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

In Re: §
§
Disposal Tejas, LLC § Case No. 16-60064-rlj11
Debtor. § Chapter 11 Case
§

DEBTOR’S COMBINED PLAN AND DISCLOSURE STATEMENT

Introduction

This Plan of Reorganization is, in effect, a plan of liquidation, by which the Debtor in Possession, Disposal Tejas, LLC (“Disposal”), will have liquidated its assets and paid its creditors to the extent possible from the cash so created. The liquidation is pursuant to Bankruptcy Court control.

Purpose of disclosure statement. The purpose of the disclosure statement component of this pleading is to enable the proponent of the plan to comply with section 1125(a) of the Bankruptcy Code, which requires that the proponent of a plan disclose such information to creditors "of a kind, and in sufficient detail, as far as is reasonably practicable in the light of the nature and history of the Debtor and the condition of the Debtor’s books and records, that would enable a hypothetical reasonable investor typical of holders of claims or interests of the relevant class to make an informed judgment about the plan." Therefore, by operation of law, the contents of this disclosure statement must represent the Debtor’s affirmative statements that the representation of actual facts made by it are true to the best of its information, knowledge and belief.

Definitions

The following terms, when used in this Combined Plan and Disclosure Statement, shall have the following meanings:

Administrative Claim: A Claim for payment of an administrative expense of a kind specified in section 503(b) of the Bankruptcy Code and referred to in section 507(a)(2) of the Bankruptcy Code, including, without limitation, the actual, necessary costs and expenses of preserving the bankruptcy estate and its assets, compensation for legal and other professional services and reimbursement of expenses awarded under sections 328, 330(a), and 331 of the Bankruptcy Code, and all fees and charges assessed against the Estate under Chapter 123 of title 28 of the United States Code.

Allowed: When used in reference to a claim or group of claims under this Plan:

- (a) A Claim as to which a proof of Claim has been timely filed and no objection thereto has been filed prior to the claims objection deadline;
- (b) A Claim that has been expressly allowed under the provisions of this Plan or is deemed allowed by applicable provisions of law; or
- (c) A Claim that has been expressly allowed (but only to the extent allowed) by a final Order of the Bankruptcy Court.

Chapter 11 Debtor: Disposal Tejas, LLC, the Debtor in Possession, which initiated this proceeding on June 6, 2016.

Creditor: A person, firm, partnership, corporation, or entity who has filed, or is deemed to have filed, a lawful claim against Disposal Tejas, LLC, as provided by the Bankruptcy Code and orders of the Court, and which claim has been allowed by the Court, or is deemed allowed by applicable provisions of law.

Court: The United States Bankruptcy Court for the Northern District of Texas, San Angelo Division.

Confirmation: The order of the Court confirming the Plan of Reorganization, as provided in Bankruptcy Code § 1129.

Disclosure Statement: This Disclosure Statement that is combined with the Plan of Reorganization.

Effective Date: The effective date of this Plan of Reorganization shall be thirty (30) days following the date of confirmation.

Plan: This Plan of Reorganization.

Background

A. Origins. Disposal Tejas, LLC was organized under the laws of the State of Texas on September 19, 2012, to operate a salt water disposal well in Crockett County, Texas. Certain members, namely, Francisco McGee and Julio Samaniego recognized that there was insufficient capacity at the then existing water disposal well in Ozona, Texas to support the volume of used oilfield water that needed to be disposed of daily in that area. These individuals, as well as Felix Venegas and Martin McGee, comprised the original membership of the company. The Debtor obtained the rights to a certain shut-in oil well near Ozona, Texas which was capable of being converted to a water injection well, but would require re-entry work to include drilling out the cement plugs in the wellbore. However, this initial re-entry and drilling work did not go smoothly and, in fact, significant additional cost overruns and delays were incurred by the Debtor when the drill bit used by the contractor for this initial re-entry work became stuck in the well and could not be released. Ultimately, the Debtor was forced to retain the services of Versatile Oil Tools, LLC and CC Forbes, LLC to release the drill bit, repair the damage and deliver a fully functioning salt water disposal well to the Debtor. These companies later filed suit against the Debtor for the costs they incurred with remedying the initial problems associated with re-entering wellbore, among other charges, and ultimately secured judgements against the Debtor on their claims.

