



## I. INTRODUCTION

On May 31, 2017, Earth Pride Organics, LLC (“EPO”) and Lancaster Fine Foods, Inc. (LFF, collectively with EPO, the “Debtors”) filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Pennsylvania. The case was assigned to Chief Bankruptcy Judge Eric L. Frank.

### A. PURPOSE OF THE DISCLOSURE STATEMENT

The purpose of the Disclosure Statement is to provide creditors and holders of interest with such information as would enable a hypothetical, reasonable individual or entity typical of the holders of claims or interest to make informed judgments in voting on the Plan. This Disclosure Statement does not purport to be a complete description of the Plan, the financial status of the Debtors, the applicable provisions of the Bankruptcy Code or of other matters that may be deemed significant by creditors or other parties-in-interest. This Disclosure Statement necessarily involves a series of compromises between extensive “raw data” and the language in documents or statutes on the one hand and considerations of readability and usefulness on the other. For further information, you should examine the Plan directly and you may want to consult your legal and financial advisors.

You are urged to carefully read the contents of this Disclosure Statement before making your decision to accept or reject the Plan. Particular attention should be directed to the provisions of the Plan affecting or impairing your rights as they existed before the institution of this case.

NO REPRESENTATIONS CONCERNING THE DEBTORS’ OPERATIONS, PARTICULARLY AS TO THE VALUE OF ANY OF ITS PROPERTY, ARE AUTHORIZED BY THE DEBTORS EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT. IN DECIDING WHETHER TO ACCEPT THIS PLAN, YOU SHOULD NOT RELY UPON ANY REPRESENTATIONS OR INDUCEMENTS OTHER THAN THOSE IN THE DISCLOSURE STATEMENT.

### B. ACCEPTANCE AND CONFIRMATION

The Bankruptcy Court has fixed \_\_\_\_\_, 2018, as the date by which holders of claims against, and holders of interest in, the Debtors must vote to accept or reject the Plan. Creditors whose claims are impaired by the Plan may vote by filling out the enclosed ballot and sending it in the envelope provided for that purpose to: **Paul B. Maschmeyer, Esquire, at the law offices of Maschmeyer Marinas P.C., 350 South Main Street, Suite 105, Doylestown, PA 18901.** In order to be counted, Ballots must be received by 5:00 p.m. EST on \_\_\_\_\_, 2018. **THE VOTE OF EACH CREDITOR IS IMPORTANT.** Creditors whose claims are not impaired by the Plan may not vote as they are conclusively presumed to have accepted the Plan. In order for the Plan to be accepted by any class of creditors, it must be accepted by creditors who hold at least two-thirds in dollar amount of the claims in such class as to which votes are cast, and who comprise more than one-half of the voting creditors holding claims in such class. **THESE CALCULATIONS ARE BASED**

**ONLY ON THE CLAIMS AMOUNTS AND NUMBERS OF CREDITORS WHO ACTUALLY VOTE.** An abstention by a creditor will not count towards acceptance or rejection of the Plan.

**C. NOTICE OF HEARING**

On \_\_\_\_\_, 2018, at \_\_\_\_\_.m. a hearing was held before the Honorable Eric L. Frank, Chief Bankruptcy Judge at the United States Bankruptcy Court, United States Courthouse, 900 Market Street, Philadelphia, PA 19107, and the Bankruptcy Court approved the Disclosure Statement and ordered the Debtors to send the Disclosure Statement to creditors for approval.

**II. THE DEBTORS**

**A. GENERAL INFORMATION ABOUT DEBTORS' BUSINESS**

**1. Brief History and Description of the Business**

The Debtors were formed for the purpose of manufacturing various food products including but not limited to mustard, sauces, marinades, hot sauces, salad dressings, etc. EPO is the parent company to LFF and both companies share employees and other various assets. EPO and LFF are the lessees to the premises that is operated by LFF and also has a payroll for some of the management individuals who control and operate LFF. For purposes of this Plan of Reorganization, creditors of both entities will be treated equally under this Plan.

Some of the customers of the Debtors are from the hottest specialty food companies in the country. Their customer travel to Lancaster from all over the country including Seattle, Manhattan, New Hampshire, Miami, Philadelphia and Texas. LFF also does work for private label clients such as Auntie Anne's, Wegmans, Williams Sonoma, etc.

