligations.

L. TAX CONSEQUENCES OF THE PLAN

THE FOLLOWING DISCUSSION IS A SUMMARY OF CERTAIN SELECTED SIGNIFICANT FEDERAL INCOME TAX CONSEQUENCES BUT NOT STATE, LOCAL OR FOREIGN TAX CONSEQUENCES, OF THE PLAN TO THE DEBTOR, HOLDERS OF CLAIM AND INTERESTS. THESE TAX CONSEQUENCES MAY BE AFFECTED BY

SUCH FACTORS AS CHANGES IN THE STRUCTURE OF THE DEBTOR FROM THAT DESCRIBED HEREIN. THE FEDERAL INCOME TAX CONSEQUENCES TO HOLDERS MAY VARY SIGNIFICANTLY DEPENDING ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER. MOREOVER, THE FEDERAL INCOME TAX CONSEQUENCES OF CERTAIN ASPECTS OF THE PLAN ARE UNCERTAIN BECAUSE OF THE LACK OF APPLICABLE LEGAL PRECEDENT AND THE POSSIBILITY OF CHANGES IN FEDERAL INCOME TAX LAWS. ACCORDINGLY, EACH HOLDER OF AN ALLOWED CLAIM OR INTEREST IS STRONGLY ADVISED TO CONSULT WITH SUCH HOLDER'S OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

In general, the federal income tax consequences to the Debtor and to each holder of an Allowed Claim will depend on numerous factors. These factors include but are not limited to the following:

- A. The identity and status of the particular Claimant for federal income tax purposes;
- B. The financial status of the Claimant and the Debtor, including the amount and character of any current tax attributes and tax attribute carryovers or carrybacks of the Claimant and/or the Debtor;
- C. The nature (recourse or nonrecourse) and terms of the debt instrument(s) to be restructured including the allocation of payments between principal and accrued but unpaid interest;
- D. The accounting method of the Claimant;
- E. The relationship, if any, between the Debtor and Claimants;

F. The residency, alienage or place of legal incorporation or formation (foreign or U.S.) of the Claimant and/or the persons owning beneficial equity interests in the Claimant.

G. The type or method of debt restructure adopted by the Debtor and Claimant and the timing of such debt restructure. The application of the factors to each Claimant will depend on the Claimant's individual facts and circumstances. In addition the federal income tax consequences to the Debtor and Claimants may depend on events which occur several years after the Plan is implemented.

THE DEBTOR'S LEGAL COUNSEL DOES NOT HAVE SUFFICIENT INFORMATION TO DETERMINE ALL OF THE SPECIFIC FEDERAL INCOME TAX CONSEQUENCES TO EACH OF THE CLAIMANTS RESULTING FROM THE PLAN. ACCORDINGLY, EACH HOLDER OF A CLAIM IS STRONGLY ADVISED TO CONSULT WITH SUCH HOLDER'S OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

NO RULINGS HAVE BEEN OR ARE EXPECTED TO BE REQUESTED FROM THE INTERNAL REVENUE SERVICE OR ANY STATE TAX AGENCY CONCERNING ANY OF THE TAX MATTERS DESCRIBED HEREIN. THERE CAN BE NO ASSURANCE THAT THE IRS OR ANY STATE TAX AGENCY WILL NOT CHALLENGE THE POSITIONS TAKEN BY THE DEBTOR WITH RESPECT TO ANY OF THE ISSUES ADDRESSED HEREIN OR THAT A COURT OF COMPETENT JURISDICTION WOULD NOT SUSTAIN SUCH A CHALLENGE.

M. TAX CONSEQUENCES TO ALLOWED CLAIMANTS

The federal income tax consequences with respect to payments of cash to Allowed

Claimants in partial or full satisfaction of debt, or pursuant to a tax free recapitalization or other restructuring, depend on the allocation of such payments to principal and interest owed on the debt. The allocation of payments between interest and principal may affect:

- a. the existence and timing of recognition of interest income by a cash basis Claimant;
- b. the existence and timing of interest deductions on a cash basis (and sometimes to an accrual basis) Debtor;
- c. the amount (and possibly the character) of worthless debt loss recognized by the Claimants;
- d. the amount of cancellation of indebtedness income recognized by the Debtor;
- e. the amount of gain or loss recognized by the Claimant pursuant to a recapitalization under Internal Revenue Code § 368(a)(1)(E).

An Allowed Claimant will recognize ordinary income to the extent that any stock, debt securities, other premises, or cash received is attributable to interest (including original issue discount) which has accrued while the Claimant held the debt and which the Claimant previously included in income, exceeds the fair market value of stock, debt and cash received by the Claimant which is attributable to such accrued interest (including OID).

