

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION

In re: § Case No. 16-30992  
American National Carbide Co § Chapter 11  
Debtor. §

**DISCLOSURE STATEMENT**  
**TO ACCOMPANY DEBTORS' PLAN OF REORGANIZATION**  
**DATED August 26, 2016.**

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**I. INTRODUCTION**

This is the disclosure statement (the "Disclosure Statement") in the chapter 11 case of American National Carbide Co (the “Debtor” or “ANC”). This Disclosure Statement contains information about the Debtor and describes its Plan of Reorganization (the "Plan") filed by the Debtor simultaneously with this Disclosure Statement. A full copy of the Plan is attached to this Disclosure Statement as **Exhibit A**.

***Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.***

***If there are any inconsistencies between this Disclosure Statement and the Plan, the Plan will Control.***

The proposed distributions under the Plan are discussed at pages 10-16 of this Disclosure Statement. General unsecured creditors are classified in Class 4, and will receive a Promissory Note for 100% of each allowed claim payable over 72 months at the Prime Rate of Interest on the confirmation date, currently, 3.0% interest.

**A. Purpose of This Document**

This Disclosure Statement describes:

- The Debtors and significant events during the bankruptcy case;
- How the Plan proposes to treat claims or equity interests of the type you hold (i.e., what you will receive on your claim or equity interest if the plan is confirmed);

- Who can vote on or object to the Plan;
- What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Plan;
- Why the Debtors believe that the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation; and
- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

## **B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

### **1. Time and Place of the Hearing to Confirm the Plan**

The hearing at which the Court will determine whether to confirm the Plan will take place on \_\_\_\_\_, at \_\_\_\_\_ am/pm, in Courtroom 400, at the Bob Casey Federal Courthouse, 515 Rusk, Houston, Texas 77002.

### **2. Deadline For Voting to Accept or Reject the Plan**

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot in the enclosed envelope to:

ANC c/o Donald Wyatt  
Law Offices of Donald L Wyatt Jr, PC  
26418 Oakridge Drive  
The Woodlands, TX 77380

Alternatively, ballots may be returned as .pdf files electronically by the same date and time by email to:

[ANCballots@wyattpc.com](mailto:ANCballots@wyattpc.com)

All ballots must contain an original signature, or in the case of emailed ballots, an image of the signature of the Claim Holder who/which cast the vote. Paper ballots must contain the date and time that the ballot is cast.

Creditors may alter their vote anytime before the Deadline for Voting to Accept or Reject the Plan. Only the last ballot by any one creditor cast and timely received will be counted as the ballot for that Creditor's Claim(s) in any given. The sequence of receipt will be judged by method of transmission. Emailed ballots will be deemed to have been received on the date and at the time contained in the header of the email and generated by the sending device at the time that the email is sent. Paper ballots that are actually received on a timely basis will be judged by the

time and date stated on the ballot. Class. See section IV.A. below for a discussion of voting eligibility requirements.

**Your ballot must be received by \_\_\_\_\_, 2016 at \_\_\_\_: \_\_\_\_ AM/PM CDT or it will not be counted.**

### **3. Deadline For Objecting to Confirmation of the Plan**

Without respect to how you vote on the Plan, you may object to the Plan if you wish to assert that the Plan fails to meet the legal requirements for confirmation of a Plan for any reason. Objections to the Plan must be filed with the Court and served upon Debtor, Counsel for the Debtor, the U.S. Trustee, and other parties having filed a request for documents with the court by \_\_\_\_\_, 2016.

#### *4. Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact:

Donald L. Wyatt, Jr.  
26418 Oakridge Drive  
The Woodlands, TX 77380  
Telephone: (281) 419-8733  
don.wyatt@wyattpc.com  
Attorney for Debtor

### **C. Disclaimer**

**The Court has approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment concerning the terms of the Reorganization Plan. The Court has not yet determined whether the Plan meets the legal requirements for confirmation.**

## **II. BACKGROUND**

### **A. Description and History of the Debtors.**

American National Carbide Co., is a manufacturer of tungsten carbide products. Tungsten carbides comprise the cutting and wear components of tools, such as index able tooling for metalworking operations and rotating down hole tools for the rock drilling industry, that cause the removal of material from a surface being acted upon or to protect a particular surface from wear. Tungsten carbides are made in various shapes and with various components and characteristics depending on the needs of the customer. These products are sold across a wide range of buyers for application to a wide range of markets. The company sells products at three stages of development, raw materials, which include recycled materials, carbide grade powder, and finished carbides as explained above. Roughly 80% of company sales are in finished carbides.