In 2008, which was the beginning of the growth in sales of LFF, the sales started off at \$2.2 million a year. In 2015, the sales were \$8.8 million in sales and the projected sales for 2016 will be \$15 million.

In September 2016, due to the growing demand of the customers the Debtors moved from a current facility of 33,000 square feet to a new facility now of 220,000 square feet. This new facility means new equipment, more efficient pricing models, more capacity, more efficiencies and a consolidated warehousing which means less mistakes and more accurate inventory. The Debtors have also increased their current machinery and have added new strategic machinery and kettles that include the latest CIP technology which means faster, more efficient production times.

EPO is the parent company to various subsidiaries: EPO Brands, Inc., EPX, Founders Market & Co. ("Founders Market"), and LFF and CO Nolt. EPO, (debtor), owns 100% of LFF (debtor), EPX, EPB and CO Nolt. EPO has an 87.5% ownership of Founders Market. EPO provides rental space, management and operations services to its subsidiaries. Those subsidiaries

in-turn pay a monthly fee for their allocation portion of provided services. Founders Market is a small startup distribution company formed in January 2017. EPO leases a large building from 501 Richardson Acquisitions, LLC. EPO has excess space in the building and was looking for a way to further cover the costs of operation. Consequently, EPO supported the creation of Founders Market, which operates in a small portion of the space and has been unable to pay for the space and utilities that EPO has invoiced. It should be noted that this space would have been vacant without Founders Market and EPO incurred limited incremental costs. The Debtors believe they have the potential for future cash payments to cover a portion of the lease. There has been no cash transferred between the companies. A summary of the related entities is attached along with income statements and balance sheets of these entities.

The Plan of Reorganization, which is attached to this Disclosure Statement, anticipates a paying off the loans of the present secured lenders through a refinance of said loan obligations, and will providing a payment to the Internal Revenue Service (“IRS”) and the other general unsecured creditors pursuant to the terms of a successful Plan of Reorganization.

## **B. BACKGROUND AND REASONS FOR BANKRUPTCY**

In 2014, the Debtors were actively producing a fig spread for a company called Dalmatia Import Group Inc. (“Dalmatia”). Due to numerous conflicts between the Debtors and Dalmatia concerning the production of their product, Dalmatia ceased placing orders with the Debtors, leaving the Debtors with a large supply of inventory. The Debtors, upon advice of counsel, liquidated this inventory on the open market in a commercially reasonable manner. Unfortunately, Dalmatia filed a trade secret lawsuit against them for the selling of these assets which resulted in a multi prong verdict both for and against the Debtors regarding this transaction. The time, attorney’s fees and damages awarded by the jury on behalf of the Plaintiff, caused severe harm against the Debtors’ operations and cash flow. Additionally, the Debtors had borrowed money from numerous lending institutions and factors at an interest rate which, in certain circumstances, exceeded forty (40%) percent which caused a severe drain on the day to day cash flow of the Debtors.

## **III. REORGANIZATION CASE**

On May 31, 2017, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Pennsylvania.

During the reorganization, the Bankruptcy Court has certain supervisory powers over the operations of the Debtors. These powers are generally limited to reviewing and ruling upon any objections raised by creditors or parties-in-interest to business operations or proposed transactions of the Debtors. The Debtors are obligated to give notice of any transactions not in the ordinary course of business, and of any compromise of any controversy, to creditors who have requested such notice. Since the filing of the Bankruptcy, the Debtors have been restructuring its operations in order to reorganize for the benefit of the Creditors.

The Debtors have entered into various Cash Collateral Orders with the secured lenders which has lowered the drain on the cash flow immensely and has allowed the Debtors to get its operations up and going so it can meet its sales projections for this year. Additionally, the Debtors have finally settled with Dalmatia, under terms of which will allow the Debtors to reorganize efficiently by settling this litigation. In light of the settlement with Dalmatia, the Debtors have entered into an agreement with Big Shoulder Capital for plan funding with will be used, along with its current cash flow, to satisfy the secured and unsecured creditors. The Plan Funding documents are attached to the Disclosure Statement for review by the Creditors.

