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ATTORNEYS FOR DEBTOR-IN-POSSESSION

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

IN RE:	§	
	§	**Case Number 17-42777**
SOURCINGPARTNER, INC.	§	
	§	
Debtor	§	**CHAPTER 11**

DEBTOR'S ORIGINAL DISCLOSURE STATEMENT

(Dated: October 11, 2018)

NO REPRESENTATIONS CONCERNING THE PLAN ARE AUTHORIZED OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT AND THE ATTACHED PLAN OF REORGANIZATION. THE DEBTOR RECOMMENDS THAT ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OR REJECTION OF THE PLAN WHICH IS NOT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE ATTACHED PLAN SHOULD NOT BE RELIED UPON BY YOU IN REACHING YOUR DECISION ON HOW TO VOTE ON THE PLAN. ANY REPRESENTATION OR INDUCEMENT MADE TO YOU NOT CONTAINED HEREIN OR THE ATTACHED PLAN SHOULD BE REPORTED TO THE ATTORNEY FOR THE DEBTOR WHO SHALL DELIVER SUCH INFORMATION TO THE COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.

THE DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS CORRECT, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT AND ATTACHED PLAN ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN. EACH HOLDER OF AN IMPAIRED CLAIM OR EQUITY INTEREST ENTITLED TO VOTE IS URGED TO CAREFULLY REVIEW THE PLAN PRIOR TO VOTING ON IT.

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I. GENERAL INFORMATION

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO AUDIT. FOR THE FOREGOING REASON, AS WELL AS BECAUSE OF THE COMPLEXITY OF THE DEBTOR'S BUSINESS AND THE IMPOSSIBILITY OF MAKING ASSUMPTIONS, ESTIMATES AND PROJECTIONS WITH COMPLETE ACCURACY, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACY, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO ENSURE THAT SUCH INFORMATION IS ACCURATE. CLAIMANTS ARE URGED TO REVIEW IN FULL THE PLAN AND THIS DISCLOSURE STATEMENT TOGETHER WITH ALL EXHIBITS ATTACHED THERETO PRIOR TO VOTING ON THE PLAN AND ARE URGED TO CONSULT LEGAL COUNSEL TO ENSURE COMPLETE UNDERSTANDING OF THE PLAN AND THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT IS INTENDED FOR THE SOLE USE OF CLAIMANTS TO ENABLE SUCH CLAIMANTS TO MAKE AN INFORMED DECISION ABOUT THE PLAN. THIS DISCLOSURE STATEMENT IS NOT TO BE USED OR RELIED UPON FOR ANY OTHER PURPOSE.

THE PROPOSED PLAN REPRESENTS THE BEST EFFORTS OF THE DEBTOR AND THIS IS THE PLAN THE DEBTOR BELIEVES THE CREDITORS MAY APPROVE.

THE DEBTOR BELIEVES THAT THE PLAN WILL PROVIDE CLAIMANTS WITH AN OPPORTUNITY TO RECEIVE MORE THAN THEY WOULD RECEIVE IN A LIQUIDATION OF THE ESTATE'S ASSETS IN A CHAPTER 7 CASE; THEREFORE IT SHOULD BE ACCEPTED AND THE DEBTOR URGES CLAIMANTS TO VOTE FOR THE PLAN.

THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT OF ANY OF THE REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT OR IN THE PLAN, NOR DOES IT CONSTITUTE AN ENDORSEMENT OF THE PLAN ITSELF.

A. Purpose of Disclosure Statement.

Sourcingpartner, Inc., the Proponent and Debtor-in-Possession (the "Debtor"), submits this Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code. This Disclosure Statement is being sent to all Creditors of the Debtor and of its respective bankruptcy estate, for the purpose of disclosing information which the Bankruptcy Court has determined is material, important and necessary for such Creditors to arrive at a reasonably informed decision in exercising their right to vote for acceptance or rejection of the Debtor's Plan. The Plan was filed with the Bankruptcy Court on October 9, 2018 and may be amended or modified from time to time thereafter as provided in the Bankruptcy Code. This Disclosure Statement describes various transactions contemplated under the Plan.

B. Explanation of Chapter 11 Case.

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to Chapter 11, a debtor is authorized to reorganize its business for its own benefit and that of its creditors. Chapter 11 also contemplates that a debtor, or a trustee of a debtor, may take advantage of the administrative aspects available in a Chapter 11 case to realize either an orderly liquidation or reorganization of the debtor's estate.

On December 17, 2017, the Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code. Since the date of filing, the Debtor has continued in possession and control of its Estate and has operated its business as Debtor-in-possession pursuant to the provisions of Sections 1107 and 1108 of the Bankruptcy Code.

Formulation of a plan of reorganization is the principal purpose of a Chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against a debtor. After a plan of reorganization has been filed, it must be accepted by holders of claims against a debtor. Section 1125 of the Bankruptcy Code requires full disclosure before solicitation of acceptances of a plan of reorganization. This Disclosure Statement is presented to Creditors, and parties in interest, to satisfy the requirements of Section 1125 of the Bankruptcy Code.

There are two methods by which a plan can be confirmed: (1) the "acceptance" method, in which all impaired classes of claims and interests have voted in the requisite amounts to accept the plan, or (2) the "nonacceptance" or "cram down" method, in which at least one class of impaired claims or interests has voted in the requisite amounts to accept the plan and certain other requirements are met with respect to all other impaired classes of claims and interests, such that the Bankruptcy Court is nonetheless authorized to confirm the Plan.

A claim that will not be repaid in full or as to which the legal rights are altered, or an interest that is adversely affected, is impaired. A holder of a claim or interest that is impaired by a plan is entitled to vote to accept or reject that plan if such claim or interest has been allowed or is deemed allowed under Section 502 of the Bankruptcy Code, or is temporarily allowed for voting purposes under Rule 3018 of the Bankruptcy Rules.

Chapter 11 does not require that each holder of a claim against a debtor vote in favor of a plan of reorganization in order for such plan to be confirmed by the Bankruptcy Court; rather, Chapter 11 provides that acceptance is obtained by aggregating the votes of similarly situated creditors by classes. In order for a class of claims to vote to accept a plan, votes representing at least two-thirds in amount and more than one-half in number of claims actually voted in that class must be cast for acceptance of the plan. In order for a class of interests to vote to accept a plan, votes of holders of at least two-thirds in amount of the allowed interests in that class actually voted must cast a ballot for acceptance of the plan.

Regardless of the acceptance of a proposed plan by any or all of the classes of claims, the plan, to be confirmable, must comply with certain designated provisions of the Bankruptcy Code, specifically, Section 1129. Section 1129 sets forth the requirements of confirmation and, among other things, requires that a plan of reorganization be in the best interests of claimants. It generally requires that each claimant will receive or retain property of a value not less than the

amount such claimant would receive if the debtor were liquidated under Chapter 7 of the Bankruptcy Code.

The Bankruptcy Court may confirm a plan of reorganization even though less than all of the classes of claims accept the plan of reorganization. Specifically, the Bankruptcy Court must find that the plan is fair and equitable with respect to each impaired class that does not accept the plan. Confirmation of a plan of reorganization over the objection of one or more classes of claims or interests is generally referred to as a "cram-down." With respect to a class of secured creditors, the fair and equitable test requires that a secured creditor (i) retain its lien(s) and receive cash payments equal to the allowed amount of its claims, (ii) receive the proceeds from the sale of its collateral, or (iii) realize the indubitable equivalent of its claim. With respect to a class of unsecured claims, the fair and equitable test requires that if the creditors in such class do not receive property with a value equal to the Allowed amount of their claims, no junior class can receive anything pursuant to the plan.

In the event, that all impaired classes do not vote to accept the Plan, the Debtor will nonetheless seek Confirmation of the Plan through a cram-down of the objecting classes of creditors.

Additionally, pursuant to Section 1126(g) of the Bankruptcy Code, a class is deemed not to have accepted a plan if such plan provides that the claims or interests of such class do not entitle the holders thereof to receive or retain any property under the plan on account of such claims or interests. In this Case, Claimants with Subordinated Claims (if any) and Interest holders are not proposed to be paid anything or to retain their Interests and therefore are deemed to have rejected the Plan.

