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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

In re:

Chapter 11
Case No. 17-71699-reg

MICRO CONTRACT MANUFACTURING,
INC.

Debtor.

AMENDED DISCLOSURE STATEMENT

Micro Contract Manufacturing, Inc. (hereinafter referred to as “MCM” or “Debtor”), the Debtor and Debtor-In-Possession herein, respectfully submits this Disclosure Statement to all known holders of claims and interests in order to solicit acceptances or rejections of the Debtor's proposed Plan of Reorganization ("Plan").

ARTICLE I

Description of Disclosure Statement

The purpose of this disclosure statement is to provide the creditors and interest holders of the Debtor with adequate information to enable them to make an informed decision whether to vote to accept or reject the Plan. A plan of reorganization is the document that contains the formal statement of what the various creditors and interested parties will receive, how they are to receive it, and what will become of the Debtor. If a plan of reorganization is confirmed by the Bankruptcy Court, it will become binding on the Debtor, all creditors and interested parties.

Creditors have the right to cast an affirmative or negative vote as to the Plan if they are impaired. There are impaired classes in this Plan since the debtor may be not paying all claims in full. Thus, there will be voting on confirmation of the plan. Accompanying this disclosure statement is a copy of the Plan.

This disclosure statement has been approved by United States Bankruptcy Judge Robert E. Grossman as containing adequate information to enable creditors to make an informed decision on the Amended Plan at the confirmation hearing. An official creditors' committee has not been appointed in this case.

What follows is a brief description of (i) the Debtor, both before and during the bankruptcy case, (ii) a description and analysis of the plan, including the projected timing and percentage of the payments to creditors and other interested parties, and finally (iii) an analysis of the alternatives to the Plan.

NO REPRESENTATIONS CONCERNING THE DEBTOR, ITS OPERATIONS OR THE VALUE OF ITS PROPERTY ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE OTHER THAN AS CONTAINED IN THE DISCLOSURE STATEMENT OR PLAN SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR, HAROLD M. SOMER, PC, WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED NECESSARY AND APPROPRIATE. THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF

THE PLAN WHICH MAY ONLY BE SOUGHT AFTER THE DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. ACCORDINGLY, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.

APPROVAL OF THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT BY THE COURT DOES NOT CONSTITUTE A RECOMMENDATION BY THE COURT AS TO THE MERITS OF THE PLAN. THE COURT DOES NOT RENDER ANY OPINION AS TO WHETHER THE PLAN SHOULD BE ACCEPTED OR REJECTED BY CREDITORS OR EQUITY INTEREST HOLDERS.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN AS WELL AS CERTAIN FINANCIAL INFORMATION WITH RESPECT TO THE DEBTOR. WHILE THE DEBTOR BELIEVES THIS SUMMARY AND THE FINANCIAL INFORMATION TO BE FAIR AND ACCURATE, SUCH SUMMARY DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY THE ORIGINAL DOCUMENT.

ARTICLE II

General Background Information About The Debtor

A) Pre-Bankruptcy

Micro Contract Manufacturing, Inc. was formed April 29, 1994 under the laws of the State of New York as a manufacturer of products pursuant to contracts with third parties. MCM did not

and does not manufacture for itself. It also assists its customers, when contracted for, in the design of their products. This type of manufacturing is referred to as Original Equipment Manufacturing. Two of the officers were also electrical and electronics engineers including the current president, Thomas DeGasperi. There were three shareholders.

For a few years after its inception, the customers supplied their own parts which kept MCM's operating expenses down. Thereafter, some of the newer customers required "turn key" manufacturing which resulted in MCM having to expend funds on supplies which created a new profit center.

By 2007, MCM had grown to 105 employees. During that year, one of the shareholders sought to break out on his own. An agreement was reached whereby he took some of the employees and customers in exchange for the transfer of his stock interest to the remaining shareholders. This left MCM with 65 employees and annual sales of approximately \$6,000,000.00. Thereafter, in 2009 one of the shareholders, Elaine DeGasperi, passed away leaving her shares of stock to her husband, Thomas, who sold them back to the company and left for another position at the end of the year leaving Josephine Matula as the sole shareholder. Her husband, Michael Matula, became president.