As such, the Debtor never fully recovered from these initial unexpected cost overruns and delays. Ultimately, the gross mismanagement of the Debtor, the failure to timely pay rent on its underlying salt water disposal lease, the failure to comply with governmental tax filing and payment obligations as further described below, and the collection actions of its creditors led to the Debtor's bankruptcy filing.

B. Organizational Structure. Disposal Tejas, LLC was originally comprised of four (4) members: Francisco McGee (30%), Martin McGee (20%), Julio Samaniego (20%) and Felix Venegas (30%). In approximately late 2015, Felix Venegas purchased Julio Samaniego's 20% membership interest in the Debtor, although, there is a dispute among the members as to whether this purchase was consummated. It is not disputed that Venegas owns at least a 30% interest in the Debtor.

C. Bankruptcy Filing. The Debtor filed for relief under Chapter 11 of the Bankruptcy Code on June 6, 2016 (the "Petition Date").

D. Asset Summary. The Debtor did not own any real property. The personal property of the Debtor consisted primarily of a single salt water disposal lease agreement and associated equipment used to remove skim oil and inject salt water into a well known as the J.A. Harvick Well No. 1, located in Section 100, Block GH, G.C. & S.F. R.R. Co. Survey, Crockett County, Texas (the "Well"). The certain Produced Water Disposal Contract dated October 3, 2012, as amended (the "Lease Agreement" or "Lease"), which the Debtor had entered into with the landowner, Dr. Marcus L. Sims ("Sims"), was in significant arrears as of the Debtor's Petition Date. A subsequent review of the Debtor's records of water disposal and payments to Sims under the Lease Agreement showed that there was approximately \$259,000.00 in rent due and owing to Sims under the Lease at the time of the Debtor's bankruptcy.

E. Secured Creditors. As of the Petition Date, the Crockett County Tax Office held a first priority ad valorem tax lien to secure the payment of taxes for the 2015 through 2016 tax years, in the amount of at least \$20,124.89. This indebtedness was extinguished upon the closing of the post-petition sale of the Debtor's assets to Vision Exploration, LLC on December 15, 2016, and as further described below.

An abstract of judgment was filed of record in Crockett County, Texas, against the Debtor by CC Forbes, LLC on April 15, 2016 in the amount of \$231,312.50, plus additional interest, fees and expenses. Versatile Oil Tools, LLC filed its Mechanic's Lien Affidavit in Crockett County, Texas on January 28, 2014 claiming an amount owing of \$555,376.62 for labor and/or materials expended for the remediation work on the well. Based upon the timing of filing these liens and/or the value of the Debtor's assets, if any, as of the Petition Date to which the liens attached, it was agreed through discussions with counsel for these respective creditors that their clients' alleged secured claims were, in fact, unsecured and/or were voidable under certain provisions of the Bankruptcy Code.

F. Sale of Property. From the beginning of this case, the Debtor sought to secure the highest price for its equipment and lease and, pursuant to the Court's Order, retained asset consultants on behalf of the bankruptcy estate to assist it in this process. In order to keep the Debtor's salt water disposal lease in place and avoid having the lease automatically rejected by operation of bankruptcy law, on or about September 28, 2016, the Court entered its initial Order extending the deadline for the Debtor to assume or reject the Lease until January 3, 2017. This deadline was subsequently extended again, by Court Order, to April 4, 2017.

Approximately three (3) parties timely submitted written offers to the Debtor seeking to purchase the Well's equipment and to take assignment of the Lease. Vision Exploration, LLC ("Vision Exploration"),

an entity wholly owned by Felix Venegas (“Venegas”), a member of the Debtor, submitted the highest cash offer for the Debtor’s assets in the amount of \$325,000 (the “Purchase Price”).

On or about November 29, 2016, the Debtor filed its Motion for Authority to Sell Certain Property of the Estate to Vision Exploration (the “Motion to Sell”), and the Court subsequently entered its Order approving the sale of the Debtor’s assets, including the Lease, to Vision Exploration.