Confirmation of a plan of reorganization generally discharges a debtor from all of its pre-confirmation debts and liabilities except as provided for in the plan of reorganization or the order of the Bankruptcy Court confirming the plan of reorganization. Confirmation makes the order of the Bankruptcy Court binding upon the Debtor, all claimants (including holders of inchoate or contingent claims or rights), and other parties in interest, regardless of whether or not they have accepted the plan of reorganization. If property is transferred to a third party free and clear of liens, claims and encumbrances pursuant to a plan of reorganization, then such liens, claims and encumbrances shall attach only to the proceeds of the sale and shall not attach to or be a claim against the transferee of the property transferred.

C. Procedure for Filing Proofs of Claims and Proofs of Interest.

All proofs of claims and proofs of interests must have been filed by Claimants by the close of business on the Bar Date, which is April 16, 2018 for all creditors other than governmental units and parties to rejected executory contracts or leases. The Bar Date for governmental units is June 15, 2018. Any proof of claim which was untimely filed is of no force and effect and is not entitled to distribution under the Plan. **IF CLAIMANTS ARE LISTED IN THE DEBTOR'S SCHEDULES AS "NON-CONTINGENT," "LIQUIDATED" AND "UNDISPUTED," A PROOF OF CLAIM NEED NOT HAVE BEEN FILED.** The Debtor's

Schedules are on file with the Bankruptcy Court Clerk's office and are open for inspection during the Clerk's regular hours.

If the Debtor reduces any claim shown on the Debtor's Schedules, those Claimants affected thereby will be notified and will be given an extra thirty (30) days in which to file their own Amended Proof of Claim, if so desired.

Parties to executory contracts or leases that are rejected under the Plan (see Article 6 of the Plan and the discussion below) must file claims for damages, if any, resulting from such rejection no later than the thirtieth (30th) day following the earlier of: (a) the date of entry of an order of the Bankruptcy Court approving such rejection, or (b) the Effective Date of the Plan, unless otherwise provided by Bankruptcy Court order. The date for the hearing on Confirmation of the Plan is set for _____ **a. (p.) m. _____, 2018**. Assuming that the Plan is confirmed on that date, claims resulting from the rejection of executory contracts or leases must be filed by **_____, 2018**, or in accordance with specific Court order.

D. Voting.

1. Procedures.

Each holder of a Claim that is entitled to vote may vote on the Plan by completing, dating and signing the corresponding Ballot sent to him/her or it and by submitting the Ballot as set forth below. If you are a holder of a disputed, contingent or unliquidated Claim, you may petition the Bankruptcy Court to allow your Claim for voting purposes only by making timely application to the Bankruptcy Court pursuant to Bankruptcy Rule 3018. You should seek the advice of your own counsel as to how to accomplish this.

The following represents the Proponent's position with regard to the various classes of each Debtor:

Impaired Classes.

Classes 1 through 6 are impaired under the Plan. Therefore, the Proponent seeks acceptance of the Plan by Claimants in such Classes. Each holder of a Claim in Classes 1 through 6 may vote on the Plan by completing, dating, and filing the Ballot as set forth below.

Classes 7 and 8 under the Plan will receive nothing under the Plan and are deemed to have rejected the Plan. Classes 7 and 8 will not vote on the Plan.

Ballots are enclosed with this Disclosure Statement and are being sent to all parties eligible to vote on the Plan. For all Classes, Ballots must be sent to the following:

Law Office of Carol Lynn Wolfram
P.O. Box 1925
Denton, Texas 76202

In order to be counted, Ballots must be received at the foregoing address not later than 4:00 p. m., then prevailing Central Time, U.S.A., on **_____, 2018**. Pre-addressed envelopes are provided with each Ballot.

2. Acceptances.

In order for there to be an acceptance of the Plan by the classes of Claimants who will be voting on the Plan, the Plan must be accepted by Claimants who hold at least two-thirds in dollar amount of the Claims as to which votes are cast and constitute more than one-half in number of holders of such Claims voting. Ballots that are signed and returned but not expressly voted either for acceptance or rejection of the Plan will be **counted as acceptances**.

3. Disclosure Statement Hearing.

The Court held a hearing on Approval of this Disclosure Statement and For Fixing the Time for Filing Acceptances or Rejections of the Plan at _____ ___**(a.)(p.)m. on _____, 2018**.

4. Confirmation Hearing.

The Court has set a hearing on Acceptance and Confirmation of the Plan for _____, **2018 at _____ a.(p.)m. CST** in the United States Bankruptcy Court for the Eastern District of Texas, Sherman Division, 660 N. Central Expressway, Suite 300B, Plano, Texas 75074.

II. DEFINITIONS USED IN THE DISCLOSURE STATEMENT

Various terms used in this Disclosure Statement are defined in the Plan and various additional terms are defined in this Disclosure Statement. Such defined terms are indicated by their initial letter being capitalized. For definitions contained in the Plan, see Article I of the Plan. For the additional definitions contained in this Disclosure Statement, see Article XI of the Disclosure Statement.

III. HISTORY OF THE DEBTOR.

A. Debtor's Background.

The Debtor was formed in 2000 as a Delaware corporation, and has been in continuous existence since that time. Prior to the Petition Date, the Debtor's primary business was supplying goods and services for brand support of certain manufactured goods sold by its clients. The Debtor's major clients have been such companies as Staples, Office Depot, and SP Richards Company. Since the Petition Date, the Debtor has focused the primary direction of its business toward providing comprehensive brand support solutions via its Contact Center and warehouse and distribution capabilities. Contact center activities have been enhanced to provide greater customer support beyond telephone and email support. In addition, the Debtor continues to maintain an inventory of certain parts and materials for brand name products sold by its clients in the event that the end users require assistance in assembling or replacing non-functioning or missing parts to their products.

Currently, the Debtor employs 24 individuals on a full time basis.

Since the Petition Date, the Debtor has worked very hard to streamline its operations and reduce its fixed and variable overhead costs. In addition, the Debtor has increased its client base and added new contracts and business which it believes will help enable it to reorganize successfully under the Plan of Reorganization.

B. Factors Precipitating Commencement of the Case.

On November 28, 2017, Sourcingpartner, Inc. requested from First United Bank, payment to a vendor in the amount of $119,000.00. While the money was available in the account, First United requested a meeting with Steven DiPasquale, CEO for the Debtor prior to releasing these funds. First United was concerned with the slow receipt of aging Accounts Receivables. Philip Leckinger, COO, was asked to join the meeting along with Sherra Williams who was the acting Controller of Debtor at the time. At this meeting management for Debtor indicated it would look further into why the collections were not occurring timely. By December 3, 2017, it became apparent that certain receivables would not be collected.

After an examination of the accounts in question, Debtor (via its COO, Philip J. Leckerger) discovered that prior to April – May of 2017, Debtor's accounting department kept an "Other Receivable" Account with SP-NA, LLC. This was kept to account for the inter business transactions, but was always a non-collectable entry. In April of 2017 according to Sherra Williams, Steven DiPasquale instructed her to begin accruing this as a receivable on the A/R and income statement for Sourcingpartner, Inc. under account 38, Amazon. (Upon investigation, an entry was found from April 2017 that a receivable of $623,154.49 had been accrued, but then was credited from the SP-NA, LLC account, which coincides with the timing.) While funds were collected during the Amazon collection periods, the funds collected were recognized against Account 38, Amazon, yet still accrued against the Sourcingpartner, Inc. A/R. This account only continued to grow, with no remittance. Reviewing this on December 3, 2017 Steven DiPasquale indicated that Sourcingpartner, Inc. would have to make an adjustment, as the funds would not be collected as had been originally indicated to First United.

For the SP-NA, LLC Account 464, these entries were made on a monthly basis January – July with one additional entry on October 31, 2017. At the Sunday December 3, 2017 meeting it was also determined that these funds would not be collected, as SP-NA, LLC had never received this revenue, and these receivables would never be collected by Debtor. It no longer carried the "Other Receivable" connotation, but was to be seen as a true receivable. Sherra Williams indicates she was instructed to make these entries by Steven DiPasquale, in anticipation of revenue Steven DiPasquale indicated would be coming from a vendor for commissions.

On Monday December 4, 2017 Steven DiPasquale and Philip Leckinger met with First United and told them that those A/R accounts would not be realized, and that an accounting adjustment would have to be made. All these adjustments were made between December 2 and December 5, 2017. Steven DiPasquale claimed to First United that he had not received the detailed accounting reports on a timely basis from Sherra Williams and therefore had not

carefully reviewed them prior to submitting them to the bank. He assured First United at this meeting that this would never happen again and going forward would have tight control of all the financials.