With the loss of Mr. DeGasperi and no background in electronics or manufacturing, MCM's sales and productivity declined while the Matulas sought a replacement. The one replacement, who caused MCM to lease what turned out to be unnecessary equipment and software, did not work out. Around that time one of MCM's major customers reduced purchases by nearly \$1,000,000.00 and another, because of government contracts, required MCM create a "Document Control Department" resulting in the hire of two employees without MCM being able to adjust its pricing to reflect the increased cost.

Despite sales decreasing and overhead increasing, no adjustments were made in operations which caused MCM to no longer to pay all of its vendors in a timely manner. As things got worse, many vendors began requiring purchases be COD further affecting MCM's cash flow. By mid-2013, one of the largest customers brought some of its work elsewhere causing a reduction in then existing sales by nearly \$2,000,000.00.

In February 2014, unable to stop the decline, it was agreed that Mr. DeGasperi would return to MCM as president in an attempt to turn the company around. To survive, MCM borrowed money from high interest commercial lenders who swept the bank account daily taking nearly \$10,000.00 weekly. These sweeps were crippling the company. It was a Catch-22 situation with MCM barely holding on. Mr. DeGasperi made some tough decisions to reduce overhead and increase efficiency in part by reducing staff.

With the need for additional capital, Josephine Matula sold half of her stock interest to Gary Hancock for \$150,000.00 which money she loaned to the Debtor. As it turned out, Mr. Hancock has vast experience and contacts in the business world which were to be used to seek new customers. Through one of his corporations, he also purchased inventory at a lesser price than MCM could and passed the savings on to it thereby reducing costs and the need to pay COD.

In November 2014 the decision was made to file the Chapter 11 petition to stop the daily sweeps of the bank account, a potential eviction by the landlord as MCM was several months in arrears on rent together with other charges claimed due as well as a couple of other court proceedings which had been commenced. The case was dismissed in November 2015 without prejudice.

Although MCM continued to operate subsequent to the dismissal, business had not grown as expected. In fact, a confirmed plan of reorganization at that time would have most likely failed. Further efforts to reduce operating expenses were initiated.

MCM's attorney was successful in re-negotiating two equipment leases to make the monthly installments more affordable. In or about November 2016, MCM entered into a lease agreement for new space at its current location in Medford, New York which reduced its rent by approximately \$10,000.00 monthly.

As a result of taking the new space, MCM defaulted under the terms of a stipulation entered into in landlord/tenant court resulting in a judgment and the issuance of a warrant of eviction. Before the former landlord had an opportunity to enforce the judgment the instant petition was filed.

B) Post-Bankruptcy

Great effort has been and continues to be made to reduce overhead and increase the customer base. Where MCM relied on a few customers for most of its orders, it continues to broaden that base to reduce economic risk in the future.

Subsequent to the filing, most of the materials required to manufacture the finished products have been purchased through Fox and Associates Consulting, Inc., a corporation now owned solely by Gary Hancock, who purchased the remaining stock interest of Josephine Matula post-petition. This has reduced costs as the vendors to whom MCM had outstanding invoices would only be willing to sell to MCM at increased amounts on a COD basis. Fox has been able to purchase at regular prices and then provide the materials to MCM at its cost. With Mr. Hancock's contacts, MCM has been able to purchase certain materials directly from certain factories thereby further reducing costs.

Since the filing of the petition, the workforce has been reduced. Josephine and Michael Matula, both officers and employees, are no longer with MCM resulting in additional savings.

MCM's largest customer has increased its orders the orders which, together other new orders from existing and new customers secured through Mr. Hancock, has greatly improve MCM's earnings. It is also instituted a discount incentive to those customers who pay sooner.

Many of MCM's competitors send their work overseas where the cost of manufacturing is less. To stay competitive, MCM has had to reduce its profit margin.

The profitability of the company and its ability to fund a plan of reorganization seemed doubtful for a time. With the increase in business MCM is now on the road to recovery with the ability to fund the proposed plan of reorganization.