Prior to the Debtor filing for relief under Chapter 11 of the U.S. Bankruptcy Code, rent payments due under the Lease by the Debtor to Sims had fallen significantly into arrears. Upon a review of its books and records, the Debtor determined that the amount owing under the Lease, as of the Petition Date, was approximately \$259,000.00. Based upon certain negotiations by and between the Debtor, Sims and Vision Exploration, Sims agreed to a cure amount necessary to allow for the Debtor to assume and assign the Lease of \$59,000.00 (“Agreed Cure Amount”). Said funds were paid by the Debtor upon entry of an Order approving the Debtor’s motion to assign the lease from a portion of the Purchase Price tendered by Vision Exploration to the Debtor.

The Debtor had no further liability under the Lease upon payment of the Agreed Cure Amount to Sims and assignment of the Lease to Vision Exploration. Vision Exploration was thereafter responsible for providing adequate assurance of future performance pursuant to Section 365(b) of the Bankruptcy Code in connection with the assumption and assignment of the Lease. To the extent that there remained additional sums due and owing by the Debtor to Sims under the Lease in excess of the Agreed Cure Amount, Sims agreed to waive such arrearage claim as against the Debtor. Sims and Vision Exploration reached a side agreement regarding the remaining arrearage balance due under the Lease as the two parties moved forward under the assigned Lease.

I. The Law Suit. On July 7, 2014 and prior to the Petition Date, Disposal Tejas and other parties filed a civil lawsuit against Energy Fishing & Rental Services, Inc. (“Energy Fishing”) and Glen Burkhalter, individually, in state district court in Crockett County, Texas. The lawsuit is styled *Disposal Tejas, LLC, Frank McGee and Julio Samaniego vs. Energy Fishing and Rental Services, Inc. and Glen Burkhalter*; Cause No. 14-07-07488 in the District Court for the 112th Judicial District of Crockett County, Texas (the “State Court Lawsuit”). The State Court Lawsuit asserted claims and causes of action related to plaintiffs’ alleged retention of Glen Burkhalter (“Burkhalter”) and Energy Fishing to deliver a fully-functioning salt water injection well to plaintiffs, and the defendants’ alleged wrongful actions and/or omissions related thereto. Energy Fishing, for its part, denied any wrongdoing and asserted, among other defenses, that Burkhalter was an independent contractor who was solely responsible for the project and that Energy Fishing only furnished tools and equipment for the same. Without admitting liability, and after extensive negotiations, the Debtor agreed to settle and release the alleged claims of the bankruptcy estate against Defendant Energy Fishing and Defendant Burkhalter in exchange for payment of \$155,000.00 by Energy Fishing to the estate. As of the date of filing this Combined Plan and Disclosure Statement, the Debtor’s Motion for Approval of Settlement and Compromise with the defendants is pending before the Court.

J. Operation of Business During this Bankruptcy. After the Petition Date, the Debtor continued to operate its business as a Debtor in Possession. The Debtor’s salt water disposal operations were significantly reduced throughout the Summer of 2016 when the Debtor’s primary customer, Approach Resources, reduced its deliveries of water to the Debtor. The Debtor also incurred certain charges to Vision Exploration and other well service companies during the course of this bankruptcy proceeding for well service and maintenance totaling approximately \$44,302.25. These administrative expense claims were

subsequently paid by the Debtor upon entry of an Order by the Bankruptcy Court approving the same.

K. Tax Return Filing Deficiencies. During its existence, the Debtor wholly failed to prepare, much less file, any of its 1065, 940 and 941 tax returns. On April 5, 2017, the Court entered its Order approving the employment of the Robinson Burdette Martin & Seright, LLP accounting firm in Lubbock, Texas to correct these filing deficiencies. As of the date of filing this Combined Plan and Disclosure Statement, all of the Debtor’s delinquent returns have been prepared and filed by the estate’s accountant, or will soon be filed, with the IRS. At this time, it is estimated that the Debtor owes approximately \$80,527.86 in 941 tax liabilities, excluding any penalties and interest charges which may also be assessed by the IRS.