#### **IV. SUMMARY OF THE PLAN**

THE FOLLOWING IS A BRIEF SUMMARY OF THE PLAN. HOLDERS OF CLAIMS ARE URGED TO READ THE PLAN IN FULL. CREDITORS ARE ALSO URGED TO CONSULT WITH COUNSEL AND EACH OTHER IN ORDER TO UNDERSTAND THE PLAN FULLY. THE PLAN REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT. AN INTELLIGENT JUDGMENT CONCERNING THE PLAN CANNOT BE MADE WITHOUT FULLY UNDERSTANDING IT.

#### **FUNDING OF THE PLAN**

Prior to and subsequent to the filing of the Bankruptcy, the Debtors have been operating their business in the ordinary course of business. The revenues have come from two sources, one being the income from LFF, the operating entity and a small amount of sub-lease rental payments to the parent company EPO. Additionally, The Debtors have been in discussions with the secured creditors and the landlord concerning restructuring the amount of money owed to said parties.

The assets of the Debtors are currently encumbered by a 1st lien held Midtown Capital Partners, Capital Partners, LLC and Change Capital Partners Fund I (“collectively referred to as Midtown”) represented in their proof of claims to be \$1,442,462.37. This lien covers all assets of the Debtors including accounts receivable, machinery and equipment and all other assets of the Debtors. Pursuant to an intercreditor agreement, Loeb Term Solutions, LLC is a secured creditor on the machinery and equipment in the amount reflected in their proof of claim \$832,596.50. (“Loeb”). Both Loeb and Midtown have allowed the Debtors to operate using their collateral pursuant to a string of cash collateral orders that have been negotiated by the secured parties and the Debtors. It has been discussed and is anticipated that Midtown and Lowe will agree to a discount in return for receiving a cash payout upon confirmation and the closing on the post confirmation financing that is part of this plan. This will benefit the Debtors because of the reduced payment required to be paid by the Debtors and the satisfaction of these secured creditors.

The Debtors are in the midst of completing a loan agreement with Big Shoulder Capital which will net the Debtors approximately \$1,500,000.00 to help meet the requirements of the Plan of Reorganization which include the payment of Midtown and Loeb’s secured debt.

The obligations of the Debtors under the Plan are divided by the Plan into eleven classes. The Plan provides separately for each class. Distributions on Allowed Claims (as defined below) under the Plan will be in full settlement, satisfaction and discharge of all Claims (as defined below). Upon confirmation of the Plan, the Debtors will be discharged from all claims that have arisen before confirmation of the Plan, except for payments and distributions provided for in the Plan.

A “Claim” is generally defined by the Plan to be a right to payment from the Debtors, or from the property of the Debtors, or a right to an equitable remedy for breach of performance, if such breach gives rise to a right to payment. Further, the Plan defines an “Allowed Claim” to be any Claim against the Debtors to the extent that: (a) a proof of claim was timely filed or deemed filed pursuant to § 1111(a) of the Bankruptcy Code; and (b) no objection to the allowance of such Claim has been timely filed or the Claim is allowed (and only to the extent allowed) by a final order after appropriate notice and hearing with respect to an objection thereto. A holder of a Claim will receive distributions only if the Claim is an Allowed Claim.

As discussed above, the Debtors has obtained plan funding from Big Shoulder Capital in an amount anticipated to be around \$1,500,000.00. This loan will allow the Debtors to satisfy the three secured loans from Loeb, Midtown Capital Partners, LLC and Change Capital Partners Fund, I. It is anticipated that Midtown and Change Capital Partners will receive \$1,025,000.00 from the proceeds and Loeb will receive approximately \$475,000.00. With the rest of the Loeb payment coming from the Debtors. This will allow the rest of the cash flow of the Debtors to be used to pay the IRS claim and the unsecured creditors. Please note this financing is subject to confirmation of this plan of reorganization and will not be enforceable, effective or funded if this plan does not get confirmed on the confirmation date set by the court.

**1. Class 1 and 2 Claims**

These Classes include all Allowed Joint Claims against the Debtors held by Midtown Capital Partners, LLC and Change Capital Partners Fund, I. Midtown Capital Partners, LLC’s loan along with Change Capital Partners loan are secured by a general lien on all of the assets of the Debtors located at 510 Richardson Drive, Lancaster, PA represented in their proof of claims in the total amount of \$1,442,462.37. The Debtors have an agreement with Big Shoulder who will fund the plan at confirmation for the purposes of satisfying these creditors’ claims. These claims will be paid \$1,025,000.00 at closing and \$100,000.00, to be paid pursuant over 78 months equally with no interest pursuant to a subordinated secured note to Big Shoulders Financing Loan. This Note will be between the Debtors and Midtown Capital Partners.

