

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE: §
§
FANOUS JEWELERS, INC., § Case No. 16-33806-SGJ
§
Debtor. § Chapter 11

OBJECTION TO DISCLOSURE STATEMENT

Issa A. Fanous, as Independent Executor of the Estate of Samir Issa Fanous, Deceased (the “Equity Holder”) hereby files his Objection to the Disclosure Statement (the “Disclosure Statement”) of Fanous Jewelers, Inc. (the “Debtor”) and in support thereof respectfully represents as follows:

BACKGROUND

1. On September 29, 2016, the Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code.
2. On February 21, 2017, the Debtor filed the Disclosure Statement.
3. On February 23, 2017, the Court conditionally approved the Disclosure Statement and ordered that objections to the Disclosure Statement be filed by April 3, 2017.
4. At all times relevant hereto, the Equity Holder has been the owner and holder of fifty percent (50%) of the issued and outstanding equity in the Debtor.
5. On March 14, 2017, the Equity Holder filed a Motion to Dismiss the Debtor’s bankruptcy case.

OBJECTION

6. The Equity Holder objects to the Disclosure Statement as it does not contain adequate information in the following respects:

- a) History and Background of the Debtor. In the History and Background section of the Disclosure Statement, the Debtor states “Sam Fanous’ heirs were not involved in the business and have not contributed to the maintenance of the Debtor.” This is a material misstatement in that it omits the fact that the Debtor, Emile Fanous and their counsel actively prevented the Equity Holder from participating in the management of the business. The Disclosure Statement fails to mention the four (4) written requests made by the Equity Holder’s counsel between July 2015 and May 2016 for information on the Debtor and a request for a shareholder meeting to discuss the Debtor’s business and its prospects.
- b) History and Background of the Debtor. The History and Background section of the Disclosure Statement goes on to state that “In the past few years the business has not operated profitability (sic) and Emile Fanous and his relatives have had to loan the business approximately \$200,000 to keep the Debtor open.” This statement fails to provide adequate information as to the cause of the Debtor’s lack of profitability. Specifically, the Disclosure Statement does not discuss that during this time period, the Debtor, without any input from the Equity Holder, decided to open a retail store in Midland, Texas. Upon information and belief, this retail store was managed by Emile’s son Greg Fanous. The Disclosure Statement should have included information related to the retail outlet and the extent to which this line of business was successful or unsuccessful for the Debtor. The Disclosure Statement should have also included the extent to which any of the loans allegedly advanced by Emile Fanous and his family member were necessary due to the increased costs of operating the retail business.
- c) History and Background of the Debtor. The Disclosure Statement provides that Emile Fanous and his relatives have loaned the Debtor approximately \$200,000 to keep the Debtor open. The Disclosure Statement does not disclose when the loans were made, the terms of the loans, who authorized the Debtor to request and accept the loans, how the loan proceeds were used, and the reasons why the Debtor does not believe it would be prudent to seek subordination of those loans.
- d) Post Confirmation Management. The Disclosure Statement provides that Debtor’s current management will stay in place and that Emile Fanous will be paid an annual salary of \$39,600. The Disclosure Statement is devoid of any information as to the names of the Debtor’s current management. The Disclosure Statement further fails to explain why leaving current management in place is in the best interest of the Equity Holder.
- e) Analysis and Valuation of Property. The Disclosure Statement states that the Debtor’s inventory is “older and will not provide significant value in a forced liquidation.” Upon information and belief, the Debtor’s inventory consists of precious metals and loose stones. While the assets may be “old,” it is unlikely that the age causes them to be less valuable. Further assets such as precious metals and stones have a known value and can be sold for that whether the sale is

quick or over time. Regardless, the Disclosure Statement fails to contain adequate information regarding the Debtor's inventory.

- f) Pending or Anticipated Litigation. The Disclosure Statement provides that the Debtor has "evaluated potential claims," but that the "Debtor does not believe any claims under the provision of the Bankruptcy Code exist which would be beneficial...or which would result in a higher return to the **creditors.**" (emphasis added). This section of the Disclosure Statement fails to contain any mention of the litigation commenced by the Equity Holder against the Debtor and the allegations contained therein. Further the Disclosure Statement does not discuss the extent to which the Debtor could seek characterization or subordination of the claims scheduled on behalf of various insiders of the Debtor and the extent to which a distribution could be made to the Equity Holder.

WHEREFORE, the Equity Holder respectfully requests the Court deny approval of the Disclosure Statement.

Respectfully submitted,

/s/ John C. Leininger

John C. Leininger

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Certificate of Service

I hereby certify that the foregoing Objection to Disclosure Statement was served on the parties entitled to receive service through the Court's CM/ECF system and via first class mail, postage prepaid on the parties listed on the service list attached hereto on this the 3rd day of April, 2017.

/s/ John C. Leininger

John C. Leininger

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