On December 14, 2017, Steven DiPasquale again assured the bank that there would be tight controls put in place, once again explaining he was not sure how they had shown these receivables as they were clearly not collectable. Then on December 15, 2017 First United informed management for Debtor that they were going to issue a demand letter for repayment of the line of credit.

Included in Debtor's Schedules are insider payments to Steven DiPasquale in the amount of $363,436.78. The Debtor made demand on Steve DiPasquale for an accounting for these payments. A partial accounting was made, but the sum of $185,210.44 remains unaccounted for, to the damage of Debtor. On February 14, 2018, the Debtor made demand against Steve DiPasquale and Sherra Williams for the damages they caused the Debtor. On March 5, 2018, Steve DiPasquale, individually, filed for Chapter 7 bankruptcy protection.

Steven DiPasquale was removed as CEO and terminated as an officer, director and employee of the Debtor. Likewise, Sherra Williams was terminated as an officer and employee of the Debtor. Thereafter, on December 17, 2017, Debtor filed for Chapter 11 Bankruptcy.

C. Litigation involving the Debtor.

On the Petition Date, there is no pending litigation by or against the Debtor.

By letter dated February 14, 2018, the Debtor made demand on both Steven DiPasquale and Sherra Williams in the amount of at least $840,693.08 in damages caused by their actions and omissions. Steven DiPasquale filed for personal Chapter 7 on March 5, 2018. At this time, no lawsuit has been filed against Sherra Williams, although the Debtor is not hopeful that Ms. Williams is able to pay any significant amount of damages.

A notice of claim was made by the Debtor on or about February 14, 2018 regarding Steve DiPasquale and Sherra Williams to Travelers Bond & Specialty Insurance Claim. This claim, and/or any payments which may be made by the insurance company, if any, is proposed to be assigned to First United Bank & Trust Company, the Debtor's pre-petition lender and proposed post Confirmation lender via a Compromise and Settlement Agreement incorporated into and made an integral and necessary part of the Plan.

Settlement Agreement between the Debtor and First United.

An integral and necessary part of this Plan is the Settlement Agreement that was reached between the Debtor and First United on the following terms:

- First United will amend its Claim filed in the Case such that it will consist of a Secured Claim in the amount of $200,000.00 and an unsecured claim of $788,114.59, which claims are agreed to be Allowed Claims by the Debtor

- The Secured Claim, reduced dollar for dollar against principal by all post petition, pre-confirmation payments made the Debtor (anticipated to be $60,000), shall be paid in equal monthly installments, without interest, over four years, with the first payment due on or before the Effective Date. The Secured Claim shall be secured by a first lien in the Reorganized Debtor's tangible personal property and a lien against the Reorganized Debtor's accounts receivable and the proceeds thereof subject only to the first lien of First United in the accounts receivable and proceeds thereof which secure the First United Plan Note.

- The Unsecured Claim will be paid out via the Plan *pari passu* with all other General Unsecured Claims.

- The Reorganized Debtor will waive and release its claims to lien avoidance as to the Secured Claim.

- The Reorganized Debtor will assign its proof of claim against Steven John DePasquale in his chapter 7 case (Case No. 18-40471).

- The Reorganized Debtor, to the extent permitted by the insurance policies described below and applicable law, will transfer, assign and quitclaim, without warranty or representations, all of its right, title and interest in and to all claims, demands, actions (as permitted by Texas Property Code § 12.014) and rights to proceeds, including actual damages, multiple damages, costs, fees, and interest arising from or related to claims made on Travelers Bond & Specialty Insurance Claim, Policy No.: 105712636, Effective Date: 11-29-17 – 11-29-18, Policy No.: 105712636, Effective Date: 11-29-16 – 11-29-17, Reference No.: 071-DOP-T1802811-NR. Reorganized Debtor will execute all documents necessary to effectuate such transfer and assignment.

- First United extends a 12 month revolving line of credit ("RLOC") (which is renewable annually upon usual and customary practices and terms) to the Reorganized Debtor in the amount of $150,000.00, with a first lien security interest on the Reorganized Debtor's accounts receivable and the proceeds thereof.

- Philip J. Leckinger designates First United as the beneficiary and assigns to First United as beneficiary a life insurance policy on his life in the amount of $500,000.00

- Philip J. Leckinger executes an unlimited guaranty agreement to First United for the new revolving line of credit (but not any pre-petition debt to First United, including the Secured Claim and Unsecured Claim set forth above .

- First United and the Reorganized Debtor will exchange mutual releases.

- The Reorganized Debtor will maintain its bank account(s) with First United for so long as there is outstanding indebtedness owed to First United by the Reorganized Debtor.

- All deposits of the Reorganized Debtor will go into a Controlled Deposit Account with First United, which funds will be used to pay any outstanding balance on the RLOC first, and thereafter, all remaining funds will be transferred into the Reorganized Debtor's Operating Account with First United.

- All advances from the RLOC will be subject to availability, which will be determined by completing the Borrowing Base Certificate each time funds are requested/advanced.

- The Reorganized Debtor and Philip J. Leckinger will provide all financials required by the Loan Agreement.

- The SBA approves the Plan (which acceptance is anticipated).

- The Bankruptcy Court approves the Plan.

The Settlement Agreement has to be approved by the Bankruptcy Court, and will be deemed approved without further Court order upon Confirmation of the Plan. The Settlement Agreement will not be available, including the Revolving Line of Credit, if the Plan is not confirmed, and the case is converted to Chapter 7. Without the Settlement Agreement and related Revolving Line of Credit, the Debtor does not believe that it can generate sufficient cash to make the Plan feasible.

D. Significant Post-Petition Events.

D.1 **Commencement of the Bankruptcy Case**: The Debtor commenced its bankruptcy case by filing its petition pursuant to Chapter 11 of Title 11 of the United States Code on December 17, 2017.

D.2 **Filing of Amended Petition:** The debtor filed an Amended Voluntary Petition on December 21, 2017 removing the designation of Debtor as a small business.

D.3 **Motion to Authorize Cash Collateral Usage:** Debtor filed a motion for authority to use the alleged cash collateral of First United Bank on December 22, 2017. An initial order was entered on or about January 5, 2018 [Dkt. No. 17] granting Debtor interim authority to use cash collateral. A corrected order was then entered on January 8, 2018 [Dkt. No. 21]. Thereafter, there were several more iterations of interim orders until a final cash collateral order was entered on June 28, 2018 [Dkt. No. 71].

D.4 **Filing of Bankruptcy Schedules and Statement of Financial Affairs**: The Debtor filed its Original Bankruptcy Schedules and Statement of Financial Affairs

on January 12, 2018. Debtor amended its Schedules on February 16, 2018 [Dkt. No. 41].

D.5 **Professionals Employed in the Bankruptcy Case:** Pursuant to orders of the Bankruptcy Court, Debtor was authorized to retain the Harvey Law Firm, P.C., [Dkt. No. 30] and thereafter The Law Office of Carol Lynn Wolfram as co-counsel for Debtor [Dkt. No. 36].

D.6 **Professional Fee Applications:** On May 4, 2018, Debtor's initial bankruptcy counsel, the Harvey Law Firm, P.C. was awarded total fees in the amount of $20,270.08 plus expenses in the amount of $30.08 incurred by the firm in representation of the Debtor. The Harvey Law Firm was authorized to credit the retainer in the amount of $5,800.00 against those amounts, leaving the amount of $14,470.08 as the outstanding balance due the Harvey Law Firm. The Harvey Law Firm ceases providing representation to the Debtor for reasons unrelated to the Debtor. Debtor's subsequent bankruptcy counsel, the Law Office of Carol Lynn Wolfram has not filed any application for payments of fees and expenses at this time, but estimates that its fees and expenses that will be incurred by the Debtor through the Confirmation Date will total approximately $55,000.00, although the actual amount is currently unknown and could vary depending upon the amount of contests asserted by any creditor.

D.7 **Pending Adversary Proceedings:** There are no currently pending adversary proceedings related to Debtor.

D.8 **Creditors' Committee:** No Creditors' Committee was appointed in this bankruptcy case.

D.9 **Post-Petition Operations of Debtor:** Debtor has filed comprehensive monthly operating reports which outline the status of its operations subsequent to the Petition Date. In sum, Debtor has operated successfully subsequent to the Petition Date. Debtor has filed monthly operating reports for the months of December 2017 through September 2018, and will continue timely to file its monthly operating reports through Confirmation.

Copies of the monthly operating reports may be obtained from the Bankruptcy Court clerk’s file or upon written request to Debtor's counsel.