**2. Class 3 Claims**

This Class includes all Allowed Joint Claims against the Debtors held by Loeb. Loeb’s loan is secured by a lien on all assets of the Debtors – specifically, the equipment located at 510 Richardson Drive, Lancaster, PA, reflected in their proof of claim in the amount of \$832,596.50. The Debtors will have an agreement with Big Shoulder that will fund the plan at confirmation for the purposes of satisfying this creditor’s claim. Loeb has agreed to a payoff number of

\$644,279.46 as of May 31, 2018 which the Debtors anticipate will be paid at the closing of the Post Confirmation Financing.

**3. Class 4 Claims**

This Class includes all Allowed Claims against LFF held by DLL Finance, LLC. DLL Finance's claim is secured by a lien on a tractor, loader, mowers and other miscellaneous equipment located at the Debtors' place of business in the amount of \$25,005.53 and will be paid monthly payments of \$503.69

**4. Class 5 Claims**

This Class includes all Allowed Claims against the Debtors held by Hurst Produce Inc. that are secured by a Paca lien on all the assets of the Debtors pursuant to Federal Law. The total claim of Hurst Produce Inc. is \$12,951.50 with the lien amount being \$6,065.50 of this amount. This Paca lien amount will be paid in full at closing with the rest of the allowed claim being treated as an unsecured creditor under Class 9.

**5. Class 6 Claims**

This Class includes all Allowed Claims against the Debtors held by Non-Tax Claimants. Class 6 Claims are not impaired under the Plan. The Debtors are not aware of any Class 6 Claimants having claims against the Debtors. However, to the extent that they exist, payment on Class 6 Claim shall be made as soon as practical after the later (a) the "Effective Date" or (b) the entry of an order of the Bankruptcy Court allowing a Class 6 Claim.

**6. Class 7 Claims**

This Class includes all Allowed Unsecured Claims held against EPO. Class 7 creditors shall receive a payment equal to fifteen (15%) percent of their allowed claim payable out over a five (5) year period. The first payment shall be \$100,000.00, payable on the Confirmation Date, with the remainder in six months. All other payments shall be made twice a year, with an accelerated payment of the last \$141,000.00 to be made in 2021, instead of 2022, cash flow permitting. In addition to these payments, a ten (10%) percent enhancement/kicker will be added starting 2020.

This cash flow enhancement/kicker is based on consolidated cumulative projected cash flow at the end of the referenced periods compared to the budget and whether it exceeds the baseline cash flow projection which is attached to the Disclosure Statement. Joint Creditors of Classes 7 and 8 shall receive one single satisfaction for their claim.

**7. Class 8 Claims**

This Class includes all Allowed Unsecured Claims held against LFF. Class 8 creditors shall receive a payment equal to fifteen (15%) percent of their allowed claim payable out over a five (5) year period. The first payment shall be \$100,000.00, payable on the Confirmation Date, with the remainder in six months. All other payments shall be made twice a year, with an

accelerated payment of the last \$141,000.00 to be made in 2021, instead of 2022, cash flow permitting. In addition to these payments, a ten (10%) percent enhancement/kicker will be added starting 2020.

This cash flow enhancement/kicker is based on consolidated cumulative projected cash flow at the end of the referenced periods compared to the budget and whether it exceeds the baseline cash flow projection which is attached as an exhibit to the Disclosure Statement. Joint Creditors of Classes 7 and 8 shall receive one single satisfaction for their claim.

**8. Class 9 Claims**

This Class consists of the rights of equity security holders in the Debtors. Upon confirmation, the Interests of the Debtors shall remain intact in its present form.

**B. TREATMENT OF CERTAIN UNCLASSIFIED CLAIMS**

**1. Professional Fees**

Attorneys, accountants, appraisers, auctioneers, or other professionals within the meaning of § 327 of the Bankruptcy Code employed with the Bankruptcy court's approval and other persons who may be entitled to an allowance of fees and expenses pursuant to § 503(b)(2) of the Bankruptcy Code ("Professional Claims") shall receive cash in the amount awarded to such persons by order of the Bankruptcy Court as soon as practical after the later of the Effective Date and the date on which an order entered by the Bankruptcy Court pursuant to § 330 or 503(b)(2) of the Bankruptcy Code approving allowance of compensation or reimbursement of expenses becomes a final order as to any such person. Each professional person who holds or asserts an administrative claim that is a fee claim incurred before the effective date shall be required to file with the Bankruptcy Court a Fee Application within sixty (60) days after the effective date. Failure to file a Fee Application timely shall result in a fee claim being forever barred at discharge.