The company has been in business for over 45 years. The Company was founded in Houston and later moved to its present location site in Tomball Texas. The company is housed in offices and factory buildings and has numerous furnaces, metal working tools, presses, and other tools and machinery all used in taking raw tungsten carbide materials and turning them into finished product.

During 2012 the company had grown to a point where it was obtaining and fulfilling sales of over \$6.5 mm per annum. Its Founder, Mr. Donald Stroud, his daughter, and his son, managed the firm. In 2012 the company expanded its factory and added reclamation capacity making it one of the few tungsten carbide producers capable of recycling scrap carbides into useable carbide powder for use in place of mined carbide powders or sale directly to the market.

The company utilizes a payroll service that embargoes tax deposits and handles workers compensation, unemployment compensation and federal withholding and federal and state reporting. The company does not maintain a qualified pension plan but does maintain a qualified health plan. As of the date of filing all payments and payments over of premiums due under the health plan were current.

#### **B. Insiders of the Debtor**

The Debtor is a closely held Texas Corporation. Its shareholders/insiders are all members of the Stroud family. Greg Stroud is a shareholder, director and the President of the Company. Donald Stroud is an insider and currently holds no office. Melissa Stroud is Greg's wife. She works for the company part time as needed in sales and is paid on the same basis as the other members of the same department. Pamela J. Smith is Donald Stroud's daughter and is a shareholder but holds no office and is not employed by the company and this time. Donald Stroud is a guarantor of obligations to secured creditors including, without limitation, Comerica Bank. Gregory Stroud is a guarantor of the obligations to Swift Financial. The Plan leaves unimpaired the rights of creditors to pursue guarantors for payment on liabilities of the Debtor. Obviously, creditors can have only one recover of any given obligation.

#### **C. Management of the Debtor Before and During the Bankruptcy**

The Debtor is a corporation. Prior to the commencement date its was managed by a Board of Directors made up of Donald Stroud and his two children. Currently, the company has

a board of directors made up of Greg Stroud. Greg Stroud is the President of the Company. The Company has 4 vice president level positions in finance, sales, engineering and manufacturing. None of these positions are held by insiders.

#### **D. Events Leading to Chapter 11 Filing**

The company has a steady demand for its products but has not been able to meet that demand dependably for roughly the past 3 years. Company sales in the year before filing were \$3.8 mm. Unfulfilled demand was approximately 30% higher than the actual produced sales.

The company employed 36 workers at the time the case was commenced. In the past, the company has employed up to 75 people. The company's decline to Bankruptcy is entirely the result of poor management during the expansion of the factory facility and poor financial reporting resulting in late or in accurate decision making in response to cash flow difficulties.

Prior to adding the new reclamation facility, the management sought out liquidity and financing to purchase the equipment and for expansion of facilities. But, management did not accurately account for the variables in disruption, distraction, and dissipation of capital often associated with such a major project. The late receipt of two new furnace units and latent defects in those units hindered the company expansion. Rather than return to the market for additional cash facilities, the company controller attempted to bridge the gap by extending and delaying vendor payments.

This was complicated during 2014 when ANC was the victim of criminal embezzlement (for which the alleged perpetrator has been indicted). While the overall amount of unreimbursed loss was less than \$100,000, the resulting cash deficiency stretched vendor terms to unacceptable limits. The discovery of the embezzlement led to a general review of accounting controls. As a result, the company controller (Mr. Stroud's daughter) was found to have been completely unaware of the losses and was also found not generally competent to handle the accounting tasks for the company. During this process, Gregory Stroud, learned that the salary load for family members was well over \$300,000 per year. His father explained falling revenues on a lack of sales that resulted from a lack of cash to purchase materials. Without properly stated accounting reports, Mr. Stroud senior did not make the connection between overburdening the company with family salaries and a lack of cash flow. Further, without accurate reporting, management was unable to cognize the adverse balance sheet affects of involuntary borrowing from vendors. The company struggled to find liquidity under the mistaken belief that fixing liquidity would improve operations and cash flow. Under pressure from Gregory Stroud, his father and sister agreed to step down. Gregory Stroud has taken two separate pay cuts since he took over in his effort to produce positive EBITDA.

Gregory Stroud took over during the late fall of 2015. ANC hired a Certified Public Accountant as the Controller and she began a lengthy project of review and restatement to allow the company to produce accurate and reliable accounting reports. Over the past 6 months, the Controller has uncovered multiple discrepancies in the books of the corporation and has had to make substantial changes to the financial profile. As a result ANC now has accurate, reliable and timely accounting statements for the first time in decades.