L. Funds Available for Disbursement. The Debtor’s bankruptcy estate received payment from the high bidder for the Debtor’s assets in the amount of \$325,000.00, as well as an additional payment of \$155,000.00 that is pending from the settlement of the State Court Lawsuit. The Debtor received permission, by Court order, to make certain disbursements from these proceeds during the course of this bankruptcy proceeding totaling \$227,746.28, to include the payment of the following: lease arrearage charge to Sims upon assignment of the lease (\$59,000.00), tax obligations to Crockett CAD and Texas Comptroller (\$24,963.69), commission to sales agents (\$32,500.00), charges and expenses to third-parties related to the well operations (\$44,302.25), fees and expenses of professionals hired by the estate (\$65,680.34) and U.S. Trustee quarterly disbursement charges per its guidelines (\$1,300.00). As of the date of filing this Combined Plan and Disclosure Statement, the estate anticipates having approximately \$252,253.72 to disburse to the estate’s creditors, including the IRS, and subject to the remaining costs of administration.

Summary of the Plan

To date, the Debtor has worked to wind-up its affairs and has liquidated all of its assets. The Debtor has designed this Plan to provide for an orderly disbursement of the proceeds of the Debtor’s assets to holders of allowed non-insider/non-affiliated unsecured claims and after payment in full of all allowed administrative claims and priority tax claims. The Plan protects and preserves the interests of the various types of creditors and provides for prompt and meaningful treatment of their claims, to the best of the Debtor’s ability to do so in accordance with the provisions of the Bankruptcy Code.

The Debtor believes that this Plan represents the best mechanism to obtain the highest and most prompt return to all creditors, and the Debtor strongly encourages all creditors to vote to accept the Plan.

The interested parties herein shall be dealt with by class as follows:

- no classification: Costs of Administration of this Case
- Class 1: Priority Tax Claimants
- Class 2-A: Non-Insider/Non-Affiliated Unsecured Creditors
- Class 2-B: Insider/Affiliated Unsecured Creditors
- Class 3: Holders of Membership Interests

ARTICLE 1
Costs of Administration

All costs of administration approved and allowed by the Court will be paid in full, the later of the date that an Order is entered by the Court approving the claimant's fee application or thirty (30) days following confirmation. Parties can object to fee applications if they so desire.

The fees of McWhorter, Cobb & Johnson, LLP ("MCJ"), the attorneys representing the Debtor in this case, are anticipated to total approximately \$115,000.00. The Court has approved payments of \$92,885.89 to Debtor's counsel pursuant to interim fee applications filed by Debtor's counsel to date, including the application of a \$25,000.00 retainer that was given to MCJ on behalf of the Debtor prior to the Petition Date.

Robinson Burdette Martin & Seright, LLP of Lubbock, Texas is the accounting firm representing the Debtor in this case. It is anticipated that the fees and expenses of this firm will be approximately \$5,000.00 All fees and expenses will be submitted to the Court for approval at the conclusion of the case.

John Howell is the special litigation counsel that was retained by the Debtor's estate to assist with the prosecution of the State Court Lawsuit. It is anticipated that his fees and expenses will be approximately \$10,000.00. All fees and expenses will be submitted to the Court for approval at the conclusion of the case.

ARTICLE 2
Class 1: Priority Tax Claimants - Unimpaired

Priority tax claims owed to the Internal Revenue Service and the Texas Workforce Commission are estimated to be \$80,527.86 and \$385.93, respectively. Claimants will be paid in full either on the Effective Date of the Plan or the date upon which such tax claims become allowed, whichever is later. Each holder of a tax claim will be paid in full for the period set forth in this Plan.

ARTICLE 3
Class 2-A: Non-Insider/Non-Affiliated Unsecured Creditors - Impaired

Class 2-A represents unsecured creditors that are non-insider/non-affiliated creditors of the Debtor. Class 2-A creditors will be paid on their claims, as allowed by the Court, as follows:

Non-insider/non-affiliated unsecured creditors will be paid a pro rata share of all remaining cash generated by the collection of funds from all sources. Remaining cash here means the funds left after payment in full of administrative costs and priority tax claimants described in this Plan, and includes both pre- and post-Plan confirmation costs ("Remaining Cash"). Based upon the total proceeds of the Debtor's assets collected to date and taking into account the estimated amount of administrative and other claims to be paid in full under the terms of this Plan, the Debtor estimates payment of a total dividend of approximately ten percent (10%) to thirteen percent (13%) on all allowed non-insider/non-affiliated creditors unsecured claims. This estimated dividend is a projection based upon the best information available to the Debtor at this time and assumes that the Internal Revenue Service will waive all penalties and interests associated with its claim. It is in no way a guaranty of the amount of the total disbursement to the holders of allowed unsecured claims, nor should this projection be relied upon by a creditor in its decision on whether or not to vote for this Plan. All allowed non-insider/non-affiliated unsecured claims, both disputed and undisputed, are listed on the attached Exhibit "A." The Debtor reserves the right to object to the allowance of any

creditor's claim in this bankruptcy proceeding.