In addition, such Claimants will realize gain on such amount equal to the excess of the fair market value of stock, debt, other premises and cash received (excluding amounts attributable to interest and discussed above) over the cost or other tax basis of the debt claims surrendered (excluding any tax basis allocated to accrued interest). The gain may be a capital gain or ordinary gain unless the exchange has the effect of the distribution of a dividend under Internal Revenue Code § 305 (discussed below) in which case gain recognized that is not in

excess of earning and profits of the Debtor will be treated as a dividend. A corporate Claimant who receives a dividend may qualify for a dividend received deduction with respect to the dividend.

The rules regarding taxation of payments to Claimants which are attributable to other accrued but unpaid income items (e.g., rents, compensation, royalties, dividends, etc.) are similar to the rules described above for payments allocated to interest.

- Importance of obtaining professional Tax Assistance.

THE FOREGOING IS INTENDED TO BE ONLY A SUMMARY OF SELECTED FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH, AND RECEIPT OF ADVICE FROM, A TAX PROFESSIONAL.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN THAT ARE DESCRIBED HEREIN AND THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN THAT ARE NOT ADDRESSED HEREIN, ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM. ACCORDINGLY, EACH CLAIMANT AND EQUITY HOLDER IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

N. MAINTENANCE OF EMPLOYEE BENEFIT PLANS

The Debtor does not maintain any employee benefit plans.

O. ACCOUNTING PROCESS

The financial information contained in this Disclosure Statement was derived from the Petition, Schedules and monthly operating reports filed by the Debtor in this case.

P. POST-PETITION ASSETS AND LIABILITIES

The Debtor has not accrued significant assets or liabilities except as otherwise set forth herein.

Q. EXECUTORY CONTRACTS

Unless the Confirmation Order shall otherwise provide, or the Debtor shall have filed a motion to reject any executory contracts on the Effective Date, the Debtor will assume all executory contracts which have not otherwise expired by their own terms. A proof of claim for any claim arising from the rejection of an executory contract shall be filed within thirty (30) days subsequent to the date that an order is entered rejecting the executory contract and the claim arising from the rejection of an executor contract for which a proof of claim is not filed within such time period shall be disallowed in its entirety and forever barred.

R. RETENTION OF JURISDICTION

Following Confirmation, the Bankruptcy Court shall retain such jurisdiction as is legally permissible, including, without limitation, for the following purposes: (i) to determine the allowability, classification, or priority of Claims;

(i) to construe and to take any action to enforce and execute the Plan, the Confirmation Order, or any other order of the Bankruptcy Court; (iii) to issue such orders as may be necessary for the implementation, execution, performance, and consummation of the

Plan; (iv) to determine any and all applications for allowance of compensation and expense reimbursement of Professional Persons; (v) to determine any other request for payment of Administrative Claims; (vi) to determine all applications, motions, adversary proceedings, contested matters, claim objections, and any other litigated matters instituted prior to the closing of the Reorganization Case, including litigation commenced to set aside or avoid any transfers pursuant to Bankruptcy Code Sections 544, 545, 547, 548, 549, 550 and 553; (vii) to modify the Plan under Bankruptcy Code Section 1127, to remedy any defect or omission in the Plan, or to reconcile any inconsistency in the Plan, or to reconcile any inconsistency in the Plan so as to carry out its intent and purposes.

S. DISTRIBUTIONS UNDER THE PLAN

General Matters Concerning the Distribution of Consideration

1. The Disbursing Agent(s)

The Debtor shall act as Disbursing Agent(s) under the Plan with respect to all creditors.

2. Cash Payments

Cash payments made pursuant to the Plan will be in U.S. dollars by checks drawn on a banking institution that is an authorized depository in the Southern District of New York selected by the Debtor, or by wire transfer from a banking institution that is an authorized depository in the Southern District of New York, at the option of the Debtor.

3. Transmittal of Distributions

All distributions shall be deemed made at the time such distribution is deposited in the United States mail, postage prepaid or, in case of wire transfers, upon receiving confirmation from the transferring bank. Except as otherwise agreed with the holder of an Allowed Claim,

such distribution shall be distributed by mail to (i) the address listed by such holder for receiving distributions in its Proof of Claim or (ii), if no Proof of Claim was filed, the mailing address reflected upon the filed Schedules of Assets and Liabilities or in the Debtor's books and records for such holder.

4. Undeliverable Distributions

If any distribution is returned to a Disbursing Agent as undeliverable, no further distributions shall be made to the holder of the Allowed Claim or Allowed Interest on which such distribution was made unless and until the Debtor are notified in writing of such holder's then-current address. Undeliverable distributions shall remain in the possession of the Debtor, until such time as a distribution becomes deliverable or is deemed canceled (as hereinafter provided). Any unclaimed distribution shall be accounted for separately, but there shall be no duty to invest any such unclaimed distribution in any manner. Any holder of an Allowed Claim or Allowed Interest that does not present a Claim for an undeliverable distribution within one hundred and eighty (180) days after the date upon which a distribution is first made available to such holder shall have its right to such distribution discharged. In such event the subject claimant shall be forever barred from asserting any such Claim against the Debtor or its property. All unclaimed or undistributed distributions shall, pursuant to Bankruptcy Code Section 347(b), be the property of the Debtor and shall be treated as determined by the Debtor in its sole and absolute discretion.