D.10 **Settlement with First United:** On or about September 21, 2018, the Debtor and First United Bank & Trust Company reached an agreement in principle for the resolution of their pre-petition disputes, which Settlement Agreement is incorporated into the terms of the Plan. If the Plan is confirmed, the Settlement Agreement will be approved in the Confirmation Order. The Settlement Agreement will provide for a post Confirmation revolving line of credit which will enable the Debtor to have sufficient post Confirmation financing to make the Plan feasible.

E. Debtor's Assets.

The following is a brief summary of the Debtor's principal assets. The information has been compiled from the Debtor's un-audited records as reflected in its bankruptcy schedules and statement of financial affairs; provided, however, the failure to list any specific assets in the schedules and/or statement of financial affairs or herein below does not constitute any waiver or admission regarding such assets and their values.

E.1 Real Estate:

Debtor owns no real property.

E.2 Cash on Hand:

(i) On the Petition Date, Debtor had cash on hand of $11,547.69, most of which was held in a checking account at First United Bank. As of September 30, 2018, Debtor had cash on hand in the amount of $58,398.68.

E.3 Accounts Receivable:

(i) Debtor's bankruptcy Schedules indicate that as of the Petition Date, it had $839,710.32 in accounts receivable owed to it; $363,916.40 of which were less than 90 days old with the remaining $475,793.92 being older than 90 days. Of this $839,710.32 amount there were $436,723.44 attributable to Staples which the Debtor will offset against Staples' Claim upon Confirmation. The vast majority of $475,793.92 A/R older than 90 days on the Petition Date is comprised of A/R from Staples.

(ii) The Debtor has continued to collect and use its pre-petition A/R and to generate new post petition A/R in the ordinary course of its business as a Chapter 11 Debtor and in accordance with the variance cash collateral orders referenced above. As of September 30, 2018, the Debtor had $752,168.59 in accounts receivable, $246,840.81 of which were less than 90 days old (all post petition), with the remainder being more than 90 days old, of which $436,723.44 is pre-petition, with nearly all of that amount attributable to Staples and subject to offset by the Debtor under the Plan.

(iii) Since the Petition Date, the Debtor has decreased the average collection time on its accounts receivable. The Debtor believes that the vast majority of its post petition accounts receivable are collectible. Almost all pre-petition amounts outstanding are attributable to Staples and are subject to offset under the Plan; in other words, the Staples A/R will be offset against the Staples Claim and will reduce the amount of the Staples Claim dollar for dollar, and otherwise will not be collected.

E.4 Personal Property:

Debtor's Schedules list the following additional personal property assets (property values listed are Debtor's assigned fair market values as of the Petition Date):

(a) Finished goods for resale - $20,478.26;

(b) Office Furniture - $11,802.21;

(c) Office Fixtures - $3,449.00;

(d) Office Equipment (Computers, Phone System, Software) - $17,093.79;

(e) Automobiles (2001 Ford Van) - $1,000;

(f) Patents & Trademarks - $0.00;

(g) Other Leased Equipment (3 forklifts, 2 order pickers) - $0.00.

E.5 **Stock Held:** Debtor does not hold stock in any other entity.

E.6 **Claims and Causes of Action:**

Debtor owns claims, Causes of Action and Avoidance Actions which may be pursued during the pendency of this bankruptcy case and all such claims, Causes of Action and Avoidance Actions are being preserved for the benefit of this bankruptcy estate, whether specifically set forth herein or not, except for such that are being assigned or transferred to First United pursuant to the Plan and Settlement Agreement, e.g., as follows:

claims against Kleinmann GmbH, including claims for tortious interference with the Debtor's business and prospective business; partial offset of A/R of Staples against Staples Claim; objections to claims

F. **Debtor's Liabilities**.

Administrative Expense Claims: As more fully discussed above, the total fees and expenses estimated to be incurred to Debtor's general counsel through Confirmation is approximately $70,000.00. All of such fees and expenses are subject to approval of the Bankruptcy Court. Additional administrative expenses, in an unknown amount, are anticipated to be incurred prior to Confirmation.

A review of the docket sheet for Debtor as of September 30, 2018 reveals that creditors who are taxing authorities have filed administrative expense claims. On information and belief, other than professional fees, the only unpaid administrative expense claims in this cases will constitute expenses incurred in the ordinary course of business.

Notwithstanding the above, the Bankruptcy Court will determine all Allowed Secured Claims of any Creditor after considering any appropriate charges

pursuant to 11 U.S.C. §506(c) and the lien priority between the claimed Secured Creditors.

Unsecured Non-Priority Claims: The total of all general unsecured claims reflected in the Debtor's amended schedules for which no proof of claim was filed, but which are not listed as contingent, unliquidated or disputed total the amount of $219,727.25. The total of filed general unsecured claims total the amount of $3,391,049.84. The agreed up general unsecured claim of First United under the Plan is $788,114.59. The total amount of general unsecured claims to be administered under the Debtor's Plan as of September 30, 2018 is $4,398,891.68.

Unsecured Priority Claims: The total of all unsecured priority claims either listed in the schedules of filed as claims is $17,868.37. Philip Leckinger has a general unsecured priority claim in the amount of $6,730.77; however, this claim amount which otherwise would have to be paid in full under the Plan will be used by Philip Leckinger as a part of the consideration to be paid by him under the Plan to purchase his interest in the Reorganized Debtor, and no cash will be paid to him regarding this claim.

Based on proofs of claims filed by Creditors, and as may finally be allowed by the Bankruptcy Court, the foregoing amounts could be higher or lower than set forth herein.

G. Source of Information.

The financial information contained herein was prepared by the Debtor, and assisted by Debtor's bankruptcy counsel. The historical financial information was obtained from the Debtor's books and records. The estimated claims set forth in this Disclosure Statement were determined from the Debtor's books and records, the Schedules, the monthly operating reports and the Claims filed by Creditors in the bankruptcy Cases.

IV. SUMMARY OF THE PLAN.

THE DESCRIPTION OF THE PLAN CONTAINED IN THIS DISCLOSURE STATEMENT SUMMARIZES ONLY PORTIONS OF THE PLAN AND IS NOT, NOR IS IT INTENDED TO BE, A COMPLETE DESCRIPTION OF THE PLAN. ALL TERMS USED OR DEFINED IN THE PLAN HAVE THE SAME MEANING HEREIN UNLESS OTHERWISE NOTED.

A. Overview of the Plan.

Debtor anticipates continuing to operate its business and paying its Creditors as set forth in the Plan. Specifically, it anticipates having sufficient funds on the Effective Date to satisfy the Allowed Administrative Expense Claims, except as those Administrative Claimants may agree to be paid over time rather than upon the Effective Date. After the payment in full of Allowed Administrative Expense Claims (or earlier upon agreement between the Debtor and

Administrative Claimants), in accordance with the terms fully outlined in the Plan, Debtor's Creditors will be paid as set forth in the Plan.

An overview of the Plan is set forth below. A true and correct copy of the Plan is attached hereto as Exhibit "1". If the Court confirms the Plan, and in the absence of any applicable stay, and all other conditions set forth in the Plan are satisfied, the Plan will take effect on the Effective Date, i.e., on or before the thirtieth (30th) day following the date upon which the Confirmation Order becomes a Final Order.

As of the Effective Date of the Plan, the Reorganized Debtor shall be responsible for all payments and distributions to be made under the Plan to the holders of Allowed Claims. Each executory contract and unexpired lease to which each Debtor is a party shall be deemed rejected unless the Debtor expressly assumes a particular executory contract or lease in the Plan or a motion is pending to assume a particular executory contract or lease before the Effective Date. The list of assumed Executory Contracts and Unexpired Leases being assumed by the Debtor is attached as Exhibit A to the Plan.

The estimated cure amounts that are required to be paid by the Debtor in order to assume the Executory Contracts and Unexpired Leases identified in the Plan total **$4,133.38**.

The following is a summary of the treatment of each Class in the Plan. The following also includes estimates only of potential Allowed Claims based upon Debtor' Schedules and proofs of claim filed to date. Debtor make no representations regarding whether potential allowed claims will be more or less than the estimates set forth below.