Upon confirmation of the Plan, such funds will be paid from the Remaining Cash within thirty (30) days after all disputed claims of any non-insider/non-affiliated unsecured creditor, if any, have been resolved.

No interest will be paid on Class 2-A unsecured claims.

Class 2-B: Insider/Affiliated Unsecured Creditors - Impaired

Class 2-B represents insider or affiliate claims. Said insider or affiliate claimants consist primarily of entities wholly owned and managed by the Debtor's members, namely, FJM Texas Gold Transport, LLC, and/or are the individual members themselves, including Felix Venegas. Said parties are identified on the Debtor's Amended Schedule F and on the attached Exhibit "A". Such claims, which total approximately \$1,050,000, will be paid only after all administrative claimants, priority tax claimants, and the non-insider/non-affiliated creditors are paid in full. The Debtor does not anticipate that there will be any funds available for Class 2-B claimants and therefore they are unimpaired.

ARTICLE 3

Class 3: Holders of Membership Interests - Unimpaired

There will not be any funds available to make a distribution(s) to the members of the Debtor. On the Effective Date, without further action, the interests of the members of the Debtor shall be deemed cancelled, terminated, extinguished and void.

ARTICLE 4

Miscellaneous Provisions

A. Creditors Have the Right to Vote on the Plan.

After reading this plan and disclosure statement, creditors will have the right to vote on whether the Bankruptcy Court should "confirm" the Debtor's plan. Each creditor should read this Combined Plan and Disclosure Statement carefully, discuss it with a lawyer, and then fill out the ballot that will be provided. The Debtor's lawyer will assemble the ballots and report to the Bankruptcy Judge on _____, 2017 at ____ p.m. at 1205 Texas Avenue, Lubbock, Texas 79401 At that time the Court will conduct the "Confirmation Hearing" in this case and decide whether to "confirm" the plan.

B. Creditors Also Have the Right to Object to this Disclosure Statement and Creditors Have the Right to Object to Confirmation of the Plan.

If a Creditor believes that this Combined Plan and Disclosure Statement does not contain sufficient information to decide whether to vote for (or against) the Debtor's plan, the creditor may file a written objection with the Bankruptcy Court. If a creditor believes that the plan does not meet the requirements of the Bankruptcy Code, the Creditor may file a written objection with the Bankruptcy Court. The deadline for objections to confirmation of the plan has been set by the Court as: _____, 2017.

C. The Court May Approve the Debtor's Plan and Limit Creditors' Legal Rights.

The Court will consider only the written objections to confirmation of the Plan that are timely filed and the ballots that are timely filed. If no objections are filed (or if all objections are overruled by the Court)

and if at least one class of creditors accepts the plan, the Court may approve the Plan. If the Court approves the plan, all creditors will be bound, even if a creditor did not vote and even if a creditor voted against the plan. This means that a creditor will not be allowed to collect its claim against the debtor except as provided in this Plan.

D. How Does a Class "Accept" the Plan?

Each class is considered separately. Only the creditors who vote are counted. The Court will conclude that the class "accepts" the plan if two requirements are met:

1. More than 50% of the voting creditors vote in favor of the plan; and
2. Those creditors voting in favor of the plan hold at least 2/3 of the total amount of debt that is voted.

E. What to Do for More Information?

Creditors should talk with a lawyer about their rights and responsibilities in this case. Creditors should have their lawyers call the lawyer for the Debtor. The Debtor's lawyer is:

Todd J. Johnston; SBN: 24050837
McWhorter, Cobb & Johnson, LLP
P.O. Box 2547
Lubbock, Texas 79408
(806) 762-0214; fax: (806) 762-8014

If a creditor does not have a lawyer but still wants more information, that creditor can call the Debtor's lawyer directly. HOWEVER, REMEMBER THAT THE DEBTOR'S LAWYER CANNOT GIVE CREDITORS LEGAL OR FINANCIAL ADVICE BECAUSE DEBTOR'S LAWYER REPRESENTS THE DEBTOR, NOT CREDITORS.