**2. Administrative Claims**

Holders of Administrative Claims (as described in the Plan) which claims are Allowed Claims, shall be paid in cash the full amount of such Claims (1) as soon as practical after the Effective Date; (2) at the option of the holder of any such Claim, at such time after the Effective Date as the holder of such Claim may request in writing served upon the Debtors as long as such request does not accelerate payment to such holder; or (3) at such other time after the Effective Date as the Debtors and the holder of such Claim shall agree. The holder of an Administrative Claim, other than (1) a professional claim or (2) a liability incurred in the ordinary course of business by the Debtors, must file with the Bankruptcy Court and serve on the Debtors and its counsel notice of such Administrative Claim within sixty (60) days after the confirmation date. This includes all requests for § 503(b) (9) claims. Such notice must include at a minimum (i) the name of the holder of the claim, (ii) the amount of the claim and (iii) the basis of the claim. Failure to file this notice timely and properly shall result in the administrative claim being forever barred and discharged. At present the Debtors are only aware of one § 503(b)(9) claim against the Debtors by a member of the creditor's committee, Catania Spagna.



### **3. Priority Tax Claims**

Pursuant to 11 U.S.C. § 1129(a)(9)(c), a holder of a § 507(a)(9)(c) tax claim will receive on account of such claim regular installment payments in cash of either the total value of the allowed amount of the claim, a five year payout ending no later than five years after the date the Order for Relief, in a manner not less favorable than the most favored non-priority unsecured claim. The Debtors owe the Commonwealth of Pennsylvania pre-petition taxes which will be paid pursuant to the Plan under this section.

Additionally, in the case at hand, EPO owes the IRS priority claims in the amount of approximately \$2.6 million. EPO intends to pay this claim within five years after the filing which will require payments per month to the IRS of approximately \$42,000.00. EPO is the parent company with LFF being the subsidiary. Originally, EPO was set up as a Common Paymaster entity so that all the Payroll would flow through that entity to the employees. The Commonwealth of Pennsylvania objected to this arrangement which forced LFF to abandon this structure and go back to two separate entities for payroll purpose. This occurred at the beginning of 2017 and since then the entities have been separate and run as two companies. The largest single obligation of EPO is the IRS which at first look only has a claim against EPO. However, this debt is the result of the LFF failure to upstream enough money to cover the payroll obligations incurred by LFF during its day to day operations. In essence, to take the position that LFF is not responsible for the IRS debt incurred by LFF would be to argue form over substance. While the IRS has not formally filed a proof of claim against LFF for the monies owed in the EPO proof of claim, it is the opinion of the Debtors that they will when informed of this arrangement. These payments are included in the projections that are attached to this Disclosure Statement.

### **C. SUMMARY OF OTHER PROVISION OF THE PLAN**

All executory contracts shall be deemed assumed pursuant to the provisions of §§ 365 and 1123 of the Bankruptcy Code except:

- (I) those which have been rejected prior to the Effective Date;
- (II) those as to which motions for assumption are pending as of the Confirmation Date.

It is anticipated that the only executory contract outstanding will be the real estate lease of Richardson associates which covers the complete location of the Debtors in Lancaster. The terms of this lease assumption will be set forth in a separate agreement with the outstanding cure amounts either paid on the effective date or as agreed by the parties.

#### **1. Retention of Jurisdiction**

The Bankruptcy Court shall retain jurisdiction in this Chapter 11 case in order to allow and reject Claims, to allow fees, to consider amendments or modifications to the Plan, to enforce the terms of the Plan and close this proceeding, all of which are described in more particular detail in the Plan.

**2. Revesting**

On the Effective Date, the post-confirmation Debtors shall be revested with all of the property of the estate of the Debtors free and clear of all claims, liens, charges and other interests of creditors arising prior to the filing date, except as otherwise provided by the Plan.