B. Classification and Treatment of Claims Against and Interests in the Debtor.

Allowed Administrative and Priority Claims consist of:

(i) Unclassified Claims, including but not limited to fees for professional services allowable under Section 503 and 507 of the Code, and any fees payable to the United States Trustee under the Code or other applicable law and/or local rule, and Allowed Claims of those Creditors entitled to any payment required to cure defaults of any executory contracts assumed by the Debtor under the Plan, shall be paid 100% on the later of the Payment Date, or the date they are Allowed, or on other terms otherwise mutually agreed with respect to the holder of an Allowed Administrative Claim, including Allowed Fee Claims. The following amounts are estimates only, and may increase or decrease depending upon whether the creditors file applicatins or assert their administrative claims. All fees are approved by the Bankruptcy Court and the Debtor does not control the amount of Unclassified and Administrative claims. The Debtor believes, however, that there will be sufficient cash at Confirmation to pay all required Plan related obligations. Unclassified Claims are not entitled to vote on the Plan.
Debtor estimates that the total fees for professional services through Confirmation will total approximately **$70,000.00**.

Debtor estimates total executory contract and unexpired lease cure amounts to be paid at Confirmation will total approximately **$4,133.38**. Debtor estimates that the amount of all other Administrative Expenses will total approximately $**0.00**.

Creditor Classes

Class 1. **Class 1 – Secured Claims of First United**: Class 1 consists of a secured claim in the amount of **$200,000.00** held by First United based on the Settlement Agreement between the Debtor and First United, which Settlement Agreement is incorporated into the Plan and more fully described in Article III(C) above. It is anticipated that by the time of Confirmation, the Debtor will have already paid the amount of $60,000.00 which will be credited dollar for dollar against the $200,000.00. The unpaid amount (anticipated to be $140,000.00) as of the Effective Date will be paid in equal monthly installments, with zero interest, over 48 months. Class 1 is impaired and entitled to vote on the Plan.

Class 2. **Class 2 - Other Secured Claims**: Class 2 consists of all other secured claims, if any, other than the Class 1 claim for First United. Class 2 Allowed Secured Claims can be paid, at the Debtor's option, by paying such claims per the contract(s), paying them over a 48 month time period, or surrendering the collateral that secures the claim(s). The Debtor estimates that the amount of Class 2 Claims is **$0.00.** Class 2 is impaired. To the extent that there are any Class 2 Claimants, they are entitled to vote on the Plan.

Class 3. **Class 3 - Wage Related Claims**: Allowed Priority Claims for unpaid pre-petition wages, benefits, and the like, up to the maximum of $12,850.00 per employee will be paid 100% on the later of the Effective Date, if an Allowed Priority Claim on that date, or the date the Claim is an Allowed Priority Claim. Debtor estimates these claims at approximately **$6,730.77,** which consists of the priority wage claim of Philip Leckinger. Under the Plan, Philip Leckinger will pay this amount to the Debtor as partial payment of his New Interests in the Reorganized Debtor. Accordingly, the actual anticipated cash payment to be made under Class 3 is **$0.00**. Class 3 Claims are impaired and entitled to vote on the Plan.

Class 4. **Class 4 – Tax Claims**: Allowed Priority Claims for 2017 taxes will be paid in full satisfaction of such holder's Allowed Priority Tax Claim 100% of the tax due on or before the Effective Date. Debtor estimates these 2017 tax claims at **$5,568.80**. Any 2018 taxes shall be paid in full on or before the due date for 2018 taxes, or at the Debtor's election, paid in a series of equal deferred Cash payments over a 48 month period with interest at the annual rate of 12% per annum, with such payments beginning on the Effective Date, and continuing to be made quarterly in January, April, July and October in the 4 year period following the Effective Date. Debtor estimates these 2018 claims at **$5,568.80**. Allowed Administrative Expense Claims for taxes shall be paid in the ordinary course of business on the date those taxes would normally have been paid. Class 4 is impaired and entitled to vote on the Plan.

Class 5. **Class 5 - General Unsecured Claims**: To the extent Allowed by the Bankruptcy Court, creditors holding Class 5 General Unsecured Claims against the Debtor shall receive, in full

satisfaction of their Claims against the Debtor a quarterly Cash payment over 4 years in the amount of such holder's Pro Rata Share of the amount available in the Unsecured Claim Distribution Fund for each such quarter. The initial quarterly payment will be made on the Effective Date; thereafter, quarterly payments will be made on the first day of each month of January, April, July, and October over the 4 year Plan period. Each quarterly Unsecured Claim Distribution Fund will equal ¼ of the amount to be paid each year under the Plan. The amounts to be paid are as follows: 2019 – $20,000; 2020 – $50,000; 2021 – $60,000; and 2022 – $70,000. The Debtor estimates that these payments will pay out a total dividend of approximately 4.5% of the Class 5 Claims (as of September 30, 2018) over 4 years, before any adjustment in the overall claims amount based on claims objections and negotiations between the Debtor and certain general unsecured creditors. The estimated amount of Class 5 Claims is $4,398,891.68 (before adjustments, if any) including the Unsecured Claim of First United under the Settlement Agreement and any reductions for Class 6 Claims. The Debtor believes that ultimately the Allowed Claims for Class 5 will receive closer to a dividend of 6% or perhaps greater after conclusion of the claims objection process and negotiations with various creditors. Class 5 is impaired and entitled to vote on the Plan.

Class 6. **Class 6 – Small General Unsecured Claims**: As reasonable and necessary for administrative convenience, Class 6 consists of General Unsecured Claimants holding Allowed Claims that total the amount of $1,000 or less, plus any General Unsecured Claimant holding an Allowed Claim greater than $1,000 who reduces such Allowed Claim to the amount of $1,000.00 as allowed by 11 U.S.C. §1122(b). Each creditor holding an Allowed Class 6 Claim shall be paid 20% of such claim on or before the Effective Date. The total amount based on the Debtor's amended schedules and filed claims as of September 30, 2018 is **$6,767.49**. The Debtor cannot estimate the amount, if any, of additional general unsecured creditors who may vote to reduce their claims to $1,000 and participate in Class 6. Class 6 is impaired and entitled to vote on the Plan.

Class 7. **Class 7 – Subordinated Claims**: No distribution will be made to any Allowed Subordinated Claim. The Debtor estimates that the amount of Class 6 Claims is **$0.00.** Class 7 is impaired; however, it is deemed to have rejected the Plan and is not entitled to vote.

Class 8. **Class 8 – Interests.** Class 7 Interest holders in the Debtor will receive nothing for their Interests, and their Interests will all be canceled. Class 8 is impaired; however, it is deemed to have rejected the Plan and is not entitled to vote.

C. Estimated Amounts for Claims.

The estimates of the total amount of Claims for each of the Classes stated herein represent the Debtor's reasonable expectations. **THESE ESTIMATES MAY VARY FROM THE FINAL AMOUNTS OF CLAIMS THAT MAY BE ALLOWED BY THE BANKRUPTCY COURT**.

D. Executory Contracts And Unexpired Leases.

The Debtor will assume the Executory Contracts and Unexpired Leases set forth in Exhibit A to the Plan and cure all defaults at the Effective Date or as agreed upon with the affected creditor. All other executory contracts and unexpired leases will be rejected upon Confirmation. Any claim for pecuniary loss resulting from rejection of an executory contract and/or unexpired lease must be filed within thirty (30) days of the Effective Date, or in accordance with specific Court order, or such Claim or Claims will be time barred.

E. New Interests in and Board of Directors of Reorganized Debtor.

Under the Plan, all interests in the Debtor are to be canceled and no money paid for them. Only Philip J. Leckinger will acquire New Interests in the Reorganized Debtor by the payment of money as follows:

- $30,000.00 paid on or before the Effective Date;
- $6,730.77 (100%) of his Unsecured Priority Claim; and
- 100% of his pro rata distribution as an unsecured creditor in Class 5.

In addition, although not classified as money to be paid for the New Interests, Philip J. Leckinger will serve as the CEO and President of the Reorganized Debtor through at least December 31, 2022, and has agreed to a salary for each of the Plan years at a level that is below market for his services. The Debtor estimates that the market rate of compensation usual and customary to the duties that will be assumed by Philip J. Leckinger under the Plan are not less than $200,000 per year, plus benefits.

The New Directors for the Board of Directors of the Reorganized Debtor will be Philip J. Leckinger, Dean E. Cherry, and Janice Wise. Dean E. Cherry currently serves as CEO of Pharmaceutic Litho and Label Co. and was formerly President of Cenveo. Mr. Cherry has extensive operational experience and PL responsibility for multi-billion dollar organizations. Ms. Janice Wise, CPA, currently is the Controller of Horizon Hydraulics. She has vast financial and accounting experience in managing all financial aspects of multi-million dollar corporations. Philip J. Leckinger will be appointed President of the Reorganized Debtor and will hold the sole authority to carry out the provisions of the Plan, as confirmed, on behalf of the Reorganized Debtor.