The company has four primary secured creditors they are: Allegiance Bank, Comerica Bank, Spirit of Texas Bank, and Swift Financial. Allegiance Bank holds a first deed of Trust on the Real Estate of the company. Comerica Bank holds a first priority security position in the Accounts Receivable and Inventory of the company and a second priority position in the Real Estate of the company. This second priority position may be subject to challenge, but<sup>4</sup> Debtor takes the position that it is an encumbrance on the title to the Real Estate. Spirit of Texas Bank holds a purchase money security interest in specific equipment, and a floating security interest in all equipment and proceeds. Swift Financial has a security interest in accounts receivable and cash on deposit, if any, in the checking account of the company located at Allegiance Bank and a second position security interest in equipment. 3M corporation is asserting that it is the owner of a piece of equipment bought on terms a little more than a the year prior to ANC entering reorganization for which a sum is claimed due. The status of this claim is not clear at the date of this disclosure statement. However, the machine involved is integral to company operations and, accordingly, this Plan proposes to give this creditor secured status with collateral in that one machine.

Litigation, threatened litigation, a judgment, restricted access to materials, a slow down in payments/aging of receivables and an imminent real estate foreclosure caused the company to seek Chapter 11 protection. The company has priority obligations to ad valorem taxing authorities but no unfunded employment taxes, pension distributions or employment benefit plan payments.

#### **E. Significant Events During the Bankruptcy Case**

The Company has operated post petition under a series of Cash Collateral orders but without the need of a Debtor in Possession Loan. The company's collections have improved substantially due, in large part, to the disciplines put into effect by the new management team. In addition, management has reshaped the sales and production process producing sales at par or better and production at better throughput at a lower cost. The breakeven point of the operation has decreased from \$450,000 per month at commencement to \$260,000 per month during July 2016. The company seeks under its plan to reorganize its debt and continue operations with new methods and management yielding a better result.

The following is timetable of events that have occurred in the case itself. Readers are advised to review the docket of the case available to view and download from the United States Pacer Website at [www.pacer.gov](http://www.pacer.gov).

1	<i>Filed &amp; Entered:</i> 02/26/2016	Voluntary Petition (Chapter 11)
5	<i>Filed &amp; Entered:</i> 02/27/2016	Order Regarding the Exchange of Exhibits and Witness lists in all contested matters and adversary proceedings
30	<i>Filed &amp; Entered:</i> 03/01/2016	Generic Order INTERIM ORDER Granting Debtor's Motion Approving Pre-Petition Cash Management System.

31	<i>Filed &amp;</i>  <i>Entered:</i> 03/01/2016	Order on Motion to Pay – Emergency Motion for order Authorizing Payment of Pre-Petition Employee Benefits and Pre-Petition Priority Wage Claims
32	<i>Filed &amp; Entered:</i> 03/01/2016	Order Setting Hearing – Authorizing Debtor’s Motion to Use Cash Collateral on an Interim Basis.
49	<i>Filed &amp;</i>  <i>Entered:</i> 03/08/2016	Schedule A/B
49	<i>Filed &amp; Entered:</i> 03/08/2016	Schedule D - Creditors Holding Secured Claims
49	<i>Filed &amp; Entered:</i> 03/08/2016	Schedule E/F
49	<i>Filed &amp; Entered:</i> 03/08/2016	20 Largest Unsecured Creditors
50	<i>Filed &amp; Entered:</i> 03/08/2016	Amended Creditor Matrix (Fee)
61	<i>Filed &amp; Entered:</i> 03/11/2016	Order Setting Hearing – Order Granting Debtor’s Motion to Use Cash Collateral.
67	<i>Filed &amp;</i> <i>Entered:</i> 03/17/2016	Order on Application to Employ Counsel.
75	<i>Filed &amp;</i> <i>Entered:</i> 03/29/2016	Order on Emergency Motion – For Order to Permit Deposit of Funds at UPS to reinstate account.
	<i>Filed &amp;</i> <i>Entered:</i> 04/06/2016	Chapter 11 Meeting of Creditors Held
82	<i>Filed &amp;</i> 04/08/2016 <i>Entered:</i>	Notice of Appointment of Creditors' Committee
90	<i>Filed:</i> 04/12/2016 <i>Entered:</i> 04/13/2016	Order on Emergency Motion – Granting Application to Employ Zapata as Accountant.
91	<i>Filed:</i> 04/14/2016 <i>Entered:</i> 04/15/2016	Order on Motion for Adequate Protection – Agreed Order Granting Debtor’s Motion establishing adequate protection for Utilities.
105	<i>Filed:</i> 05/21/2016 <i>Entered:</i> 05/24/2016	Order on Application to Employ Okin and Adams as committee counsel.
106	<i>Filed:</i> 05/21/2016 <i>Entered:</i> 05/24/2016	Order on Motion to Assume Lease or Executory Contract Oasis Outsourcing.
107	<i>Filed:</i> 05/21/2016 <i>Entered:</i> 05/24/2016	Order on Motion to Assume Lease or Executory Contract Lease of Equipment DSS Leasing.



