

**EXHIBIT A**

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IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

*In re:*

DIAMOND CONTRACT FLOORING, LLC.

Debtor.

Bankruptcy Case No. 17-16672

Chapter 11

Judge: Honorable Eric L. Frank

**SMALL BUSINESS DEBTOR'S COMBINED PLAN OF REORGANIZATION  
AND DISCLOSURE STATEMENT**

This Combined Plan of Reorganization and Disclosure Statement is presented to you to inform you of the proposed Plan for restructuring the debt of Diamond Contract Flooring, LLC (the "Debtor" or "Plan Proponent"), and to seek your vote to accept the Plan.

You are encouraged to carefully review the full text of this document, including all exhibits and attachments, before deciding how to vote on the Plan. To assist you in your review, please note that a list of definitions and a section of frequently asked questions appear at the end of this document.

IN ADDITION TO CASTING YOUR VOTE TO ACCEPT OR REJECT THE PLAN, YOU MAY OBJECT TO THE ADEQUACY OF THE DISCLOSURES MADE IN THIS DOCUMENT, OR YOU MAY OBJECT TO THE TERMS OF THE PROPOSED PLAN. IF YOU WISH TO OBJECT TO THE ADEQUACY OF THE DISCLOSURES OR TO THE TERMS OF THE PROPOSED PLAN, YOU MUST DO SO BY **[OBJECTION DATE/TIME]**.

YOUR BALLOT STATING HOW YOU ARE VOTING ON THE PLAN MUST BE RETURNED BY **[DEADLINE]**. THE BALLOT MUST BE MAILED TO THE FOLLOWING ADDRESS: Carrie J. Boyle, Esquire, Boyle & Valenti Law P.C., 10 Grove Street, Haddonfield, NJ 08033.

A HEARING ON THE CONFIRMATION OF THE PLAN IS SCHEDULED FOR **[HEARING DATE/TIME]** IN COURTROOM NO. 1 AT THE UNITED STATES BANRUPTCY COURT, 900 MARKET STREET, PHILADELPHIA, PENNSYLVANIA 19107.

Your rights may be affected by this Combined Plan and Disclosure Statement. You should consider discussing this document with an attorney.

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Dated: May 25, 2018

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## SUMMARY OF THE PLAN AND DISTRIBUTIONS TO CREDITORS

### ARTICLE 1

#### BACKGROUND OF THE DEBTOR

- 1.1 **Filing of the Debtor's Chapter 11 Case.** On September 29, 2017 (the "Petition Date"), the Debtor filed a voluntary petition for relief in the United States Bankruptcy Court for the Eastern District of Pennsylvania (Philadelphia), pursuant to Chapter 11 of the Bankruptcy Code. Since the Petition Date, the Debtor has remained in possession of its assets and continued to manage its business as debtor-in-possession pursuant to Section 1107 and 1108 of the Bankruptcy Code.
- 1.2 **Nature of the Debtor's Business.** The Debtor operates as sales agent for AJR Flooring Products, LLC t/a Keystone Floor Products, LLC ("Keystone") selling and installing carpet and flooring to large commercial clients and builders such as Toll Brothers, hospitality groups, and student housing in Central and Southern New Jersey, Southeast Pennsylvania and Delaware.
- 1.3 **Legal Structure and Ownership.** The Debtor is a Pennsylvania Limited Liability Company wholly owned by Christopher Diamond, who also serves as the Debtor's President.
- 1.4 **Debtor's Assets.** The Debtor's assets are more fully described in the Debtor's Schedules of Assets and Liabilities (Schedule B of the Debtor's Petition), an updated schedule of assets is attached hereto as Exhibit "A", generally consist of equipment, supplies, miscellaneous office equipment, miscellaneous flooring remnants, and third party claims against past customers when the Debtor was operating independently and not as an agent for Keystone. The Debtor values these assets at \$159,192.60.
- 1.5 **Debtor's Liabilities.** The following make up the Debtor's liabilities:
- Hyperion Bank Secured Claim: \$249,975
  - Judgment Lien Creditors: J.J. Haines & Company, Inc. (\$123,217.33) and Stanley Stephens Company, Inc. (\$12,992): There is no equity in the Debtor's assets to support the claims of the Judgment Lien Creditors. By way of this Chapter 11 Plan, the Debtor is stripping the judgment liens and treating the Judgment Lien Creditors' claims as General Unsecured Claims.
  - Secured Tax Debt: The Commonwealth of Pennsylvania Dept. of Labor holds a secured tax claim against the Debtor for \$8,143.77. The Commonwealth of Pennsylvania Dept. of Revenue holds a secured tax claim against the Debtor for \$8,852.70.

There is no equity in the Debtor's assets to support these claims and therefore the Debtor is treating the secured portion of these claims as a

Priority Unsecured Tax Debt (debt balances not included in the below statement of Priority Unsecured Tax Debt, but in addition to the same).

- Priority Unsecured Tax Debt: City of Philadelphia (\$46,000.42); Commonwealth of PA Dept. of Labor (\$6,984.80); Commonwealth of PA Dept. of Revenue (\$13,916.33); IRS (\$173,237.18 – disputed); and Connecticut Dept. of Revenue Services (\$13,865.38).  
TOTAL: \$254,004.11.
- General Unsecured Debt: Est. \$804,103.

*See also the attached Exhibit "A."*

**1.6 Current and Historical Financial Conditions.** Diamond Contract Flooring, LLC (“DCF” or “Debtor”) originally commenced business in 2000 out of a spare bedroom in Christopher Diamond’s apartment in downtown Philadelphia and it leased a small warehouse space in Pennsauken, NJ to receive materials. By August 2002, DCF was flourishing and moved into warehouse/office space in the Mayfair section of Philadelphia.