As the Debtor does not have a line of credit to fund operations, the Debtor operates solely with the profits it makes. As such, even if figures show funds existing at the end of the month, that cushion is already being used to purchase inventory and pay costs for new projects.

Mr. Hancock is planning to join MCM full time commencing February 2018. Much of his efforts will be devoted to obtaining new business and handling the finances with the expectation that the company will grow and become more profitable.

Pursuant to the Bankruptcy Code, as the Debtor is a small business debtor, the proposed plan of reorganization is to be confirmed within forty-five days from its being filed with the court unless the time to do so is extended before the expiration of the forty-five days. A written request for the extension has been filed with the court and is returnable before the expiration of the forty-five days.

The Debtor entered into an agreement with its former landlord as relates to its proof of claim and resolves the issue of whether it is entitled to retain the entire security deposit of \$31,092.00 as

a setoff against its unsecured claim. The agreement provides a return to the Debtor of \$10,000.00 of the security deposit. This agreement was approved by the Court.

ARTICLE III

Description of the Plan

THE FOLLOWING IS A SUMMARY OF THE PROVISIONS OF THE PLAN, AND ACCORDINGLY, IT IS NOT AS COMPLETE AS THE FULL TEXT OF THE PLAN WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT. THE PLAN ITSELF SHOULD BE READ IN ITS ENTIRETY.

Articles IX and XI of this disclosure statement describe the Debtor's cash flow and its position as to creditors' ability to recover monies on account of their claims.

A. Funding Sources: It is anticipated that the funds for payment under the plan will come from the Debtor's profits. The Debtor has not ruled out the possibility of securing a loan some time in the future to fund the plan.

B. Organization of the Plan and Distribution to Claimants: The Plan is organized into articles. Article I contains the definitions of items that are used in this Plan. The Debtor has attempted to make the definitions correspond to those in the Bankruptcy Code, The Federal Rules of Bankruptcy Procedure or general bankruptcy practice. Article II classifies the claims of creditors, including, but not limited to, the holders of administration expenses, secured and unsecured creditors and interests of equity security holders. Administration expenses are essentially the costs of conducting the Chapter 11 case, including the fees and expenses of professionals related to the case.

Articles II and III specify the different classes of and distribution to the classes of claims and interests, that is, whether a class will receive full payment of its claims and interest, and if not, the

actual distribution and the timing of such distribution. Article IV specifies which classes are impaired under the Plan; Bankruptcy Code Section 1124 defines the term "impairment" as follows:

Except as provided in Section 1123(a)(4) of this title, a class of claims or interests is impaired under a plan unless, with respect to each claim or interest of such class, the plan -

(1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or

(2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default -

(A) cures any such default that occurred before or after the commencement of the case under this title, other than a default of a kind specified in section 365(b)(2) of this title or of a kind that section 365(b)(2) expressly does not require to be cured;

(B) reinstates the maturity of such claim or interest as such maturity existed before such default;

(C) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law;

(D) if such claim or such interest arises from any failure to perform a nonmonetary obligation, other than a default arising from failure to operate a nonresidential real property lease subject to section 365(b)(1)(A), compensates the holder of such claim or such interest (other than the debtor or an insider) for any actual pecuniary loss incurred by such holder as a result of such failure; and

(E) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

Article V states that as there are classes of creditors who are impaired, there is a right to vote to accept or reject the Plan and thus the "cram-down" provisions pursuant to 11 U.S.C. §1129 are applicable. Article VI describes how funds will be generated to enable the Debtor to make the distributions contemplated under the Plan. Article VII advises that there are no preferences or

fraudulent conveyances. Article VIII concerns the status of executory contracts not formally assumed or rejected as of the Confirmation Date. Article IX deals with the guaranties of the Debtor's representatives. Article X provides the mechanism for resolving disputed claims and how same affects the distribution process. Article XI provides certain negative covenants made by the Debtor and events of default with thirty (30) days to cure. Article XII provides who is to receive all notices under the Plan. Article XIII contains the provisions that confirmation of the Plan discharges the Debtor. Article XIV provides for the continuation of the automatic stay post-confirmation. Article XV states that the Bankruptcy Court will retain jurisdiction over the case for purposes of, including, but not limited to consummation, claims objections and applications of professionals for compensation.