108	<i>Filed:</i> 05/21/2016 <i>Entered:</i> 05/24/2016	Generic Order – Authorizing closure of E Trade Account.
138	<i>Filed &amp; Entered:</i> 06/23/2016	Order on Emergency Motion – Extending period of Exclusivity.
143	<i>Filed &amp; Entered:</i> 06/28/2016	Order on Motion to Appear pro hac vice – Ryan Starns.
145	<i>Filed &amp; Entered:</i> 07/01/2016	Schedule A/B – Amended Schedules.
148	<i>Filed &amp; Entered:</i> 07/01/2016	Generic Order – Replenishment of Retainer authorized for Debtor’s counsel.
159	<i>Filed &amp; Entered:</i> 07/21/2016	Objection to Claim – KMB Corp.
173	<i>Filed &amp; Entered:</i> 08/24/2016	Order on Emergency Motion – Engagement of John Sellers as realtor.

In addition, shortly after entering reorganization, Debtor was approached by an asset based lender regarding a financing package with a facility to retire the notes with Allegiance Bank, Comerica Bank, Swift Financial and Spirit of Texas Bank. The parties exchanged confidential letters of intent and, pursuant to those letters, Debtor moved to employ appraisers to satisfy the appraisal contingencies. The Real Estate appraisal was returned at a very favorable figure of \$3,040,000. However, the next largest component of the collateral package, Equipment, was returned at approximately 1,000,000. This was less than 1/3 of the pre-petition valuation figure, less than 1/4 of the book value and significantly less than competing bids from Equipment re-seller/lenders contacted. This was undoubtedly due to the valuation parameter imposed on the Debtor by the Letter of Intent, which required orderly liquidation value as the valuation standard. The package was not subject to bifurcation and, accordingly, the Debtor was compelled to abandon that route of reorganization. Both Spirit of Texas Bank and the Debtor maintain that the Equipment package should be valued at a figure just in excess of \$3,000,000 for going concern purposes.

Debtor continues to seek alternative financing and has, under the Plan, reserved the right to pay out classes of creditors, arranged by collateral type, if substitute financing becomes available.

#### **F. Projected Recovery of Avoidable Transfers**

Chapter 5 of the Bankruptcy Code gives the Trustee (Debtor in Possession) in any case the right to pursue third parties who have received certain kinds of payments or transfers on account of antecedent debt within 90 days prior to the Debtor’s Bankruptcy filing. This 90 days is extended to one year for transfers made to insiders. Pages 78 to 81 of the Debtor’s Statement of Financial Affairs lists all payments made within 90 days to non-insiders in excess of \$6,255 and all payments made with 1 year to insiders other than salaries. The total of the 90 day disbursements is \$382,171.93. The total of one year disbursements is 16,097.97. As to the 90

day disbursements, those amounts were disbursed to secured creditors, vendors who would have a reclamation right, and critical vendors. As to the one year disbursements, these payments were made to family members in small amounts for which collection is doubtful.

**Therefore, the Debtor does not intend to pursue Chapter 5 causes of action that may appear to exist by reviewing the Debtor's schedules and statement of financial affairs. However, the Debtor's Plan provides that the Committee of Unsecured Creditors may act, in the place of the Debtor as Debtor in Possession, to prosecute claims arising pursuant to Chapter 5 of the Bankruptcy Code for the benefit of Class 4, the Unsecured Creditors.**

**By the Terms of the Plan the Debtor is relieved of the duty to pursue any and all Chapter 5 causes of action identifiable from the schedules and statement of financial affairs and will not, post confirmation, be required to pursue any such causes.**

#### **G. Claims Objections**

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article VI of the Plan.

#### **H. Current and Historical Financial Conditions**

The identity and fair market value of the estate's assets are listed in **Exhibit B**. Valuations are based on Debtors' opinion, tax valuations, and professional appraisals obtained during the administration of the case.

**Exhibit C** contains a reproduction of the Debtor's financial statements (unadjusted and as presented contemporaneously) for 2015, 2014, and 2013.

The most recent monthly financial reports filed since the commencement of the Debtors' bankruptcy case and the statements of management in the form of balance sheets and profit and loss statements are set forth in **Exhibit D**.