During the first year of business operations, among other commercial clients, DCF started doing business with an apartment developer named Philadelphia Management Corporation, currently operating as PMC Property Group (“PMC”). PMC quickly became DCF’s largest volume account representing 20% to 35% of its business from the years 2001 through 2011. PMC expanded its apartment development operations to states up and down the East Coast and the account quickly grew to become over 70% of DCF’s business from the years 2012 into 2014. But, in 2014, PMC started buying material direct from the manufacturers and DCF was cut out of the large development projects. Overnight, DCF lost its biggest customer representing the majority of its business.

Recognizing that DCF’s business with PMC was rapidly decreasing, Chris Diamond worked diligently to gain new business to replace the volume that DCF lost when PMC cut it out of its major projects. Mr. Diamond was successful in locking in a business relationship with Toll Brothers, however the drop in volume and revenue from PMC was so swift and dramatic that it had already crippled the business. As a result and in an attempt to bridge the gap of time between losing the PSM business and starting up with Toll Brothers, DCF was forced to enter into several high interest loans which unfortunately only further exacerbated the financial problems.

Then, to further add insult to injury, during the time that the business volume was dramatically reduced, DCF suffered two (2) material related claims that were not honored by the warranted manufacturers. These claims amounted in over \$125,000 of material and labor costs that the business paid to ensure good continued relationship with its customers.

**1.7 Events Leading to the Filing of the Bankruptcy Case.** Following from the above narrative describing the Debtor’s origins and historical financial fluctuations, by 2017, the Debtor had three (3) judgments for money against it, and the Debtor was at further risk of repeated levies on its bank accounts. The Debtor was unable to finish all of the jobs for which it had

contracted with customers and the Debtor could not repay its creditors in this current state without a master plan for the repayment of all of its creditors in a bankruptcy context, and subject to the automatic stay against collection action.

In early 2017, the Debtor commenced discussions with a larger regional carpet and flooring sales and installation company, AJK Flooring Products LLC t/a Keystone Floor Products, LLC (“Keystone”), about working as an agent of Keystone so that through Keystone, the Debtor would be able to finish all of its existing contracts with customers, buy product for new customer contracts through Keystone, continue operations, and then realize a steady cash-flow in which it can pay its creditors. The Debtor and Keystone entered into such an arrangement in April 2017, wherein the Debtor commenced a new business model as an agent for Keystone Flooring and Keystone pays the Debtor a guaranteed weekly payment. It is this new business model that will enable the Debtor to repay its creditors in full.

- 1.8 Significant Events During the Bankruptcy Case.** The Debtor’s bankruptcy case has been relatively uneventful with the exception of the improved post-petition operations and return to profitability. The Debtor sought authority to retain its attorneys and its accountant and received court approval for both. The Debtor also sought and received authority to pay pre-petition wages, salaries, benefits and payroll taxes, and the use of cash collateral. More recently, the Debtor filed motions to expunge the claims of Bernie Diamond, Ferne Gold, Micheal Samschick and Melissa Samschick and intends not to pay their claims in the course of this Chapter 11 case.
- 1.9 Projected Recovery of Avoidable Transfers.** The Debtor does not intend to file any avoidance actions as the Debtor is not paying the claims of any insiders who may have received payments in the year prior to the Petition Date. The total balance of the claims to be expunged exceeds the amount of any potential recovery actions. Furthermore, the Debtor intends to pay its other allowed claimants 100% of their claims.

## **ARTICLE 2** **THE PLAN**

The Debtor’s Plan must describe how its Creditors will be paid. Certain Claims are entitled to specific treatment under the Bankruptcy Code and are not placed in a class for purpose of payment. For example, Administrative Expenses and Priority Tax Claims are not classified.

As required by the Bankruptcy Code, the Plan places Claims and Equity Interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of Claims or Equity Interests is impaired or unimpaired. A Claim or Equity Interest can be impaired if the Plan alters the legal, equitable or contractual rights to which the Claimants are otherwise entitled. If the Plan is confirmed, each Creditor’s recovery is limited to the amount provided in the Plan.

Only Creditors in classes that are impaired may vote on whether to accept or reject the Plan, and only Creditors holding Allowed Claims may vote. A class accepts the Plan when more



than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the Allowed Claims that actually vote, vote in favor of the Plan. Also, a class of Equity Interest holders accepts the Plan when at least two-thirds (2/3) in amount of the allowed Equity Interest holders that actually vote, vote in favor of the Plan. A class that is not impaired is deemed to accept the Plan. The Debtor as Plan Proponent of the Plan will request that the Bankruptcy Court confirm the Plan by cram down pursuant to § 1129(b) of the Bankruptcy Code on any impaired classes if any of these classes do not vote to accept the Plan.

## **2.1 Unclassified Claims.**

Certain types of Claims are automatically entitled to specific treatment under the Bankruptcy Code. For example, Administrative Expenses and Priority tax Claims are not classified. They are not considered impaired, and holders of such Claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Bankruptcy Code. As such, the Plan does not place the following Claims in any class:

### **A. Administrative Expenses**

The Debtor must pay all Administrative Expenses in full. If an Administrative Expense is disputed, the Bankruptcy Court must determine the validity and amount of the Administrative Expense, or in other words, “allow” or “disallow” the Administrative Expense. Any Administrative Expense that is undisputed and is due and owing on the Confirmation Date must be paid on the Effective Date of the Plan, or upon such other terms as agreed upon by the Debtor and the Administrative Claimant. If the Administrative Expense is disputed, payment will be made after the Administrative Expense is allowed by the Bankruptcy Court.

There are several types of Administrative Expenses, including the following:

1. If the Debtor trades in the ordinary course of business following its filing of the Chapter 11 Case, Creditors are entitled to be paid in full for the goods or services provided. This ordinary trade debt incurred by the Debtor after the Petition Date will be paid on an ongoing basis in accordance with the ordinary business practices and terms between the Debtor and its trade Creditors.
2. If the Debtor received goods it has purchased in the ordinary course of business within 20 days before the Petition Date, the value of the goods received is an Administrative Expense.
3. Administrative Expenses also include any post-petition fees and expenses allowed to professionals, including attorneys and accountants employed upon Bankruptcy Court authority to render services to the Debtor during the course of the Chapter 11 case. These fees and expenses must be noticed to Creditors and approved by the Bankruptcy Court prior to payment.