T. PROCEDURES FOR RESOLVING DISPUTED CLAIMS

a. Time Limit for Objections to Claims

Objections to Claims shall be filed by the Debtor with the Court and served upon each

Holder of each of the Claims to which objections are made, not later than sixty (60) days subsequent to the Confirmation Date or with such other time period as may be fixed by the Court.

b. Resolution of Disputed Claims

Unless otherwise ordered by the Court, the Debtor shall litigate to judgment, settle or withdraw objections to Disputed Claims, in its sole discretions, without notice to any party in interest.

Notwithstanding any other provision of the Plan, no Distributions shall be made with respect to all or any portion of a Disputed Claim unless and until all objections to the Disputed Claim have been settled or withdrawn or have been determined by Final Order, and the Disputed Claim, or some portion thereof, has become an Allowed Claim. To the extent that a Claim is not a Disputed Claim but is held by a Holder that is or may be liable to the Debtor on account of a Cause of Action, no Distributions shall be made with respect to all or any portion of such Claim unless and until such Claim and liability have been settled or withdrawn or have been determined by Final Order of the Bankruptcy Court or such other court having jurisdiction over the matter.

c. Distributions upon Disputed Claims that Become Allowed Claims.

Distributions to holders of Disputed Claims that subsequently become Allowed Claims will be paid by the Debtor no later than the later to occur of (i) sixty (60) days after the Disputed Claim becomes an Allowed Claim; and (ii) Debtor's making other distributions under the Plan to holders of Allowed Claims.

d. Estimation.

The Debtor may, at any time, request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtor previously objected to such Claim. The Bankruptcy

Court shall retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the amount so estimated shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Debtor may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. On and after the Effective Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

U. LEGAL EFFECTS OF CONFIRMATION AND EFFECTIVENESS OF THE PLAN

a. Discharge of the Debtor

Pursuant to Section 1141(d)(1) of the Bankruptcy Code, upon the Effective Date, except as set forth in the Plan or in the order confirming the Plan, the Debtor will be discharged from any claim that arose prior to the petition date whether or not the Holder of the Claim has accepted the Plan, except that the debtor may, by separate motion and after notice and a hearing seek discharge for cause. Pursuant to Section 1141(d)(2) of the Bankruptcy Code.

b. Injunction

Except as otherwise provided in the Plan, the Confirmation Order shall provide, among other things, that from and after the Effective Date all Persons who have held, hold or may hold Claims against the Debtor are permanently enjoined from taking any of the

following actions against the Debtor, its Estate, or any of their property on account of any such Claims: (1) commencing or continuing, in any manner or in any place, any action or other proceeding; (2) enforcing, attaching, collecting or recovering in any manner, any judgment, award, decree or order; (3) creating, perfecting or enforcing any lien or encumbrance; (4) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtor unless authorized under the Plan; (5) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of the Plan; provided, however, that nothing contained in the Plan shall preclude such Persons from exercising their rights pursuant to an d consistent with the terms of the Plan or the Confirmation Order.

c. Limitation of Liability

To the extent permitted by Section 1125(e) of the Bankruptcy Code, except as otherwise provided in the Plan, the Debtor and its Professionals and any of such parties' successors and assigns, shall not have or incur any claim, action, proceeding, Cause of Action, suit, account, controversy, agreement, promise, right to legal remedies, right to equitable remedies, right to payment or Claim (as defined) in Section 101(4) of the Bankruptcy Code), whether known, unknown, reduced to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured and whether asserted or assertable directly or derivatively, in law equity or otherwise to one another or to any Holder of a Claim, or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys, or any of their successors or assigns, for any act or omission originating or occurring on or after the Petition Date through and including the Effective Date in connection with, relating to, or arising out of the Debtor, the

Chapter 11 Case, negotiation and filing of the Plan or any prior plans, filing Chapter 11 Case, the pursuit of confirmation of the Plan or any prior plans, the consummation of the Plan, the administration of the Plan or the property to be liquidated other than resulting from willful misconduct and/or gross negligence as determined by a Final Order of a court of competent jurisdiction, and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Nothing herein shall abrogate the requirements of any applicable professional disciplinary rules.