V. FINANCIAL INFORMATION AND FUTURE OPERATIONS

The financial information described below has not been subjected to an audit. The financial projections are forward-looking projections and are based upon numerous assumptions, including business, economic, and other market conditions. Many of these assumptions are beyond the control of the Debtor and are inherently subject to substantial uncertainty. Such assumptions involve significant elements of subjective judgment which may or may not prove to be accurate, and consequently, no assurances can be made regarding the analyses or conclusions derived from analyses based upon such assumptions.

VI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Implementation of the Plan may result in federal income tax consequences to holders of Claims and Interest holders. Tax consequences to a particular Creditor or holder of an Interest may depend on the particular circumstances or facts regarding the Claim or the holder of the Equity Interest. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR AS TO THE CONSEQUENCES OF THE PLAN UNDER FEDERAL AND APPLICABLE STATE AND LOCAL TAX LAWS.

NO RULING HAS BEEN SOUGHT OR OBTAINED FROM THE IRS WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN OBTAINED BY THE DEBTOR WITH RESPECT THERETO. NO REPRESENTATIONS OR ASSURANCES ARE BEING MADE WITH RESPECT TO THE FEDERAL INCOME TAX CONSEQUENCES OR STATE OR LOCAL TAX CONSEQUENCES OF THE PLAN. BECAUSE THE TAX CONSEQUENCES OF THE PLAN MAY VARY BASED ON INDIVIDUAL CIRCUMSTANCES, EACH HOLDER OF A CLAIM OR INTEREST AFFECTED BY THE PLAN MUST CONSULT, AND RELY UPON, HIS OR HER OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES OF THE PLAN WITH RESPECT TO THAT HOLDER'S CLAIM OR INTEREST. THIS INFORMATION MAY NOT BE USED OR QUOTED IN WHOLE OR IN PART IN CONNECTION WITH THE OFFERING FOR SALES OF SECURITIES.

VII. LIQUIDATION ANALYSIS AND COMPARISON WITH CHAPTER 7

Debtor believes that the Plan affords creditors the potential for the greatest realization from the Debtor's assets, and, therefore, is in the best interests of Creditors. The Debtor has considered alternatives to the Plan, primarily a liquidation in the context of a Chapter 7 case. In the opinion of the Debtor, such alternative would not afford the holders of Claims a return as great as may be achieved under the Plan.

Debtor believes that it is in the best interests of all Claimants to accept this Plan. It is anticipated that Claimants will receive more under the Plan than Claimants would receive if all assets of the Debtor were liquidated by a Chapter 7 trustee. In a Chapter 7 liquidation, the amounts realized would be applied first to satisfy Secured Claims, second to satisfy Chapter 7 Administrative Claims, third to satisfy Chapter 11 Administrative Claims, and finally to satisfy Priority Claims and General Unsecured Claims.

An alternative to the confirmation of the Plan would be conversion of the Case to a liquidation case under Chapter 7 of the Bankruptcy Code. In order to determine whether or not the Plan complies with the "best interest of creditors" test of section 1129(a)(7) of the Code, it is necessary to perform an analysis of the liquidation of the Debtor's assets in a Chapter 7.

Under the Plan, Debtor will continue to operate its business. Debtor's management believes that Debtor's continued operations and the revolving line of credit from First United will provide, over a 48 month period, the cash flow necessary to pay all pre-Petition Date Creditors the estimated amounts set forth in the discussion regarding the separate creditor classes above. Attached hereto as Exhibit "2" are the Debtor's financial projections over the 48 month

Plan period, which reflect that it is more likely than not that the Plan payments can be made and the Debtor can reorganize and not end up in another bankruptcy case later.

It is worth noting that if the Plan is confirmed, the Debtor plans to retain all of its current 24 employees. Confirmation thus will save 24 full time jobs, with the benefits to the overall North Texas economy that will be realized as a result.

Debtor owns no real property. Debtor has inventory, equipment, and miscellaneous office furnishings and supplies in the scheduled amount of $53,823.26, plus its accounts receivable and its ongoing business operations. Due to the specialized nature of the inventory, the lack of a robust market for used office furniture and equipment, and the age of these assets, Debtor believes that a liquidation of its inventory and equipment would only generate approximately $20,000.00.

The Debtor has had the use of its accounts receivable in accordance with the various interim cash collateral orders and the final cash collateral order. Therefore, many of the accounts receivable in existence at the Petition Date have been collected and spent. However, the Debtor has generated new accounts receivable since the Petition Date. As of September 30, 2018, the outstanding post petition accounts receivable of the Debtor were in the amount of $315,443.15. Even if 100% of these accounts receivable were collected in a liquidation case, the liquidation value of all of the Debtor's assets would likely not exceed the amount of $335,443.15, before deducting liquidation costs. However, the Debtor believes that it is more likely than not that a chapter 7 trustee would be able to collect only 30% – 50% of the accounts receivable because of multiple factors, including setoff issues and disputes that are anticipated to arise in a chapter 7 that would not be present if the Debtor is able to reorganize, keep the relationships and provide new value from ongoing business.

The Debtor’s estate also contains a Cause of Action against the previous CEO Steve DisPasquale and Sherra Williams; however, Steve DiPasquale filed for Chapter 7 earlier this year. If the Plan is confirmed, these claims against Steve DiPasquale will be assigned to First United. If the Plan is not confirmed, whether these claims will result in funds coming into a chapter 7 estate is speculative.

In addition, if the case were to be converted to chapter 7, the Settlement Agreement between the Debtor and First United would no longer be available. If that were to happen, there would be no agreement for the reduction of First United's Secured Claim from $988,114.59 to $200,000.00 (with the remainder agreed to be unsecured). For there to be any reduction in the amount of First United's Secured Claim, absent agreement of First United, the Chapter 7 Trustee would have to litigate whether and to what extent First United's claim is validly secured. That litigation is not guaranteed to be successful, and the litigation costs incurred would further reduce the available cash to pay out on Allowed Claims. Even if the litigation were to be successful, it would merely “bump” First United's Secured Claim to an Unsecured Claim, rather than disallow it completely.

If the litigation by a Chapter 7 Trustee were not successful in avoiding First United's Secured Claim, virtually all of the Debtor's assets would remain subject to First United's Secured Claim, thus resulting in the remaining creditors receiving very little, if anything, in liquidation.

Another material factor in whether the Plan likely affords a better return to creditors than a Chapter 7 liquidation is the provision that the Debtor's current President, Philip J. Leckinger, will remain as the President of the Reorganized Debtor. Mr. Leckinger's willingness to serve as President of the Reorganized Debtor, plus his equity for the purchase of his ownership in the Reorganized Debtor, are material aspects of the Plan that are not available in a Chapter 7 case. Their absence would reduce the ability to collect the accounts receivable and the new equity would be lost.

In addition, a Chapter 7 trustee would be entitled to compensation in accordance with the scale set forth in §326 of the Bankruptcy Code. A Chapter 7 trustee would likely seek to retain new professionals, including attorneys and accountants, in order to resolve any disputed Claims and possibly to pursue claims of the estate against other parties. The Chapter 11 allowed administrative costs and expenses have priority over creditor classes, although they have a lower priority to administrative costs and expenses in a converted Chapter 7. Costs of liquidation would also be incurred. In addition, under the Bankruptcy Rules, a new bar date for the filing of proofs of claim would have to be set, and additional Claims against the Estate that might be time-barred in the Chapter 11 case (because they were not filed before the applicable bar dates set in the Cases) could be asserted. Debtor also believes that the same analysis would apply if a trustee were appointed.

Debtor believes that conversion to Chapter 7 or the appointment of trustee will merely serve to: (i) unnecessarily increase the administrative expenses in the bankruptcy cases, (ii) result in further unnecessary delay in collecting accounts receivable owing to Debtor, and (iii) unnecessarily increase the likelihood of unsuccessful objections to proofs of claim and otherwise not maximize the value of the assets of the estates, due to a lack of personnel with knowledge of the relevant transactions.