**3. Objections to Claims and Interests**

Objections to Claims and interests shall be filed with the Bankruptcy Court and served upon each holder of such claim or interest to which objection is made as soon as reasonably practical after the Confirmation Date but in any event no later than 120 days from confirmation of the Plan. The failure by the Debtors to object to or to re-examine any claim or interest shall not be deemed to be a waiver of the right to object to or to re-examine such claim or interest in whole or in part to determine its allowability for payment.

**4. Modifications**

The Plan may be amended or modified at any time prior to the Confirmation Date. After the Confirmation Date, the Debtors may, with the approval of the Court and so long as it does not materially and adversely affect the interests of creditors, remedy any defects or omissions or reconcile any inconsistencies in the Plan or in the Confirmation Order in such a manner as may be necessary to carry out the purposes and intent of the Plan.

**5. Bar Date**

Subsequent to the filing of the bankruptcy, the Debtors have requested and the Court has ordered that all proofs of claim prior to the filing of the bankruptcy were to be filed by September 11, 2017. This has been the bar date for filing proofs of claim of all unsecured creditors in this matter.

**6. Post Confirmation Employment of Officers**

Subsequent to confirmation, the Debtors intend to have the same management as of the filing date statement for review by the creditors. These officers will be paid at the same amount post confirmation as set forth in the notice. Attached to the Disclosure Statement is an organizational chart of the officers of the Debtors.

**7. Outstanding Litigation of the Debtors**

Prior to the filing of the Bankruptcy, the Debtors were involved with claims against various third parties. Some of these claims had been put in suit prior to the Bankruptcy, the others are still outstanding awaiting a decision by the Debtors as to the viability of moving forward against the defendants on said claims. The two main claims consist of a malpractice claim against previous counsel to the Debtors concerning advice regarding the sale of Dalmatia goods which contributed to the Dalmatia Litigation. The other claim is against a Pump Manufacturer and/or Installer concerning the improper installment of machinery that led to decreased production of goods which caused losses to the Debtors because of its inability to have customer orders produced in a timely manner. It is anticipated that the Debtors will make a decision after the confirmation of the Plan on whether to move forward on these matters. Additionally, the Debtors may have avoidance actions against various insiders and unsecured creditors pursuant to Chapter 5 of the Bankruptcy Code for preferences and fraudulent conveyances. In October 2016, \$26,000.00 in Distributions were paid to partners pursuant to the terms of the Operating Agreement for use to pay taxes for Calendar Year 2015. Mike Thompson

did not take a distribution but opted to use his distribution to obtain new facility equipment in order to stay in compliance with governmental regulations. Three of the partners, Neireiter, Decter and Thompson have sizeable loan amounts due from EPO. During 2016, interest payments of \$125,000.00 were made to Neireiter and Decter. Mr. Thompson again opted not to take this Distribution so money could be utilized for new facility equipment. In early 2017, during the factory completion and the tortuous four-week trial, Thompson and Goldsmith made a series of very short-term loans to cover Payroll. Ms. Goldsmith, an 84 year old Parkinson Patient received a \$1,500. 00 payment in October of 2017. Additionally, Mr. Thompson has not received numerous paychecks since the filing of the case in order to assist in the reorganization of the Debtors. Please note that in addition to the “insider payments”, there were numerous payments to unsecured trade creditors in an amount far in excess of the “insider payments” that may be avoided pursuant to the Bankruptcy Code. After a review of these causes of actions, the time and money involved, likelihood of collection, the potential defenses to said actions and the benefit to the estate, the Debtors will waive any right to go after these individuals and trade creditors in this proceeding. See exhibit containing the names of individuals and companies/creditors that received payments within ninety days and one year of the filing of the bankruptcy being released in this proceeding.