Nothing under the Plan shall limit any person's or any party's liability for fraud, gross negligence, willful misconduct, malpractice, breach of fiduciary duty, criminal conduct, unauthorized use of confidential information that causes damages, or ultra vires acts. Nothing herein shall limit the liability of the Debtor's professionals or any other professionals for malpractice pursuant to Rule 1.8 (h)(1) of the New York State Rules of Professional Conduct. Nothing in the Plan shall effect a release of any claim by the United States Government or any of its agencies or any state and local authority whatsoever, including, without limitation, any claim arising under the Internal Revenue Code, the environmental laws or any criminal laws of the United States or any state and local authority against the Debtor any of its members, shareholders, officers, directors, employees, attorneys, advisors, agents, representatives and assigns, nor shall anything in the Plan enjoin the United States or any state or local authority from bringing any claim, suit, action or other proceedings against the against the entities referred to herein for any liability whatever, including without limitation, any claim, suit or action arising under the Internal Revenue Code, the environmental laws or any criminal laws of the United States or any state or local authority, nor shall anything in this Plan exculpate any party from any liability to the United States Government or any of its agencies or any state and

local authority whatsoever, including liabilities arising under the Internal Revenue Code, the environmental laws or any criminal laws of the United States.

d. Terms of Bankruptcy Injunction or Stays

All injunctions or stays provided for in the Chapter 11 Case under Sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date unless otherwise provided in this Plan. Upon the Effective Date, the injunction provided in Article V(b) shall apply.

V. MODIFICATION AND AMENDMENT OF THE PLAN

The Debtor may alter, amend or modify the Plan or any Exhibits under Section 1127(a) of the Bankruptcy code at any time prior to the Confirmation Date. After the Confirmation Date and prior to substantial consummation of the Plan as defined in Section 1101(2) of the Bankruptcy Code, the Debtor may, under Section 1127(b) of the Bankruptcy Code, institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order, and such matters as may be necessary to carry out the purpose and effect of the Plan so long as such proceedings do not adversely affect the treatment of Holders of Claims under the Plan; provided, however, that prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or order of the Bankruptcy Court. The Plan shall not be materially modified post confirmation without notice and hearing.

W. EVENT OF DEFAULT

The Debtor shall be deemed in default if it fails to make timely payments to any creditors

as provided for in the Plan and the Debtor and each creditor shall abide by the following:

1. Upon written receipt from any creditor of notice of default relating to payments, the Debtor shall have a period of thirty (30) days from receipt of such notice to cure such default, during such 30-day period, the creditors shall take no action to terminate the Debtor's Plan. If such default is cured by the Debtor within the 30-day period, the Plan shall continue in full force and effect. Any notices of default under the Plan shall be served upon the Debtor and Debtor's attorney. Notwithstanding the foregoing, the thirty (30) day period to cure defaults shall not apply to payments to the Landlords under the Replacement Leases. The default provisions and cure periods with respect to such payments are set forth in the Replacement Leases and riders thereto as well as in the Global Stipulation, which provisions shall control.

2. If full payment of the default amount is not paid by the Debtor within thirty (30) days of such demand, the Internal Revenue Service, New York State Department of Taxation and Finance and New York City Department of Taxation and Finance may collect any unpaid liabilities through governing administrative collection provisions, and the automatic stay of 11 U.S.C. §363(a) is lifted for this purpose without further order of the court.

a. If Debtor fails to make any post-confirmation deposits or plan payments, fails to pay any post-confirmation tax liability, defaults in the payments to any class of creditors under the Plan, or fails to file post-confirmation tax returns by the due date of the tax return, then after 5-days written notice of default to Debtor and Debtor's counsel and Debtor's failure to cure, the United States and/or the New York State Department of Taxation and Finance or any creditor may declare a default of the Plan.

X. FINAL DECREE

Pursuant to Local Bankruptcy Rule 3022-1, within fifteen (15) days following the full administration of the estate, the Debtor or the Reorganized Debtor shall file, on notice to the United States Trustee, an application and a proposed order for a final decree closing this case.

CONCLUSION

The Debtor believes that the Plan affords Creditors the potential for repayment and, therefore, is in the best interest of the Creditors. The only other alternative is conversion to chapter 7 wherein a trustee would be appointed to liquidate Debtor's remaining assets for distribution. Accordingly, the Debtor urges all Creditors to cast their ballots in favor of accepting the Plan. The Debtor shall be required to file quarterly post-confirmation status reports until the case is closed, converted, or dismissed, whichever happens earlier.

Dated: Brooklyn, New York
October 26, 2016

/s/ Alla Kachan
Alla Kachan, Esq.
Law Offices of Alla Kachan, P.C.
3099 Coney Island Avenue, 3rd Floor
Brooklyn, NY 11235

Dated: Brooklyn, NY
October 26, 2016

Debtor and Debtor-in-Possession By:
/s/ Maria Isakova
The president of Fairytale Day Care, Inc.