ARTICLE IV

Plan Treatment

The petition listed nearly each creditor as disputed . As set forth in the order setting the date by which proofs of claim were to be filed, only those creditors who filed claims will be entitled to distributions under the plan. The following paragraphs will discuss the classification and the treatment of the unclassified claims and the six (6) classes of creditors.

Allowed Administration Expenses include the costs of administration, plus the fees and expenses of attorneys and other professionals retained in this case. Said Claims are entitled to priority under Sections 502(b), 503(b) and 507(a)(1) of the Bankruptcy Code. Creditors in this class would include the U.S. Trustee for outstanding quarterly fees; the U.S. Treasury and N.Y.S. Department of Taxation and Finance for possible withholding taxes that came due after the filing and have not yet been paid; amounts that may be due the landlord for rent subsequent to the filing

of the petition; other unpaid obligations that arose after the filing of the petition and Harold M. Somer, PC for legal fees and expenses incurred in representing the Debtor which will approximate \$35,000.00. There will also be quarterly fees to the U.S. Trustee.

The IRS has filed a claim for \$5,100.91 for interest and penalties for alleged late payments of small portions of withholding taxes which the Debtor thought had been timely paid in full. Unless otherwise agreed to, this claim will be paid in full upon confirmation.

Typically, the Court will allow fees and expenses of professionals in a Chapter 11 proceeding upon application at or subsequent to confirmation. The Debtor did not have to pay a pre-petition retainer to Harold M. Somer, PC. It was agreed that the firm's legal fees and expenses would be paid post-confirmation. The \$10,000.00 received from the former landlord will be used as the initial payment of the legal fees and expenses awarded by the court to the Somer Firm.

Allowed Priority Claims of the IRS and NYS Department of Taxation and Finance of approximately \$100,267.00 pursuant to the Bankruptcy Code are to be paid within five (5) years from the filing date. As a year has elapsed since the filing, these claims shall be paid by the Debtor over a period of slightly less than four (4) years from the filing date with interest at 4% per annum. Monthly payments will approximate \$2,264.00.

Class I : The Allowed Secured Claim of the IRS. The secured portion at \$215,000.00 shall be paid by the Debtor over a period of nearly four (4) years from the filing of the petition with interest at 4% per annum which interest rate is the same as that provided for in the cash collateral stipulation and the proof of claim. Monthly payments will approximate \$4,854.50. This class is impaired and has the right to vote.

Class II : The Allowed Secured Claim of Snap Advances LLC/Tango Capital. The Debtor has continued to pay this creditor pursuant to the terms of the modification agreement entered into prior to the filing of the petition and will continue to do so post-confirmation through the maturity date of March 31, 2018 at the rate of \$478.39 weekly. This class is not impaired and thus does not have the right to vote.

Class III : The Allowed Secured Claim of Yellowstone Capital LLC is \$49,576.00. The agreement with Yellowstone will be modified to extend repayment over a period of seven (7) years with interest at 4% per annum which interest rate is the same as that provided for in the cash collateral stipulation. Monthly payments will be \$677.64. This class is impaired and thus is entitled to vote.

Class IV : The Allowed Claims of The Bank of the West and Delage Landen Financial Services, Inc., equipment lessors, whose leases as modified pre-petition are being assumed upon confirmation. The Debtor shall continue to pay the monthly installments pursuant to the modification agreements. This class is not impaired and thus not entitled to vote.

Class V : The Allowed Unsecured or Undisputed Claims of the remaining general unsecured creditors, inclusive of the IRS, approximate \$584,969.00. The creditors in this class shall be paid 20% of their allowed claims over a period of 7 years with distributions being made every month commencing one month subsequent to the effective date. This class is impaired and entitled to vote.

Class VI : The Allowed Interests and Claims of the Shareholder Gary Hancock.

In general, shareholders may not retain their interests where there are classes of creditors who are impaired unless they have provided something of value to the Debtor. This is known as the absolute priority rule.