The following chart lists the Debtor’s estimated Administrative Expenses, and their proposed treatment under the Plan:

Type	Estimated Amount Owed	Proposed Treatment
Expenses arising in the ordinary course of business after the Petition Date	\$0.00 (this amount does not include payments which are currently due and within terms)	N.A.
Professional Fees as approved by the Bankruptcy Court	\$40,000	Paid in full on Effective Date or as agreed by Administrative Creditors
United States Trustee Fees <sup>1</sup>	\$925.00 (estimated)	Paid in full prior to Confirmation
<b>TOTAL</b>	<b>\$40,925</b>	

Time for Filing Administrative Claims. The holder of an Administrative Claim, other than a Professional Claim, must file with the Bankruptcy Court and serve on the Debtor and its counsel, a Motion for allowance of the Administrative Claim within thirty (30) days after the Confirmation Date. Failure to file such a motion timely and properly shall result in the Administrative Claim being forever barred and discharged.

Allowance of Administrative Claims. An Administrative Claim (other than an application for a Professional Claim) with respect to which a motion has been timely and properly filed pursuant to this Section of the Plan shall become an Allowed Administrative Claim, but only if Allowed by the Bankruptcy Court by Final Order of the Bankruptcy Court. An Administrative Claim that is a Professional Claim relating to pre-confirmation services provided, and with respect to its fee application having been properly filed pursuant to this Section of the Plan, shall become an Allowed Administrative Claim only to the extent allowed by Final Order of the Bankruptcy Court. After the Confirmation Date, the Debtor’s professionals, to the extent fees are permitted to be recovered under the Plan, shall send bills to counsel to the United States Trustee and if no objection is lodged within ten (10) days, they shall be paid by the Debtor without further order of the Bankruptcy Court. If there is an objection, a Fee Application shall be filed with the Bankruptcy Court. Allowed Fee Claims shall retain the same priority status as existed prior to the confirmation of the Plan, after confirmation of the Plan, *vis a vis*, all other subordinate priority and general unsecured claims. After the Bankruptcy Case is closed Professional Fees shall be paid in the discretion of the Debtor.

Payment of Allowed Administrative Claim. Each holder of an Allowed Administrative Claim shall receive (i) the amount of such holder’s Allowed Claim on the Effective Date, or upon the Administrative Claim becoming an Allowed Administrative Claim, whichever is later, or (ii) such other treatment as may be agreed upon in writing by the Debtor and such holder as

<sup>1</sup> All fees required to be paid by 28 U.S.C. § 1930(a)(6) (“United States Trustee Fees”) will accrue and be timely paid until the case is closed, dismissed, or converted to another chapter of the Bankruptcy Code. Any United States Trustee Fees owed on or before the Effective Date of the Plan will be prior to the Effective Date.

long as no payment is made thereon prior to the Effective Date. The Debtor is not aware of any administrative claims except as set forth above.

B. Priority Tax Claims

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

Each holder of a Priority Tax Claim will be paid as set forth in the chart below:

Type	Estimated Amount Owed <sup>2</sup>	Date of Assessment	Proposed Treatment
Internal Revenue Service	\$172,796.69 (disputed)	various	Pmt Interval = monthly Payment = \$ 4,160 Begin Date = 9/1/18 End Date = 8/1/22 Interest Rate = 4% Total Payment = \$ 199,680
Pennsylvania Department of Revenue	\$23,055.50 (this debt balance includes the secured portion of the claim).	various	Pmt Interval = monthly Payment = \$ 585 Begin Date = 9/1/18 End Date = 8/1/22 Interest Rate = 4% Total Payment = \$ 28,080
Pennsylvania Department of Labor	\$15,128.57 (this debt balance includes the secured portion of the claim).	Various	Pmt Interval = monthly Payment = \$ 390 Begin Date = 9/1/18 End Date = 8/1/22 Interest Rate = 4% Total Payment = \$ 18,720
City of Philadelphia/School District of Philadelphia	\$46,000.42	Various	Pmt Interval = monthly Payment = \$ 1,105 Begin Date = 9/1/18 End Date = 8/1/22 Interest Rate = 4% Total Payment = \$ 53,040

<sup>2</sup> These amount are subject to reduction after the application of monthly and/or quarterly payments or objection by the Debtor after the entry of a final order of the Bankruptcy Court, including the objection to the penalty and interest provisions of this claim.

Connecticut Department of Revenue Service	\$13,865.38	Various	Pmt Interval = monthly Payment = \$ 350 Begin Date = 9/1/18 End Date = 8/1/22 Interest Rate = 4% Total Payment = \$ 16,800
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**2.2 Classes of Claims and Equity Interests.**

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

**A. Classes of Secured Claims**

Allowed Secured Claims are Claims secured by property of the Debtor’s bankruptcy estate (or that are subject to setoff) to the extent allowed as secured Claims under § 506 of the Bankruptcy Code. If the value of the collateral or setoffs securing the Creditor’s Claim is less than the amount of the Creditor’s Allowed Claim, the deficiency will be classified as a general unsecured Claim. As set forth below, the Debtor will pay the Allowed Secured Claims of the Class 1 claimants from the Debtor’s income in accordance with the Cash Flow Analysis attached hereto as “Exhibit B.”