## V. FINANCIAL INFORMATION

The Debtors have filed Statements of Financial Affairs and Schedules of Assets and Liabilities with the Bankruptcy Court along with monthly operating reports as required by the Bankruptcy Code. This financial information has not been included in this Disclosure Statement, but may be examined in the office of the United States Bankruptcy Court in Philadelphia, Pennsylvania. The Debtors also have filed 18 cash collateral stipulations with budgets attached that have been approved by the court and the interested parties in this proceeding. The Debtors have served the interested parties with weekly budget to actual reports comparing the actual number with the projections contained in the cash collateral stipulations. The Debtors have met with the Unsecured Creditors Committee court appointed accountants on two separate occasions and the Chairman of the Committee is a Financial Analyst/Forensic Accountant who was the expert used by the Debtors in the Dalmatia Litigation who had first-hand information on both of the Debtors. **The Debtors have attached to this Disclosure Statement a projection and forecast of payments to be made to creditors pursuant to the terms of the Plan of Reorganization.** It is anticipated that the Debtors will pay approximately \$1,860,000.00 to the unsecured creditors which equates a fifteen (15%) percent payout on their outstanding claims. As of today, the outstanding unsecured creditors of the Debtors are approximately \$12,400,000.00. The projection also indicates that payments will be made to the IRS of approximately \$42,000.00 a month which will include the principal and interest payment of their outstanding priority claims. The Debtors have attached two sets of financial statements to this documents, the first set of projections forecast how the Debtors will grow in a normal business environment with a baseline viewpoint based on future business. The Second set of financial projections show how the business will grow from a very optimistic viewpoint. Both set of projections indicate that the Debtors will be able to finance this plan of reorganization. These projections are based on the principal’s opinion regarding incoming orders and the past years total sales, in 2015 total sales were \$8,745,345.00, 2016 total sales were \$10,040,844.00 and 2017 total sales were \$11,190,620.00. Also, the size of the premises have increased and been expanded allowing it to complete more orders. The Debtors do believe that sales will go up at that same rate if not greater. The 2017 sales were affected by the negative effect of the Chapter 11 proceeding. Please note however that if the plan is not confirmed quickly, the sales will be affected drastically due to the lack of confidence of the customers in the ability of the Debtors to reorganize.

## VI. ACCEPTANCE AND CONFIRMATION

The proponent of a Chapter 11 plan designates the classes of claims and interests in the proposed plan. See, 11 U.S.C. § 1123(a)(1). See also, 11 U.S.C. § 1122. Voting for or against the proposed plan is by class. See, e.g., 11 U.S.C. §§ 1126(c) and (d). A class of claims generally accepts the proposed plan if “at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors ... have accepted or rejected such plan.” See, 11 U.S.C. § 1126(c). A class of interests, i.e., equity holders, generally accepts the proposed plan if “such plan has been accepted by holders of such interests ... that hold at least two-thirds in amount of the allowed interests of such class held by holders of such interests ... that have accepted or rejected such plan. See, 11 U.S.C. § 1126(d).

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of 11 U.S.C. § 1129 are met. Among the requirements for confirmation of a plan are that the plan being proposed is (i) accepted by all impaired<sup>1</sup> classes of Claims and Interests or, if rejected by an impaired class, that the plan “does not discriminate unfairly” and is “fair and equitable” as to such class, (ii) feasible, and (iii) in the “best interests” of creditor and holders of interests impaired under the plan. Creditors whose Claims are not impaired by the Plan may not vote, as they are conclusively presumed, pursuant to the Bankruptcy Code, to have accepted the Plan. Because the Plan does not impair holders of certain Claims, acceptances will not be solicited from those holders of those claims.

A “cramdown” plan in Chapter 11 is a plan that one or more impaired classes of claims voted to reject, but that at least one impaired class of claims voted to accept. See, e.g., 11 U.S.C. §§ 1129(a)(10) and (b). A “consensual” plan is a plan that all impaired classes of claims and interests have voted to accept. See, 11 U.S.C. § 1129(a)(8). Both cramdown plans and consensual plans are confirmable by the Bankruptcy Court in a Chapter 11 case. See, 11 U.S.C. §§ 1129(a)(1)-(9), (11)-(16). The primary difference is that a cramdown plan is confirmable only if the plan is “fair and equitable.” See, 11 U.S.C. § 1129(b) ”That is, a cramdown plan is confirmable only if it follows the absolute priority rule with respect to each holder in the dissenting class or classes. Id. The absolute priority rule does not apply, though, to the holders of claims in a consensual plan, or to the dissenters in a voting class that has accepted a cramdown plan. See, e.g., 11 U.S.C. §§ 1129(a)-(b). When applying the Absolute Priority Rule , the main item examined by the court is the amount of “new value” being contributed to the plan by the Equity Holders of the debtor. In this case, Mike Thompson, an equity holder, is putting in New Value in the form of a \$200,000.00 cash infusion. It is the belief of the Debtors that this is enough to allow the Plan to be confirmed in a cramdown situation if necessary.