### **III. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS**

#### **A. What is the Purpose of the Plan of Reorganization?**

As required by the Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan. The Debtor enters bankruptcy with different types of creditor claims to contend with, secured, priority and unsecured non-priority.

Each of the Debtor's secured creditors holds a valid, perfected, and enforceable security interest in property of the Bankruptcy estate in either a first or second priority position in the collateral. All of the secured claims against any of the said collateral are less in total than the reasonable going concern value of the collateral. All of the claims against any of the collateral exceed the liquidation value of the collateral. Therefore, in a going concern sale of the Debtor's business the secured creditors should expect to be paid in full. Conversely, in a liquidation of the Debtor's business, none of the secured creditors are likely to receive payment in full against their claims.

In order to successfully reorganize, the Bankruptcy code requires that secured creditors be paid the full-allowed amount of their secured claims. If a claim is allowed in an amount less than the value of the collateral that secures that claim, then the creditor is also entitled to interest, fees and costs as called for in the underlying contract documents in addition to the face amount of the claim itself. This is called over secured. Conversely, if the allowed amount of a claim is greater than the amount of the value of the collateral that secures the claim, then the creditor cannot recover post petition interest, fees and costs and can only recover the amount of the claim itself. This is called under secured.

The Bankruptcy Code contemplates that the rights of secured creditors may be adjusted in the terms of a plan of reorganization but may only do so with the creditors' agreement or upon terms that pay the full allowed secured amount of the claim and provide the creditor with continued interests in collateral in an amount at least equal to the collateral that existed at the time the case was filed until the creditor is paid. The collateral may be the same, or different collateral, but must provide the creditor with the indubitable equivalent of their collateral interests.

The Bankruptcy Code provides that the value of the collateral is to be determined in light of the intended purposes for the collateral under the Plan. In other words, if the Plan contemplates an auction sale of the collateral, then the value used to determine the allowed secured claim of a creditor, and whether that creditor is over or under secured, is governed by the liquidation value of the collateral. If the collateral is going to continue to be used in the ongoing operations of the Debtor's company, then the value used to determine the allowed secured claim of a creditor is governed by the fair market, or going concern, value of the collateral. If the intended use of collateral is a sale, then the Creditor has the right to make a bid equal to the amount of its claim so that its interest is protected in the sale process.

Finally, Debtor's are permitted under the Bankruptcy Code to pay allowed secured claims over time in installments so long as the present value of the stream of payments equals or exceeds the allowed amount of the secured claim. This means that a Debtor can spread payments on an allowed secured claim out over time but, if the Plan makes such a provision, the Plan must provide for interest on the payment obligation. Payments can be by the way of installments, or issuance of new debt instruments calling for payments in the future, but any method chosen must provide the creditor with the full allowed amount of their secured claim at present value.

The Debtor's plan contemplates continued operation of the company with all assets retained in place and put to productive use or production of income. Therefore, each secured creditor is entitled to have their allowed secured claim determined based upon the fair market value or going concern value of the collateral. It is the Debtor's opinion, based upon valuation, appraisal, and negotiations and discussions undertaken during the Bankruptcy process, that the fair market value of all of Debtor's collateral exceeds the allowed secured claims of all secured creditors totaled. Therefore, the Debtor must pay the allowed secured claims of all secured creditors in full, or, in installments equal to the present value of each secured claim.

The Fifth Circuit Court of Appeals has recently held that when calculating an interest rate that would return the "present value" of a claim paid over time, the Courts are urged to apply the methodology enunciated by the United States Supreme Court in the Chapter 13 case of *Till v. SCS Credit Corp.* Under this methodology, the Court is to begin with the Prime Rate as found in a national publication such as the *Wall Street Journal* and then add to that rate of interest an additional amount of interest, generally 2 to 4 points of interest, that represents the time value of the money and the risk factors inherent in delaying the receipt by the creditor of the funds to which it is entitled. This area of the law has received great attention over the past few years and continues to develop. It is not settled law with firm rules.

The Debtor's Plan contemplates paying each of its secured creditors, classified in classes of their own, over a specific term, and at specific rates, that the Debtor asserts will preserve the ongoing integrity of the operation, provide adequate assurance of collateralization of each new payment obligation, and return the present value of the allowed secured claim of each secured creditor at the applicable Till rate. The Debtor has used a starting figure of 4.5% per annum as the applicable Till rate. This is based on the assertion that all four secured creditors, as well as the taxing authorities, are over secured with collateral that could be sold in a robust market for sufficient amounts to pay claims. The collateral is not subject to spoilage or uninsured casualty loss. Finally, the collateral is not in danger of becoming obsolete or non-marketable. Therefore, the risk of loss attendant to delay in payment is minimal.