F. Are There Any Tax Effects of This Plan?

1. The Debtor does not believe that this Plan creates any special tax consequences.
- 2.. Tax Effects to Creditors: creditors should consult with their own tax advisor.

G. Debtor's Obligation to the U.S. Trustee

During the pendency of this bankruptcy case, the Debtor will comply with all regulations promulgated by the Office of the U.S. Trustee, including remaining current on all quarterly fees assessed against the estate by the U.S. Trustee.

**ARTICLE 8
Retention of Jurisdiction**

The Court shall retain jurisdiction of this case pursuant to the provisions of Chapter 11 of the Bankruptcy Code until the final allowance or disallowance of all claims and final determination with respect to all matters, including the following:

1. To enable the Debtor to consummate any and all proceedings that they may bring to set aside liens or encumbrances to determine the validity, extent and enforceability of any lien or to recover any preferences, transfer, assets or damages to which it may be entitled under applicable provisions of the Bankruptcy Code or other federal, state, or local law. Specifically, the Debtor shall be authorized before or after confirmation to bring any action against any party arising before or after confirmation;

2. To adjudicate all controversies concerning the classification or allowance or reconsideration of allowances of any claim or any security interest, including without limitation, to liquidate claims in connection with any disputed, contingent or unliquidated claims;

3. To hear and determine all claims arising from the rejection or assumption of any executory contracts, including leases and to consummate the rejection and determination thereof;

4. To adjudicate all claims to a security or ownership interest in any of the debtor's property or any proceeds thereof;

5. To adjudicate all claims or controversies arising out of any purchases, sales, or contracts made or undertaken by the Debtor during the pendency of the proceedings;

6. To recover all assets and properties of the Debtor wherever located;

7. To adjudicate all claims pertaining to preferences and fraudulent transfers;

8. To determine the reasonableness of and make any award for administrative expenses, including attorney's fees applied for before or after the plan confirmation date, and to provide for payment thereof; and

9. Additionally, the Court shall retain exclusive jurisdiction in the future for the purpose of determining whether or not a default has occurred and for the purpose of granting any remedy to any creditor hereunder which is authorized by the Bankruptcy Code.

ARTICLE 9
Plan Vote

The Debtor asks that Creditors vote in favor of the Debtor's Plan because it will allow the Debtor to quickly pay Creditors as much as possible on their claims.

REMEMBER THAT THE DEADLINE FOR BALLOTS IS _____, 2017. Mail your ballot to:

Todd J. Johnston; SBN: 24050837
McWhorter, Cobb & Johnson, LLP
P.O. Box 2547
Lubbock, Texas 79408
(806) 762-0214; fax: (806) 762-8014

DATED: July 7, 2017

Respectfully submitted,

MCWHORTER, COBB & JOHNSON, LLP
P.O. Box 2547
Lubbock, Texas 79408
(806) 762-0214; fax: (806) 762-8014

By: /s/ Todd J. Johnston
Todd J. Johnston
Texas State Bar No. 24050837
Attorneys for the Debtor

Approved:

Felix Venegas,
Court Appointed Representative of
the Debtor

/s/ Felix Venegas
Felix Venegas

CERTIFICATE OF SERVICE

I hereby certify that on this 7th day of July, 2017 a true and correct copy of the foregoing *Combined Plan and Disclosure Statement* was served upon the following listed parties either by enabled electronic filing or via first class United States mail.

1. U. S. Trustee's Office
RM 976, 1100 Commerce Street
Dallas, Texas 75242
2. All parties in interest registered with the
the U. S. Bankruptcy Court to receive
electronic notices in this case.

/s/ Todd J. Johnston
Todd J. Johnston

Notice of the filing of the Combined Plan and Disclosure Statement will be sent out to all parties instructing them that copies will be provided upon request. Once the disclosure statement is approved, the Combined Plan and Disclosure Statement will be noticed to the above parties and sent out, by mail, to all parties listed on the Debtor's mailing matrix.