Mr. Hancock shall retain his stock interest upon confirmation as he infused personal funds into the Debtor and was to have received pre- and post- petition compensation as the sales manager of \$212,000.00. Mr. Hancock is waiving these payments as the unsecured creditors whose claims are allowed are receiving less than 100% through the plan.

ARTICLE V

Voting

Article IV describes the classes of creditors under the Plan. Those impaired are entitled to vote to accept or reject the Plan. As there are impaired classes of claims, the "cram-down" provisions of the Bankruptcy Code are applicable herein.

ARTICLE VI

Effective Date and Certain Definitions

The second business day after the time to appeal from the Order of Confirmation has elapsed, whether or not an appeal is pending, shall be the effective date of the Plan. The Plan will be effective on that date if the Order of Confirmation has not been vacated, reversed, suspended or stayed by either the Bankruptcy Court or a Court of appellate jurisdiction.

ARTICLE VII

Preferences and Fraudulent Conveyances

A review was conducted by the Debtor's president and there are no known preferences or fraudulent conveyances as defined in Sections 547 and 548 of the Bankruptcy Code.

ARTICLE VIII

Discharge and release of obligations

Any personal guaranty or obligations of the shareholders, officers or directors shall remain in effect after confirmation.

ARTICLE IX

The Debtor's Projections of Future Activity

Annexed hereto as Exhibit "A" is a projection of the future activity. In addition, there are existing new orders with work already in progress which will generate income to the Debtor. Furthermore, the Debtor has submitted proposals for other new work of nearly \$435,000.00 which are expected to be accepted shortly. The positive cash flow at the end of each month is illusory as it is the cushion MCM needs to purchase inventory for new orders and to cover overhead.

Annexed hereto as Exhibit "B" is a Balance Sheet. At this time, the Debtor's assets are its booked business. Were the Debtor to cease operating, the liquidation of its hard assets at "fire sale" prices would leave little, if any, funds available for unsecured creditors after payment to administrative and secured creditors.

ARTICLE X

Federal Income Tax Consequences

The Debtor has not obtained rulings from the Internal Revenue Service ("IRS") with respect to any of these matters, and the opinion of the Debtor is not binding on the IRS.

CREDITORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES TO THEM, UNDER FEDERAL AND APPLICABLE STATE AND LOCAL TAX LAWS, OF THE CONSUMMATION OF THE PLAN.

Consequences to the Company

It is anticipated that the Debtor will have no adverse tax consequences in the event the Plan is confirmed.

ARTICLE XI

Alternatives

There are three alternatives to the failure to confirm a plan: dismissal, conversion to one under Chapter 7 or the appointment of an operating trustee. As this petition was filed as a small business case, there are time restrictions and thus it is the Debtor's position that failure to confirm a plan will result in its demise with most likely no return to unsecured creditors were assets to be liquidated at auction.

Liquidation Analysis: Were the Debtor to cease operating, the liquidation of its hard assets at "fire sale" prices would leave little, if any, funds available for unsecured creditors after payment of administrative claims and distributions to the three secured creditors whose liens cover virtually all of the assets. Much of the owned equipment is old and of little value. The newer equipment is leased and would be repossessed by the lessors.

ARTICLE XII

United States Trustee's Fees

_____ The Debtor shall be required to continue to pay to the Office of the United States Trustee quarterly fees until such time as the final decree is entered.

ARTICLE XIII

Objections to Claims

Objections to claims, if any, shall be filed with the Bankruptcy Court and served upon each holder of each Claim to which objection is made, no later than ninety (90) days subsequent to the effective date of confirmation.

ARTICLE XIV

Post-Confirmation Jurisdiction

The Bankruptcy Court shall retain jurisdiction post-confirmation in connection with all matters related to the confirmed plan including, but not limited to consummation, applications of professionals for compensation, objections to claim and preference litigation.

April 10, 2018

MICRO CONTRACT
MANUFACTURING, INC.

/S/ Thomas DeGasperi
By: _____
THOMAS DEGASPERI, President

Dated: Westbury, New York
April 10, 2018

HAROLD M. SOMER, PC
Attorney for the Debtor

/S/ Harold M. Somer
By: _____
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