However, the Plan provides a mechanism whereby each creditor may ask the Bankruptcy Court to determine the applicable Till rate to apply to each secured claim. Since the collateral involved namely, improved real estate, accounts receivables, industrial equipment, and inventories are each different, the Till rate could conceptually be different as determined by the Court. The Debtor has reserved the right to amend the terms of the Plan to adjust the Till rate in agreement with any particular secured creditor in order to avoid the cost of litigating the applicable rate. Any rate agreed to between the Debtor and a secured creditor not exceeding the non-default rate may be submitted with a final Plan for confirmation without republication to all creditors and without obtaining new ballots or giving creditors a new obligation to object to the rate so fixed.

Readers of this Disclosure Statement and the projections attached hereto should be cautioned that adjustments to applicable Till rates under the terms of the Plan may cause the actual performance of the Debtor to differ from the projections as stated herein. Readers should consult their own attorneys or financial experts to determine if the variables possible under the Till rate provisions of the Plan cause the Plan to lose feasibility or if adjusted rates impair the

feasibility of the Plan. The Debtor asserts that these variables occurring within applicable legal parameters do not affect the feasibility of the Plan.

## B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Plan Proponent has *not* placed the following claims in any class:

### 1. Administrative Expenses

Administrative expenses are costs or expenses of administering the Debtors' chapter 11 case, which are allowed under § 503(b) and 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtors in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment. The Plan refers to these claims in Classes 1 and 2 of the Plan in order to clarify the priority of payment as funds are received and distributed. The nature or priority of the claims is not recast by this treatment in the Plan.

The following chart lists the Debtors' estimated administrative expenses and their proposed treatment under the Plan:

<b>Type</b>	<b>Estimated Amount Owed</b>	<b>Proposed Treatment</b>
Attorneys' Fees – Debtor Counsel – estimated.	\$40,000.00	Law Offices of Donald L Wyatt Jr PC (the “Law Firm”) has agreed that any allowed but unpaid fees as of the effective date may be paid by the Debtors in the first instance out of the funds received by Debtors' counsel during administration of this case pursuant to local rule, and then to the extent that this payment does not fully pay the allowed amount due, the Law Firm has agreed to accept payments over the course of no more than 24 months with 0 percent interest in even monthly installments
Vendor payments incurred and accrued post petition but outstanding on the effective date of the Plan.	\$79,222	Accounts payable other than fees to attorneys for the debtor and attorneys for the Committee of Unsecured Creditors will be paid according to the terms of payment entered into between

		the vendor and the debtor post petition.
Attorney's Fees – Committee Counsel – estimated.	\$35,000.00	Payment in full at the effective date.
<b>TOTAL</b>	<b>\$134,000.00</b>	

## 2. Priority Tax Claims

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

The following chart lists the Debtors' estimated § 507(a)(8) priority tax claims and their proposed treatment under the Plan:

<b>Description (name and type of tax)</b>	<b>Estimated Amount Owed</b>	<b>Treatment</b>
Harris County et al- Property Taxes for 2015 through the date of filing	\$498,453	Debtors will pay allowed outstanding amounts in installments over a total of 60 months counting from the month of commencement of the case together with interest as defined under state law, currently, 12.5% per annum.

## C. Classes of Claims and Equity Interests

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

### 1. Classes of Secured Claims

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under § 506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured Class 4 claim.

The following chart lists all classes containing Debtors' secured prepetition claims and their proposed treatment under the Plan:

<b>Class #</b>	<b>Description</b>	<b>Insider? (Yes or</b>	<b>Impairment</b>	<b>Treatment</b>
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		No)		
3A	<p><i>Secured claim of:</i> Allegiance Bank</p> <p>Collateral Description = 915 S. Cherry Street, Tomball, Texas</p> <p>Allowed Secured Amount = \$1,390,222</p> <p>Priority of Lien = 1</p>	No	Impaired	<p>\$1,360,299</p> <p>Monthly Pmt = \$15,963.10 Pmts Begin = 1/1/2017 (approx.)</p> <p>Pmts End = 12/1/2026 (approx.)</p> <p>Interest rate % = 4.25%</p> <p>Treatment of Lien = First Priority Lien in Real Estate continued in force.</p>
3B	<p><i>Secured claim of:</i> Comerica Bank</p> <p>Collateral Description = Cash Collateral including Cash, Accounts, Accounts Receivables, and inventory as well as a second position in the equity of 915 S. Cherry Street, Tomball, Texas</p> <p>Allowed Secured Amount = \$779,345</p> <p>Priority of Lien = 1, 2</p>	No	Impaired	<p>\$779,345</p> <p>Monthly Pmt = \$12,382</p> <p>Pmts Begin = 1/1/2017 (approx.)</p> <p>Pmts End = 12/1/2022 (approx.)</p> <p>Interest rate % = 4.25%</p> <p>Treatment of Lien Continued in effect modified only as to payment terms and allowance of non- ordinary course sales within defined borrowing base parameters, see plan.</p>
3C	<p><i>Secured claim of:</i> Spirit of Texas Bank</p> <p>Collateral Description = Equipment and proceeds thereof.</p> <p>Allowed Secured Amount</p>	No	Impaired	<p>\$2,353,383</p> <p>CURE NOTE Monthly Pmt = \$3,727</p> <p>Pmts Begin = 1/1/2017 (approx.)</p>