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

Class	Description	Insider (Y/N)	Impaired	Treatment
1	Secured Claim of: <b>Hyperion Bank</b>  Total claim \$249,975	N	Y	Hyperion Bank will be paid a lump sum of \$25,000 on the Effective Date of the Plan.  Following the initial lump sum payment, Hyperion Bank will receive payments of \$4,100/month for the first 48 months of the Plan.  In months 49 – 52 (after the priority tax claims are paid), Hyperion Bank will receive monthly payments of \$11,000.  Hyperion Bank’s claim is being paid in full at a rate of 3.5% for a total payment of \$265,800.  Hyperion Bank shall retain its lien until paid in full.

B. Classes of Priority Unsecured Claims

Certain priority Claims that are referred to in §§ 507(a)(1), (4), (5), (6) and (7) of the Bankruptcy Code are required to be placed in classes. The Code requires that each holder of such a Claim receive cash on the Effective Date of the Plan equal to the allowed amount of such Claim. However, a class of holders of such Claims may vote to accept different treatment.

The Debtor has not identified any Priority Unsecured Claims except the above claims of the taxing authorities.

C. Class of General Unsecured Claims (Class 2)

Class 2 consists of General Unsecured Claims which are not secured by property of the estate and are not entitled to priority under § 507(a) of the Bankruptcy Code. Class 2 Claims shall receive 100% of their respective Allowed Class 2 Claims, over time from the estate of the Debtor from time to time, from the net cash flows of the Debtor's operations post-confirmation in accordance with the Cash Flow Analysis attached hereto as "Exhibit B." The Debtor will make quarterly payments (every three (3) months) to Class 2 Claimants over an eight-and-one-half (8 ½) year period following the Effective Date and commencing on September 1, 2018.

The following chart describes the Plan's treatment of Class3 General Unsecured Claims:

Class	Description	Impaired	Treatment	Notes
3	General Unsecured Claims: Debtor Estimates Allowed Claims could be as high as \$804,103	Y	<p>General Unsecured Claims ("GUCs") are unsecured claims not entitled to priority under Bankruptcy Code § 507(a) of the Bankruptcy Code. These claims shall receive 100% of their respective claims at 3% interest, over time.</p> <p>The Debtor will pay GUCs, \$13,000 quarterly (every 3 months) for the first 52 months of the Plan.</p> <p>Then, the Debtor will pay GUCs \$45,000 quarterly (every 3 months) for the remaining 50 months of the Plan. The total Plan is 100% payment over 8 ½ years.</p>	<p>The Debtor reserves the right to object to the claims of taxing authorities to the extent that they are inaccurate and any claim listed as disputed on its Schedules where the creditor did not file a proof of claim.</p> <p>The Debtor disputes the claim of Liberty Insurance as the Debtor is currently under audit and expects a refund.</p>

D. Class of Equity Interest Holders

Christopher Diamond will retain his 100% interest in the Debtor as all creditors are being paid in full.

**2.3 Claims Objections.**

The Debtor may object to the amount of validity of any Claim within 90 days of the Confirmation Date by filing an objection with the Bankruptcy Court and serving a copy of the objection on the holder of the Claim. The Claim objected to will be treated as a Disputed Claim under the Plan. If and when a Disputed Claim is finally resolved by the allowance of the Claim in whole or in part, the Debtor will pay the Allowed Claim in accordance with the Plan. The Debtor has reviewed the proofs of claim and scheduled claims and reserves the right to object to the claims of taxing authorities to the extent that they are inaccurate and any claim listed as disputed on its Schedules where the creditor did not file a proof of claim.

**2.4 Treatment of Executory Contracts and Unexpired Leases.**

Executory Contracts are contracts where significant performance of the contract remains for both the Debtor and another party to the contract. The Debtor has the right to reject, assume (i.e. accept), or assume and assign these types of contracts to another party, subject to the Bankruptcy Court's approval. The paragraphs below explain the Debtor's intentions regarding its Executory Contracts (which includes its unexpired leases, if any) and the impact such intentions would have on the other parties to the contracts.

Apart from the agency agreement between the Debtor and Keystone, the Debtor is not a party to any executory contracts or unexpired leases. To the extent that the agency agreement between the Debtor and Keystone constitutes an executory contract, the Debtor assumes the agreement with Keystone.

**2.5 Means for Implementation of the Plan.**

The Debtor shall pay the claims provided for in this Plan with a combination of cash on hand on the Effective Date and its future earnings as set forth on Exhibit "B." In addition, the Debtor may pursue certain third party claims as listed on the Debtor's Schedule B and attached hereto as part of Exhibit "A." Any net recovery to the Debtor will be applied to the plan to accelerate the repayment of all creditors' claims.

**2.6 Disbursing Agent.**

The disbursing ("Disbursing Agent") shall act as the agent for the purpose of making all distributions provided for under the Plan. The Disbursing Agent shall serve without bond and shall receive no compensation for distribution services rendered and expenses incurred pursuant to the Plan. In this case the Debtor's agency principal, Keystone, shall act as the Disbursing

Agent for all distributions to creditors. All distributions shall be made from the Reorganized Debtor's bank accounts.

## **2.7 Post-Confirmation Management.**

Christopher Diamond will continue as the Debtor's president and manager, and will continue to be compensated at his pre-petition rate of \$182,000.00 (annual gross salary) plus automobile expenses and health insurance. The Reorganized Debtor shall remain in control of all Assets and shall further be empowered to (i) abandon or decline to prosecute Causes of Action using reasonable discretion; (ii) take all steps and execute all instruments and documents necessary to make distributions to holders of Allowed Claims; (iii) calculate all distributions to Creditors and issue checks drawn from the Reorganized Debtor's respective accounts to make distributions contemplated by the Plan; (iv) employ, retain or replace professionals to represent it with respect to its responsibilities; (v) compromise and settle any issue or dispute regarding the amount, validity, priority, treatment or allowance of any Claim; (vi) commence, continue and/or prosecute any Causes of Action and/or settle the same without Bankruptcy Court approval; (vii) file any and all tax returns and cost reports on behalf of the Reorganized Debtors; (viii) make periodic reports regarding the status of distributions under the Plan; (ix) object to Claims and prosecute and resolve such objections; (x) pay the fees and expenses of the Reorganized Debtor's professionals and all other expenses in winding up the Reorganized Debtor's respective affairs, (xi) pursue any Causes of Action; and (xii) exercise such other powers as may be vested in the Reorganized Debtor pursuant to orders of the Bankruptcy Court or the Plan.