The sums shown in the tables below reflect the Debtor' estimate of the approximate amounts that the different classes of Claims are anticipated to receive under the Plan and would be likely to receive under a Chapter 7 liquidation, assuming an aggregate distribution. The Debtor believes that the amounts to be received under the Plan will exceed those that could be expected under a Chapter 7 liquidation of the Estate's assets because of Debtor's (a) continuing operation of the business and generating revenue from the same, (b) ability to likely collect a greater percentage of the accounts receivable, (c) availability of a revolving line of credit from First United to help fund potential cyclical shortfalls in revenue and to help fund Plan payments, and (d) the equity infusion of $30,000.00, plus $6,730.77 (his priority claim) and the pro rata general unsecured claim distribution from Philip J. Leckinger for the New Interests he will acquire in the Plan.

TABLE OF DEBTOR'S ESTIMATES OF PAYMENTS UNDER PLAN

Unclassified Claims	100.00%

Class 1 (Secured Claim of First United)	100.00%
Class 2 (Other Secured Claims)	100.00%
Class 3 (Wage Claims)	100.00% (paid back as partial payment of New Interests)
Class 4 (Tax Claims)	100.00%
Class 5 (General Unsecured Creditors)	4.50% – 6% or greater, depending on claims objections and negotiations
Class 6 (Small General Unsecured Creditors)	20.00%
Class 7 (Subordination Claims)	0.00%
Class 8 (Interests)	0.00%

TABLE OF DEBTOR'S ESTIMATE OF PAYMENTS IN CHAPTER 7

For purposes of this liquidation analysis, Debtor has assumed the higher percentage range of 50% collections of accounts receivable, rather than the lower 30% percentage range discussed above in this Section VII. Therefore, Debtor has assumed A/R collection in the amount of $157,721.58 and $20,000 in gross sales of tangible personal property. The Debtor has assumed that there will be litigation between the Chapter 7 Trustee and First United, and has increased the fee estimate for the Chapter 7 Trustee accordingly, plus fees for claims objections and collection costs of A/R and costs of liquidation, and trustee commissions of @ $12,136.00.

Unclassified Claims from Chapter 7 (at least $50,000)	100.00%
Unclassified Claims from Chapter 11 (@$70,000)	100.00%
Class 1 (Secured Claim of First United)	Estimated between 1.2% – 18% of currently filed claim (depending on litigation, etc.)
Class 2 (Other Secured Claims)	Unknown but estimated at 0% – 100% (depending on litigation, etc. and whether the claims are valid)
Class 3 (Wage Claims)	0.00% – 100% (depending on litigation, etc.)
Class 4 (Tax Claims)	0.00% – 100% (depending on litigation, etc.)
Class 5 (General Unsecured Creditors)	0.00% - .0076% (depending on litigation, etc.)
Class 6 (Small General Unsecured Creditors)	0.00% - .0076% (depending on litigation, etc.) [these creditors will be regrouped into all general unsecured creditors]
Class 7 (Subordination Claims)	0.00%
Class 8 (Interests)	0.00%

Due to the numerous uncertainties and time delays associated with liquidation under Chapter 7 of the Bankruptcy Code, it is not possible to predict with certainty the outcome of any Chapter 7 liquidation of the Debtor or the timing of any distributions to Creditors. However, Debtor believes that a complete liquidation of the Debtor under Chapter 7 of the Bankruptcy Code would result in smaller distributions to Creditors than that provided for in the Plan.

DEBTOR BELIEVES THAT CONFIRMATION AND IMPLEMENTATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED HEREIN BECAUSE IT SHOULD PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN LIQUIDATION TO THE HOLDERS OF UNSECURED CLAIMS WHO WOULD LIKELY RECEIVE LESS THROUGH A CHAPTER 7 LIQUIDATION OR THE APPOINTMENT OF A TRUSTEE. IN ADDITION, OTHER ALTERNATIVES WOULD INVOLVE DELAY, UNCERTAINTY, AND SUBSTANTIAL ADMINISTRATIVE COSTS.

VIII. VOTING PROCEDURES

ACCEPTANCE OR REJECTION OF THE PLAN WILL BE DETERMINED, PURSUANT TO THE BANKRUPTCY CODE, BASED UPON THE ALLOWED CLAIMS AND ALLOWED INTERESTS THAT ACTUALLY VOTE ON THE PLAN. THEREFORE, IT IS IMPORTANT THAT CLAIMANTS EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN.

A. Classes Entitled to Vote on the Plan: All members of Classed 1 through 6 who hold Allowed Claims are entitled to vote to accept or reject the Plan. Section 1124 of the Bankruptcy Code generally provides that a class of claims or interests is considered to be Impaired under a plan unless the plan does not alter the legal, equitable and contractual rights of the holders of such claims or interest. Interest holders are deemed to have rejected the Plan and are therefore not entitled to vote on the Plan.

B. Persons Entitled to Vote on the Plan: Only holders of Allowed Claims and holders of Disputed Claims which have been temporarily allowed for voting purposes in Classes 1 through 6 are entitled to vote on the Plan. For purposes of the Plan, an Allowed Claim is a Claim against the Debtor which (a) has been scheduled by the Debtor as undisputed, noncontingent, and liquidated and as to which no objection has been filed within the time allowed for the filing of objections, (b) as to which a timely proof of claim or application for payment has been filed and as to which no objection has been filed within the time allowed for filing of objections, (c) has been Allowed by Final Order, or (d) has been Allowed under the Plan. Therefore, although the holders of Disputed Claims will receive ballots, these votes will not be counted unless such Claims become Allowed Claims as provided under the Plan or are temporarily allowed for voting purposes by the Court.

C. Vote Required for Class Acceptance: During the Confirmation Hearing, the Bankruptcy Court will determine whether the Classes voting on the Plan have accepted the Plan by determining whether sufficient acceptances have been received from the holders of Allowed

Claims actually voting in such Classes. A Class of Claims will be determined to have accepted the Plan if the holders of Allowed Claims in the Class casting votes in favor of the Plan (i) hold at least two-thirds of the total amount of the Allowed Claims of the holders in such Class who actually vote and (ii) constitute more than one-half in number of holders of the Allowed Claims in such Class who actually vote on the Plan.

As a condition to Confirmation, the Bankruptcy Code requires that each impaired Class of Claims or Interests accept the Plan, subject to the "cramdown" exception of § 1129(b) described herein. To effectuate the § 1129(b) exception, at least one impaired Class of Claims must accept the Plan.

D. Voting Instructions:

(c) Ballots and Voting: Holders of Allowed Claims in Classes 1 through 6 entitled to vote on the Plan have been sent a Ballot, together with instructions for voting, with this Disclosure Statement. Claimants should read the Ballot carefully and follow the instructions contained therein. In voting for or against the Plan, please use only the Ballot(s) that accompanies this Disclosure Statement.

IF YOU ARE A MEMBER OF A CLASS ENTITLED TO VOTE ON THE PLAN AND DID NOT RECEIVE A BALLOT, OR IF YOUR BALLOT IS DAMAGED OR LOST, OR IF YOU HAVE ANY QUESTIONS CONCERNING VOTING PROCEDURES, YOU SHOULD CONTACT COUNSEL FOR THE DEBTOR:

CAROL LYNN WOLFRAM
LAW OFFICE OF CAROL LYNN WOLFRAM
P.O. BOX 1925
DENTON, TEXAS 76202

THE VOTING DEADLINE IS 4:00 P.M., CENTRAL DAYLIGHT TIME, ON _____, 2018. IN ORDER TO BE COUNTED, BALLOTS MUST BE ACTUALLY RECEIVED BY COUNSEL FOR THE Debtor ON OR BEFORE 4:00 P.M., CENTRAL DAYLIGHT TIME, ON THE VOTING DEADLINE AT THE ADDRESS SET FORTH IN THE BALLOT INSTRUCTIONS WHICH ACCOMPANY THE BALLOT. EXCEPT TO THE EXTENT ALLOWED BY THE BANKRUPTCY COURT, BALLOTS RECEIVED AFTER THE VOTING DEADLINE MAY NOT BE ACCEPTED OR USED IN CONNECTION WITH THE DEBTOR'S REQUEST FOR CONFIRMATION OF THE PLAN OR ANY MODIFICATION THEREOF.

(d) Incomplete or Irregular Ballots: Ballots which fail to designate the Class to which they apply shall be counted in the appropriate Class as determined by the Debtor, subject only to contrary determinations by the Bankruptcy Court. Ballots of claimants that are signed and returned, but do not indicate a vote either

for acceptance or rejection of the Plan, shall be counted as ballots for the acceptance of the Plan if permitted by the Bankruptcy Court.