### A. Feasibility

As a condition to confirmation of the Plan, § 1129(a) (ii) of the Bankruptcy Code requires that confirmation of the Plan is not likely to be followed by the liquidation of the Debtors, unless such liquidation is proposed in the plan.

The Debtors believe that comparing the value of the distributions available through a forced sale under a Chapter 7 liquidation to the value obtainable under the Plan which reflect a more commercially reasonable manner of reorganizing the assets reveals that creditors will

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<sup>1</sup> A claim or interest generally is “impaired” unless it “leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest,” i.e., an “impaired” class of claims or interests essentially is a class the members of which will receive less than they would be entitled to outside of the bankruptcy. See, 11 U.S.C. § 1124(1). If, for example, each of the holders in a class of unsecured creditors will be paid seven (7%) percent rather than 100 percent of its allowed claim – then the class is impaired.

receive greater value under the Plan. According to the Debtors, the Plan satisfies the “best interest of creditors” test. Additionally, the Debtors employ approximately 90 people in the Lancaster area who will stay employed after the confirmation of the plan giving this case a local economic incentive to succeed.

## **VII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **A. General Tax Considerations**

The confirmation and execution of the Plan may have tax consequences to holders of Claims and Interests. The Debtors do not offer an opinion as to any federal, state, local or other tax consequences to holders of Claims and interests as a result of the confirmation of the Plan. ALL HOLDERS OF CLAIMS AND INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN. THIS DISCLOSURE STATEMENT IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, AS LEGAL OR TAX ADVICE TO ANY CREDITOR.

## **VIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN**

If the Plan is not confirmed and consummated the theoretical alternatives include liquidation of the Debtors under Chapter 7 of the Bankruptcy Code.

### **A. Liquidation under Chapter 7**

If no plan can be confirmed, the Reorganization Case may be converted to a case under Chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution to its creditors in accordance with the priorities established by the Bankruptcy Code. The Debtors estimate that if its assets are liquidated under Chapter 7, it is unlikely that any unsecured creditors would receive anything much less the amount to be realized under the confirmed Plan of Reorganization because any proceeds derived from said liquidation will go to Midtown and Loeb. Additionally, creditors who are continuing to do business with the Debtors post confirmation will lose a client and have no future potential to continue to do business with the Debtors.

**ADDITIONALLY, IF THIS CHAPTER 11 PLAN IS NOT CONFIRMED BY THE BANKRUPTCY COURT, THE DEBTORS BELIEVE THAT THE UNSECURED CREDITORS WILL NOT RECEIVE A DISTRIBUTION AT ALL. EVEN IF A CREDITOR DID BELIEVE THAT A DISTRIBUTION IS POSSIBLE. A CHAPTER 7 LIQUIDATION COULD TAKE UP TO TWO TO THREE YEARS BEFORE A CREDITOR RECEIVES ANYTHING ON BEHALF OF THEIR CLAIM. HOWEVER, IF THE CHAPTER 11 PLAN IS CONFIRMED, THE UNSECURED CREDITORS WILL RECEIVE AN INITIAL PAYMENT WITHIN A YEAR IN THE AMOUNT SET FORTH IN THE PLAN OF REORGANIZATION. IT IS FOR THIS REASON THAT A LIQUIDATION UNDER CHAPTER 7 WOULD, IN THE OPINION OF THE DEBTORS, NOT BE IN THE BEST INTEREST OF THE CREDITORS, PARTICULARLY THOSE THAT WISH TO RECEIVE A DISTRIBUTION THIS YEAR.**

## IX. OTHER INFORMATION

Inquiries regarding information not contained in this Disclosure Statement may be made by contacting Paul B. Maschmeyer, Maschmeyer Marinas P.C., 350 South Main Street, Suite 105, Doylestown, Pa 18901 (610)-296-3325, or the United States Bankruptcy Court for the Eastern District of Pennsylvania, 900 Market Street, Suite 400, Philadelphia, PA 19107 (215) 408-2800.

### **EARTH PRIDE ORGANICS, LLC and LANCASTER FINE FOODS, INC.**

BY: /s/ Michael S. Thompson  
Michael S. Thompson

### **MASCHMEYER MARINAS P.C.**

By: /s/ Paul B. Maschmeyer  
Paul B. Maschmeyer, Esquire  
350 South Main Street  
Suite 105  
Doylestown, Pa 18901  
Attorneys for Debtors

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