## **2.8 Tax Consequences of the Plan.**

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

The Debtor offers no opinion as to any federal, state, local or other tax consequences to holders of Claims and Interests as a result of confirmation of the Plan.

## **2.9 Risk Factors/Mitigating Factors.**

As noted above, this Small Business Plan and Disclosure Statement has been prepared to address the financial problems of the Debtor and to provide for the future operation of the Debtor's business following the conclusion of the reorganization proceedings. There are certain factors, however, which may affect realization of the Plan's objective, and which you should consider prior to voting on the Plan.

### **A. Inherent Uncertainty of Projections**

The Debtor's belief in the feasibility of the Plan is based upon the Projections contained in the Cash Flow Analysis attached as Exhibit "B" regarding the ongoing earning capacity of the Debtor following the Effective Date of the Plan. This Exhibit demonstrates the ability of the Debtor to generate sufficient cash flow and other items of income to enable the Debtor to pay its priority debt and its Unsecured Claims in accordance with the Plan. However, while the Debtor

believes that the assumptions made in this Exhibit are reasonable, they obviously involve predictions as to future events, and there can be no assurance that such predictions will in fact prove to be accurate. More specifically, the Exhibit assumes certain levels of cash on hand on the Effective Date, and certain levels of gross income and expenses in the following years. It is possible that, due to any number of factors, the Debtor will be unable to generate the projected net income during this period, which could result in the Debtor's inability to meet its debt service obligation to its Creditors. In that event, (a) the case might be converted to a Chapter 7; (b) the Debtor's assets might be liquidated; and (c) depending on the timing of the Debtor's inability to meet its debt service obligations, the Claims of Unsecured Creditors might not be paid.

#### B. Risk of Default

In the event that the Debtor does not achieve its projected income or if expenses, including capital expenditures, exceed projections, the Debtor may be unable to service its debt causing the Debtor to default under the terms of the Plan. The ability of the Debtor to avoid default is dependent upon numerous factors and assumptions, many of which are not within the control of the Debtor, including the state of the national and local economy.

### **ARTICLE 3** **FEASIBILITY OF PLAN**

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

#### **3.1 Ability to Initially Fund Plan.**

The Plan Proponent believes that the Debtor will have enough cash on hand generated from the Debtor's operations on the Effective Date of the Plan to pay all the Claims and expenses that are entitled to be paid on that date. Tables showing the projected cash on hand as of the Effective Date of the Plan, and projecting the Debtor's income and expenses through the term of the proposed plan payments is attached hereto as Exhibit "B."

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

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments. As set forth in the Debtor's attached Exhibit "B," the Debtor, using its most recent history of performance while in Chapter 11, reasonably projects that confirmation of the Plan is not likely to be followed by the liquidation of Debtor.

**You should consult with your accountant or other financial advisor if you have any questions pertaining to the Projections set forth in Exhibit "B," the Cash Flow Analysis.**



**ARTICLE 4**  
**LIQUIDATION VALUATION**

To confirm the Plan, the Bankruptcy Court must find that all Creditors and Equity Interest holders who do not accept the Plan will receive at least as much under the Plan as such Claimants and Equity Interest holders would receive in a Chapter 7 liquidation.

In a Chapter 7 case, the debtor's assets are usually sold by a Chapter 7 Trustee if the Trustee believes there are sufficient assets. Secured creditors are paid first from the sales proceeds of assets upon which the secured creditor has a lien. Administrative claims are paid next. First, Chapter 7 administrative claims, including *inter alia* the Chapter 7 Trustee's compensation and the fees of his professionals – then Chapter 11 administrative expenses, which in this case would include the Debtor's professional fees. Next, unsecured creditors are paid from any remaining sales proceeds, if any, according to their rights to priority. Priority claims in the nature of pre-petition tax obligations and employee wages vacation and sick time, by way of example, are items of priority under § 507 of the Bankruptcy Code. If any funds remain, General Unsecured Creditors with the same priority share in proportion to the amount of their allowed claims in any remaining funds. Finally, interest holders receive the balance that remains after all creditors are paid, if any.

In order for the Bankruptcy Court to be able to confirm this Plan, the Bankruptcy Court must find that all creditors and interest holders who do not accept the Plan will receive at least as much under the Plan as such holders would receive under Chapter 7 liquidation. The Plan Proponent maintains that this requirement is met here.

Below is a demonstration, in balance sheet format, that all creditors and interest holders will receive at least as much under the Plan as such creditor or interest holder would receive under a Chapter 7 liquidation:

**LIQUIDATION ANALYSIS**

Debtors' combined business assets value (estimated):	\$159,192.60
Less Claim of Secured Creditor Hyperion Bank:	\$249,975
Less Secured Tax Claims (treated as Priority Claims):	\$16,996.47
Less Priority Claims:	\$254,004.11
Less: Chapter 7 Trustee fees, Trustee attorney's fees, and accountant's fees (assuming Trustee would administer):	\$25,000
Less Chapter 11 Administrative professionals:	\$40,000
<b>TOTAL AVAILABLE FOR PRIORITY AND GENERAL UNSECURED CREDITORS IN A CHAPTER 7:</b>	<b>\$0.00</b>

**ARTICLE 5**  
**DISCHARGE/INJUNCTION**

**5.1 Discharge.**

Upon Confirmation of the Plan, the Debtor shall be discharged of liability for payment of debts incurred before Confirmation of the Plan, to the extent specified in 11 U.S.C. § 1141. However, any liability imposed by the Plan will not be discharged. If Confirmation of the Plan does not occur, or if after Confirmation occurs the Debtor elects to terminate the Plan, the Plan shall be deemed null and void. In such event, nothing contained in the Plan shall be deemed to constitute a waiver or release of any claims against the Debtor or its estate or any other persons liable along with the Debtor, or to prejudice in any manner the rights of the Debtor or its estate or any person in any further proceeding involving the Debtor or its estate. The provisions of the Plan shall be binding upon Debtor, all Creditors and all Equity Interest Holders, regardless of whether such Claims or Equity Interest holders are impaired or whether such parties accept the Plan, upon Confirmation thereof.