(e) Disputed and Unliquidated Claims: Disputed Claims are not entitled to vote to accept or reject the Plan. If you are the holder of a Disputed Claim, you may ask the Bankruptcy Court pursuant to Bankruptcy Rule 3018 to have your Claim temporarily Allowed for the purpose of voting.

(f) Possible Reclassification of Creditors and Interest Holders: Debtor is required pursuant to § 1122 of the Bankruptcy Code to place Claims and Interests into Classes that contain substantially similar Claims or Interests. While the Debtor believe they have classified all Claims and Interests in compliance with § 1122, it is possible that a Claimant or Interest holder may challenge the classification of its Claim or Interest. If the Debtor are required to reclassify any Claims or Interests of any Claimants or Interest holders under the Plan, the Debtor, to the extent permitted by the Bankruptcy Court, intend to continue to use the acceptances received from such Claimants or Interest holders pursuant to the solicitation of acceptances using this Disclosure Statement for the purpose of obtaining the approval of the Class or Classes of which such Claimants or Interest holders are ultimately deemed to be a member. Any reclassification of Claimants or Interest holders should affect the Class in which such Claimants or Interest holders were initially a member, or any other Class under the Plan, by changing the composition of such Class and the required vote thereof for approval of the Plan.

IX. CRAMDOWN OR MODIFICATION OF THE PLAN

A. "Cramdown:" Request for Relief under Section 1129(b): In the event any Impaired Class of Claims shall fail to accept the Plan in accordance with § 1129(a) of the Bankruptcy Code, Debtor shall request the Bankruptcy Court to confirm the Plan in accordance with the provisions of § 1129(b) of the Bankruptcy Code. The Court may confirm a plan, even if it is not accepted by all impaired Classes, if the Plan has been accepted by at least one impaired Class of Claims and the Plan meets the "cramdown" provisions set forth in § 1129(b) of the Code. The "cramdown" provisions require that the Court find that a plan "does not discriminate unfairly" and is "fair and equitable" with respect to each non-accepting impaired Class. In the event that all impaired Classes do not vote to accept the Plan, the Debtor will request that the Bankruptcy Court nonetheless confirm the Plan pursuant to the provisions of § 1129(b) of the Code.

The Court may find that the Plan is "fair and equitable" with respect to a Class of non-accepting impaired Interests only if (a) the holder of an Interest will receive or retain under the Plan property of a value as of the Plan's Effective Date equal to the greatest of any fixed liquidation preference or redemption price or the value of such Interest or (b) the holder of any Interest that is junior to such Interest will not receive or retain any property under the Plan.

The Court may find that the Plan is "fair and equitable" with respect to a Class of non-accepting impaired Unsecured Claims only if (a) each impaired unsecured Creditor receives or

retains under the Plan property of a value as of the Effective Date of such Plan equal to the amount of its Allowed Claim, or (b) the holder of any Claim or Interest that is junior to the Claims of the dissenting Class will not receive or retain any property under the Plan.

The Court may find that the Plan is "fair and equitable" with respect to a Class of non-accepting Secured Claims, only if, under the Plan, (a) the holder of each Secured Claim in such Class retains such holder's lien and receives deferred cash payments totaling at least the Allowed amount of such Secured Claim and having a value, as of the Effective Date of the Plan, equal to or in excess of the value of such holder's interest in the estate's interest in the collateral for the Secured Claim, (b) the collateral for such Secured Claim is sold, the lien securing such Claims attached to the proceeds, and such liens on proceeds are afforded the treatment described under clause (a) or (c) of this sentence, or (c) the holders of such Secured Claims realize the "indubitable equivalent" of their claims.

If all of the provisions of section 1129 are met, the Court may enter an order confirming the Plan.

B. The Plan Meets the "Best Interest of Creditors" Test: The "best interest of creditors" test requires that the Court find that the Plan provides to each non-accepting holder of a Claim or Interest treated under the Plan a recovery which has a present value at least equal to the present value of the distribution that such person would receive from the debtor if the debtor were liquidated under Chapter 7 of the Code. An analysis of the likely recoveries and affect on Creditors in the event of liquidation under Chapter 7 of the Code is contained herein.

C. The Plan is Feasible: The Bankruptcy Code requires that, as a condition to Confirmation of a plan, the Court find that Confirmation is not likely to be followed by a liquidation or a need for further financial reorganization except as proposed in the plan. Debtor's proposed Plan provides for reorganization of the Debtor whereby the Debtor remains in business and successfully exits bankruptcy.

D. The Plan Meets the Cramdown Standard With Respect to Any Impaired Class of Claims Rejecting the Plan: The Plan satisfies the provisions for cramdown under §1129(b)(2) of the Code. Secured Creditors are either retaining their liens and receiving the value of their interest in the Debtor's property in a lump sum payment totaling the Allowed amount of their Claims, or receiving the indubitable equivalent of their Claims. In the event an impaired Class rejects the Plan, the Plan shall be deemed a motion for cramdown of such Class under §1129(b)(2) of the Bankruptcy Code. No Interest Holders are receiving or retaining any property under the Plan on account of their Interests.

E. Modification or Revocation of the Plan; Severability: Subject to the restrictions on modifications set forth in §1127 of the Bankruptcy Code and any applicable notice requirements, the Debtor reserves the right to alter, amend or modify the Plan before its substantial consummation. The Debtor also reserves the right to withdraw the Plan prior to the Confirmation Date. If the Debtor withdraws the Plan, or if Confirmation does not occur, then the Plan shall be null and void in all respects, and nothing contained in the Plan will: (1) constitute a waiver or release of any Claims or rights against, or any Interest in, the Debtor; or (2) prejudice in any

manner the rights of the Debtor. If, prior to Confirmation, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void or unenforceable, the Bankruptcy Court, at the request of the Debtor, has the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision will then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated by such holding, alteration or interpretation.

X. RISK FACTORS

A. Factors Relating to Chapter 11 and the Plan: The following is intended as a summary of certain risks associated with the Plan, but is not exhaustive and must be supplemented by the analysis and evaluation of the Plan and this Disclosure Statement made by each Claimant as a whole in consultation with such Claimant's own advisors.

B. Insufficient Acceptances: The Plan may not be confirmed without sufficient accepting votes. Each impaired Class of Claims and Interests receiving a distribution under the Plan is given the opportunity to vote to accept or reject the Plan. The Plan will be accepted by a Class of impaired Claims if the Plan is accepted by Claimants in such Class actually voting on the Plan who hold at least two-thirds (2/3) in amount and more than one-half (½) in number of the total Allowed Claims of that Class which actually vote. The Plan will be accepted by a Class of impaired Interests if it is accepted by holders of Interests in such Class actually voting on the Plan who hold at least two-thirds (2/3) in amount of the total Allowed Interests of the Class which actually vote. However, Class 7 (Subordination Claims) and Class 8 (Interest Holders) are deemed to have rejected the Plan and are therefore not entitled to vote on the Plan. Only those members of a Class who vote to accept or reject the Plan will be counted for voting purposes.

If any impaired Class of Claims under the Plan fails to provide acceptance levels sufficient to meet the minimum Class vote requirements but at least one impaired Class of Claims accepts the Plan, then, subject to the provisions of the Plan, the Debtor intend to request confirmation of the Plan under Section 1129(b) of the Bankruptcy Code.

C. Business Risks: As with any business venture, risks are an inherent part of the process and success cannot be guaranteed. The Plan contains assumptions about the future success of the Reorganized Debtor's business operations which may not be realized. It should be noted that while the Debtor believes that all financial projections have a sound basis in historical fact, all risk factors cannot be anticipated, and some events develop in ways that were not foreseen and that many or all of the assumptions which have been used in connection with this Disclosure Statement and the Plan will not transpire exactly as assumed. Some or all of such variations may be material. While significant efforts have been made to be reasonable in this regard, there can be no assurance that subsequent events will bear out the analyses set forth herein. In particular, the assumptions regarding (a) the collectibility of the accounts receivable owing to Debtor, (b) the revenues projected to be received by Debtor in the future and (c) the amount of any recovery on Causes of Action are all significant factors regarding the assumptions.

XI. RECOMMENDATION OF DEBTOR

A. Debtor believes that the Plan is in the best interests of all Creditors. Accordingly, Debtor recommends that you vote for acceptance of the Plan and hereby solicits your acceptance of the Plan.

Dated this the 11th day of October, 2018.

DEBTOR

SOURCINGPARTNER, INC.

/s/ Philip Leckinger
Philip Leckinger, CEO and President

Respectfully submitted,

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