	<p>= \$2,392,222</p> <p>Priority of Lien = 1</p>			<p>Pmts End = 12/1/2022 (approx.)</p> <p>Interest rate % = 6.75%</p> <p>REINSTATED NOTES</p> <p>Monthly Pmt = \$23,622</p> <p>Pmts Begin = 1/1/2017 (approx.)</p> <p>Pmts End = 12/1/2025 (approx.)</p> <p>Interest rate % = 6.75%</p> <p>Treatment of Lien = Note and Security Agreement to be executed to cure pre-petition default and reinstate original payment obligations. Total of original and cure note will equal Allowed Secured Claim.</p>
3D	<p><i>Secured claim of:</i> Swift Financial Corp</p> <p>Collateral Description = Accounts Receivable and Equipment</p> <p>Allowed Secured Amount = \$78,292</p> <p>Priority of Lien = A/R – 2, Equipment – 2.</p>	No	Impaired	<p>\$78,053</p> <p>Monthly Pmt = \$1,230</p> <p>Pmts Begin = 1/1/2017 (approx.)</p> <p>Pmts End = 12/1/2022 (approx.)</p> <p>Interest rate % = 4.25.%</p> <p>Treatment of Lien = Continued in effect modified only as to payment terms, see plan.</p>
3E	<i>Secured claim of:</i>	No	Impaired	\$408,162



	3M Corporation  Collateral Description = One 3M sanding machine, Tomball, Texas  Allowed Secured Amount = \$400,222  Priority of Lien = PMSI. If any.		Monthly Pmt = \$6,803  Pmts Begin = 1/1/2017 (approx.)  Pmts End = 12/1/2021  Interest rate % = 0.0%  Treatment of Lien = Lien to be perfected and documented by newly issued security agreement and note.
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**2. Classes of Priority Unsecured Claims**

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

**THERE ARE NO CLASSES OF PRIORITY UNSECURED CLAIMS IN THIS CASE AND THE PLAN HAS NO SUCH PROVISIONS.**

**3. Classes of General Unsecured Claims**

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code. This class includes claims that result from the bifurcation of claims held by creditor's with a security interest in property in which the estate has an interest but which exceed in amount the value of the estate's interest in said property. There is one Class of unsecured claims in the Plan, Class 4.

The following chart identifies the Plan's proposed treatment of Class 4 that contains general unsecured claims against the Debtor:

General Unsecured Class: 4

Class #	Description	Impairment	Treatment
4	Allowed claims of general unsecured creditors	Impaired, treated in accord with 11 U.S.C. § 1129(a)(7).	Holders will receive a promissory Note issued by the Reorganized Debtor for the allowed amount of their claim. The terms of the Note and form of the Note are attached to the Plan as exhibit I. The Note

			<p>provides for payment of the principal balance together with interest at the Prime rate as published by the Wall Street Journal on the effective date of the Plan amortized over a term of 72 months. ["Class 4 Notes"]. The first payments under the notes so issued shall be made by the reorganized debtor no later than 120 days from the effective date and shall continue thereafter under the terms of the notes for 72 months. The Notes shall provide for no pre-payment penalty. The Plan provides that Debtor may make no payment to a holder of a Class 4 Note faster than any other Class 4 holder without the consent of the Holders of all Class 4 Notes.</p>
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#### 4. Class of Equity Interest Holders

Equity interest holders are parties who hold an ownership interest (i.e., equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company ("LLC"), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

Under the Plan, all stock outstanding as of the Commencement Date of the Plan will be cancelled by operation of the confirmation of the Plan. The Debtor's management shall issue new shares of stock in the corporation so that the total outstanding shares of stock in the corporation after the effective date of the Plan shall be held 100% by Gregory Stroud. The Plan provides that no new or additional shares shall be issued to any person after the effective date until and unless all obligations under the Plan have been satisfied and all obligations created under instruments issued under the plan have been paid in full or otherwise released by agreement of the parties thereto. The Plan provides that Mr. Stroud may not sell, transfer, hypothecate or otherwise alienate those shares until and unless all obligations created by the Plan and all obligations created by virtue of instruments issued under the terms of this plan have been satisfied in full.