**5.2 Injunction.**

Except as provided in the Confirmation Order or the Plan, as of the Effective Date, all Entities that have held, currently hold or may hold a Claim against the Debtor are temporarily enjoined from taking any of the following actions: (a) commencing or continuing in any manner any action or other proceeding against the Debtor or its assets in any other court, including the employment of process, restarting any pending state court litigation stayed by the orders for relief, or taking any act, to collect, recover or offset any such Claim as a liability of the Debtor; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order against the Debtor or its assets; and (c) creating, perfecting or enforcing any lien or encumbrance against the Debtor or its assets. Further any creditor bound by the Plan is barred from seeking abstention, remand, or the withdrawal of the reference with respect to any Claim objection. Upon completion of all payments under the Plan, or the Debtor's receipt of a discharge, whichever is earlier, this injunction provision shall become permanent. By accepting distributions under the Plan, each holder of an Allowed Claim or Equity Interest will be deemed to have specifically consented to the injunction set forth above.

**ARTICLE 6**  
**GENERAL PROVISIONS**

**6.1 Title to Assets.**

Except as otherwise provided in the Plan or in the order confirming the Plan, (i) confirmation of the Plan vests all of the property of the estate in the Debtor, and (ii) after confirmation of the Plan, the property dealt with by the Plan is free and clear of all Claims and Equity Interests of Creditors.

**6.2 Binding Effect.**

If the Plan is confirmed, the provisions of the Plan will bind the Debtor and all Creditors, whether or not they accept the Plan. The rights and obligations of any entity named or referred to in this Plan will be binding upon, and will inure to the benefit of the successors or assigns of such entity.

**6.3 Severability.**

If any provision in this Plan is determined to be unenforceable, the determination will in no way limit or affect the enforceability and operative effect of any other provision of this Plan.

**6.4 Retention of Jurisdiction by the Bankruptcy Court.**

The Bankruptcy Court shall retain jurisdiction of this case pursuant to the provisions of Chapter 11 of the Bankruptcy Code, pending the final allowance or disallowance of all Claims affected by the Plan, and to make such orders as are necessary or appropriate to carry out the provisions of this Plan. In addition, the Bankruptcy Court shall retain jurisdiction to implement the provisions of the Plan in the manner as provided under § 1142, sub-paragraphs (a) and (b) of the Bankruptcy Code. If the Bankruptcy Court abstains from exercising, or declines to exercise jurisdiction, or is otherwise without jurisdiction over any matter set forth in this Section, or if the Debtor or the Reorganized Debtor elect to bring an action or proceeding in any other forum, then this Section shall have no effect upon and shall not control, prohibit or limit the exercise of jurisdiction by any other court, public authority or commission having competent jurisdiction over such matters.

The Bankruptcy Court will also retain jurisdiction specifically as to the following matters and controversies: (a) to determine on an exclusive jurisdictional basis, any and all objections in the allowance of Claims and amendments to schedules; (b) to classify the Claim of any Creditor and to re-examine Claims which have been Allowed for purposes of voting, to determine such objections as may be filed to Claims; (c) to determine any and all disputes arising under or in connection with the Plan, including, but not limited to, any default remedies granted herein; (d) to determine any and all applications for allowance of compensation and reimbursement of expenses herein for fees incurred through the Confirmation Date; (e) to determine any and all pending applications for rejections of executory contracts and unexpired leases and the allowance of any Claims resulting from the rejection thereof or from the rejection of executory contracts or unexpired leases pursuant to the Plan; (f) to determine any and all applications, adversary proceedings and contested and litigated matters pending in the case as of, or after, the Confirmation Date; (g) to determine any and all proceedings for recovery of payments pursuant to any Cause of Action; (h) to modify any provision of the Plan to the full extent permitted by the Bankruptcy Code; (i) to correct any defect, cure any omission or reconcile any inconsistency in the Plan or the Confirmation Order as may be necessary to carry out the purposes, intent and effect of the Plan; (j) to determine such other matters which may be provided for in the Confirmation Order as may be authorized under the provisions of the Bankruptcy Code; (k) to enforce all discharge provisions under the Plan; (l) to hear and enter an order regarding any Claims of the Debtor under § 505 of the Bankruptcy Code; and (m) to enter any order, including

injunctions, necessary to enforce the terms of the Plan, the powers of the Debtor under the Bankruptcy Code, this Plan and as the Bankruptcy Court may deem necessary.

#### **6.5 Captions.**

The headings contained in this Plan are for convenience of reference only and do not affect the meaning or interpretation of this Plan.

#### **6.6 Modification of Plan.**

The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Bankruptcy Court may require a new disclosure statement and/or revoting on the Plan. The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Bankruptcy Court authorizes the proposed modifications after notice and a hearing. The Debtor further reserves the right to modify the treatment of any Allowed Claims at any time after the Effective Date of the Plan upon the consent of the creditor whose Allowed Claim treatment is being modified, so long as no other creditors are materially adversely affected.

#### **6.7 Effective Date.**

The Plan will become effective on the Effective Date which is the date on which the order of confirmation becomes final and all conditions to confirmation have been fulfilled, unless extended by the Bankruptcy Court for cause.

#### **6.8 Retention and Prosecution of Claims or Causes of Action**

The Debtor shall retain any and all claims, causes of actions, cross-claims and counterclaims of any kind or nature whatsoever which the Debtor may possess against third persons. The Debtor is currently unaware of any such causes of action except as listed on the Debtor's Schedule B.

#### **6.9 Final Decree.**

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

### **ARTICLE 7 FREQUENTLY ASKED QUESTIONS**

**What is the Debtor Attempting to Do in Chapter 11?** Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor attempts to restructure the claims held against it. Formulation and confirmation of a plan of reorganization is

the primary goal of Chapter 11. When reorganization is not feasible, however, a debtor may propose a liquidating plan under Chapter 11. The plan is the legal document which sets forth the manner and the means by which holders of claims against a debtor will be treated.

**If the Plan of Reorganization Is the Document That Governs How a Claim Will be Treated, Why Am I Receiving This Combined Plan and Disclosure Statement?** In order to confirm a plan of reorganization, the Bankruptcy Court requires that a debtor solicit acceptances of a proposed plan, which it is doing with this Combined Plan and Disclosure Statement. If the creditors are satisfied with the information provided in the Plan and the terms of the Plan as proposed, and have voted for the Plan and returned the requisite number of ballots to counsel for the Debtor, the Bankruptcy Court may confirm the Plan as proposed by the Debtor.

**How Do I Determine Which Class I Am In?** To determine the class of your claim or interest, you must first determine whether your claim is secured or unsecured. Your claim is secured if you have a validly perfected security interest in collateral owned by the Debtor. If you do not have any collateral, your claim is unsecured. The Table of Contents will direct you to the treatment provided to the class in which you are grouped. The pertinent section of the Plan dealing with that class will explain, among other things, who is in that class, what is the size of the class, what you will receive if the Plan is confirmed, and when you will receive what the Plan has provided for you if the Plan is confirmed. Section 2.2 lists all classes of claimants and their types of claims.

**Why is Confirmation of a Plan of Reorganization Important?** Confirmation of the Plan is necessary because if the Plan is confirmed, the Debtor and all of its creditors are bound by the terms of the Plan. If the Plan is not confirmed, the Debtor may not pay creditors as proposed in the Plan while the Debtor remains in bankruptcy.

**What Is Necessary to Confirm a Plan of Reorganization?** Confirmation of the Plan requires, among other things, the vote in favor of the Plan of two-thirds in total dollar amount and a majority in number of claims actually voting in each class. If the vote is insufficient, the Bankruptcy Court can still confirm the Plan, but only if certain additional elements regarding the ultimate fairness of the Plan to the creditors are shown.

**Am I Entitled to Vote on the Plan?** Any creditor of the Debtor whose claim is IMPAIRED under the Plan is entitled to vote, if either (i) the creditor's claim has been scheduled by the Debtor and such claim is not scheduled as disputed, contingent, or unliquidated, or (ii) the creditor has filed a proof of claim on or before the last date set by the Bankruptcy Court for such filings. Any claim to which an objection has been filed (and such objection is still pending) is not entitled to vote, unless the Bankruptcy Court temporarily allows the creditor to vote upon the creditor's motion. Such motion must be heard and determined by the Bankruptcy Court prior to the date established by the Bankruptcy Court to confirm the Plan.

**How Do I Determine Whether I Am in an Impaired Class?** Section 2.2 of the Plan identifies the classes of creditors whose claims are impaired. If your claim is impaired, your vote will be considered by the Bankruptcy Court.

**When is the Deadline by Which I Need to Return My Ballot?** The Plan is being distributed to all claim holders for their review, consideration and approval. The deadline by which ballots must be returned is \_\_\_, 2018. Ballots should be mailed to the following address: Boyle & Valenti Law, P.C., Attn: Carrie J. Boyle, Esquire, 10 Grove Street, Haddonfield, NJ 08033.

**How Do I Determine When and How Much I Will Be Paid?** In Section 2.2, the Debtor has provided both written and financial summaries of what it anticipates each class of creditors will receive under the Plan.

## **ARTICLE 8** **DEFINITIONS**

**8.1** The definitions and rules of construction set forth in §§ 101 and 102 of the Bankruptcy Code shall apply when terms defined or construed in the Code are used in this Plan. The definitions that follow that are found in the Code are for convenience of reference only, and are superseded by the definitions found in the Code.

**8.2 Administrative Claimant:** Any person entitled to payment of an Administration Expense.

**8.3 Administrative Expense:** Any cost or expense of administration of the Chapter 11 case entitled to priority under Section 507(a)(2) of the Bankruptcy Code and allowed under Section 503(b) of the Bankruptcy Code, including without limitation, any actual and necessary expenses of preserving the Debtor's estate, any actual and necessary expenses incurred following the filing of the bankruptcy petition by the Debtor-in-Possession, allowances of compensation or reimbursement of expenses to the extent allowed by the Bankruptcy Court under the Bankruptcy Code, and any fees or charges assessed against any of the Debtor's estate under Title 28 of the United States Code.

**8.4 Administrative Tax Claim:** Any tax incurred pursuant to Section 503(b)(1) of the Code.

**8.5 Allowed Claim:** Any claim against the Debtor pursuant to Section 502 of the Bankruptcy Code to the extent that: (a) a Proof of Claim was either timely filed or was filed late with leave of the Bankruptcy Court or without objection by the Debtor, and (b) as to which either (i) a party in interest, including the Debtor, does not timely file an objection or the Claim is not otherwise a Disputed Claim, or (ii) is allowed by a Final Order.

**8.6 Allowed Priority Tax Claim:** A Priority Tax Claim to the extent that it is or has become an Allowed Claim, which in any event shall be reduced by the amount of any offsets, credits, or refunds to which the Debtor or Debtor-in-Possession shall be entitled on the Confirmation Date.

**8.7 Allowed Secured Claim:** Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under Section 506 of the Bankruptcy Code.

**8.8 Allowed Unsecured Claim:** An Unsecured Claim to the extent it is, or has become, an

Allowed Claim, which in any event shall be reduced by the amount of any offsets, credits, or refunds to which the Debtor or Debtor-in-Possession shall be entitled on the Confirmation Date.

- 8.9 Bankruptcy Code or Code:** The Bankruptcy Reform Act of 1978, as amended and codified as Title 11, United States Code. **Bankruptcy Court:** The United States Bankruptcy Court for the Eastern District of Pennsylvania having jurisdiction over the Chapter 11 cases and, to the extent of any reference made pursuant to 28 U.S.C. § 158, the unit of such District Court constituted pursuant to 28 U.S.C. § 151.
- 8.10 Bankruptcy Rules:** shall mean the rules and forms of practice and procedure in bankruptcy, promulgated under 28 U.S.C. § 2075 and also referred to as the Federal Rules of Bankruptcy Procedure as well as any Local Bankruptcy Rule in existence at the time.
- 8.11 Business Day:** Any day except Saturday, Sunday, and any other day on which commercial banks in Pennsylvania are authorized by law to close.
- 8.12 Cash:** Cash, cash equivalents and other readily marketable securities or instruments issued by a person other than the Debtor, including, without limitation, readily marketable direct obligations of the United States of America, certificates of deposit issued by banks and commercial paper of any entity, including interest accrued or earned thereon.
- 8.13 Chapter 11 Case:** This case under Chapter 11 of the Bankruptcy Code in which Diamond Contract Flooring, LLC is the Debtor/Debtor-in-Possession.
- 8.14 Claim:** Any “right to payment from the Debtor whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or any right to an equitable remedy for future performance if such breach gives rise to a right of payment from the Debtor, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, disputed, undisputed, secured or unsecured.” 11 U.S.C. § 101(5).
- 8.15 Class:** A category of holders of claims or interests which are substantially similar to the other claims or interests of such class.
- 8.16 Confirmation:** The entry by the Bankruptcy Court of an order confirming this Combined Plan and Disclosure Statement.
- 8.17 Confirmation Date:** The Date upon which the Bankruptcy Court shall enter the Confirmation Order; provided, however, that if on motion the Confirmation Order or consummation of the Plan is stayed pending appeal, then the Confirmation Date shall be the entry of the Final Order vacating such stay or the date on which such stay expires and is no longer in effect.
- 8.18 Confirmation Hearing:** The hearing to be held on \_\_, 2018 to consider confirmation of the Plan.

- 8.19 Confirmation Order:** An order of the Bankruptcy Court or any amendment thereto confirming the Plan in accordance with the provisions of Chapter 11 of the Bankruptcy Code.
- 8.20 Creditor:** Any person who has a Claim against the Debtor that arose on or before the Petition Date.
- 8.21 Debt:** Refers to and shall have the same meaning ascribed to it in § 101(12) of the Bankruptcy Code.
- 8.22 Debtor and Debtor-in-Possession:** Diamond Contract Flooring, LLC, the debtor-in possession in this Chapter 11 Case.
- 8.23 Disputed Claim:** Any claim against the Debtor pursuant to Section 502 of the Bankruptcy Code that is scheduled as disputed, contingent or unliquidated, or that the Debtor has in any way objected to, challenged or otherwise disputed.
- 8.24 Distributions:** The property required by the Plan to be distributed to the holders of Allowed Claims.
- 8.25 Effective Date:** The date on which the order of confirmation becomes final and all conditions to confirmation have been fulfilled, unless extended by the Bankruptcy Court for cause.
- 8.26 Equity Interest:** An ownership interest in the Debtor.
- 8.27 Executory Contracts:** All unexpired leases and executory contracts as described in Section 365 of the Bankruptcy Code.
- 8.28 Final Order:** An order or judgment of the Bankruptcy Court that has not been reversed, stayed, modified or amended and as to which (a) any appeal that has been taken has been finally determined or dismissed, or (b) the time for appeal has expired and no notice of appeal has been filed.
- 8.29 IRC:** The Internal Revenue Code.
- 8.30 Petition Date:** September 29, 2017, the date the Chapter 11 petition for relief was filed.
- 8.31 Plan:** This Combined Plan and Disclosure Statement, either in its present form or as it may be altered, amended or modified from time to time.
- 8.32 Plan Proponent:** The Debtor is the Plan Proponent.
- 8.33 Priority Non-Tax Claim:** A Claim entitled to priority under §§507(a)(2),(3), (4), (5), (6) or (7) of the Bankruptcy Code, but only to the extent it is entitled to priority in payment under any such subsection.



**8.34 Priority Tax Claim:** Any Claim entitled to priority in payment under Section 507(a)(8) of the Bankruptcy Code.

**8.35 Professional Claim:** A Claim by any Professional Persons as provided for in Section 326, 327, 328, 330, 503(b) or 1103 of the Bankruptcy Code.

**8.36 Professional Person:** Any person retained in this Chapter 11 Case pursuant to Section 327, 328, 330, 503(b) or 1103 of the Bankruptcy Code.

**8.37 Reorganized Debtor:** The Debtor after the Effective Date.

**8.38 Schedules:** Schedules and Statement of Financial Affairs, as amended, filed by the Debtor with the Bankruptcy Court listing liabilities and assets.

**8.39 Secured Creditor:** Any creditor that holds a Claim that is secured by property of the Debtor.

**8.40 Unsecured Creditor:** Any Creditor that holds a Claim in the Chapter 11 case which is not a secured Claim.

**8.41 Other Definitions:** a term used and not defined herein but that is defined in the Bankruptcy Code shall have the meaning set forth therein. The words “herein”, “hereof”, “hereto”, “hereunder”, and others of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan. Moreover some terms defined herein are defined in the section in which they are used.

Respectfully submitted,

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