#### D. Absolute Priority Rule

In the event that at least one impaired class of creditors does not accept the Plan, the Debtor will seek “Cram Down” of the Plan over all creditors. In such an event, the Debtor must establish that the holder of any claim or interest that is junior to the claims of the non-accepting class will not receive or retain under the Plan on account of such junior claim or interest any property. This is known as the Absolute Priority Rule. The Plan does not violate the Absolute Priority Rule because all secured claims are being paid in full, and while the Debtor’s unsecured creditors remain unpaid, no junior class (i.e., the shareholders of the debtor) will receive any property from the Estate under the Plan.

## **E. Means of Implementing the Plan**

### **1. Source of Payments**

The Debtor has operated for 7 months post petition without the need for Debtor in Possession financing by collecting neglected accounts receivables and fulfilling ongoing orders for products. The Debtors projections of its operations over the period of time during which the notes issued hereunder will remain unpaid is attached as **Exhibit G**. Changes in Debtors business methods and manufacturing practices have resulted in significant efficiencies. Debtor has become a small, more profitable company. Debtor proposes to devote its earnings over the coming 72 months to retirement of 100% of its pre petition liabilities at present value.

## **F. Risk Factors**

The proposed Plan has the following risks:

As with any ongoing enterprise, the Debtor’s operations, which are the initial source of claim payment, are subject to the vicissitudes of marketplace and general economics. Debtor asserts in good faith that the efforts of Management during the course of administration to correct financial reporting, streamline operations, and re-invigorate sales have yielded a business poised to operate into the future. Moreover, Debtor’s product continues to be in high demand as operations that remove material and protect operating components are pervasively used across all industries. Until such time as effective technologies are developed that can compete as cost effective with the Debtor’s product line, demand for Debtor’s products will continue into the future.

During administration the Company has transitioned from a personality based family business fraught with legacy issues and methodologies to a fully integrated stand alone business. The corporation could be managed by any competent executive team with familiarity with the product, vendor pool, customer base, and manufacturing methods. At present, that means that if Mr. Greg Stroud were hit by a bus it is likely that the company would survive his demise while unsecured creditors remain unpaid. The Plan encompasses a requirement that management purchase and maintain a policy of life insurance for the term of the Plan sufficient to retire all Plan generated indebtedness in the event of Mr. Stroud’s untimely demise.

## **G. Executory Contracts and Unexpired Leases**

The Plan, in Article V, lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any. Article V also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults.

If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Court has set an earlier time.

All executory contracts and unexpired leases that are not listed in Article V will be rejected under the Plan. Consult your advisor or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

***The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of a Lease or Contract is 30 days after the date of confirmation.*** Any claim based on the rejection of a contract or lease will be time barred if the proof of claim is not timely filed, unless the Court orders otherwise.

#### **H. Tax Consequences of Plan**

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

The Estate of the Debtor will incur neither a capital gain nor loss due to the implementation of the Plan.

The Debtor will not recognize any income to the extent of forgiveness of debt under this Plan.

Creditors may have reportable income to the extent that they actually receive distributions under the terms of this Plan. Each creditor, and each class of creditors, may have differing tax treatment based on factors not within the ambit of this Plan or Disclosure Statement. All interested parties are urged to consult their own tax advisors with respect to their tax treatment under the terms of this Plan.

#### **IV. CONFIRMATION REQUIREMENTS AND PROCEDURES**

To be confirmable, the Plan must meet the requirements listed in § 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must

distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

**A. Who May Vote or Object**

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that classes 3A, 3B, 3C, 3D, 3E, 4, and 5 are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that classes 1 and 2 are unimpaired and that holders of claims or interests in each of these classes, therefore, do not have the right to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules without an indication that the claim as scheduled is disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest. If a claim is listed as disputed, contingent, or unliquidated, a creditor or equity interest holder must file a proof of claim in order to have the claim allowed. If an objection is filed to any listed claim, or to any filed proof of claim, the claim is considered disallowed until it is then allowed by action of the court. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or estimation the claim for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot receive a distribution under the terms of the Plan unless the Court, after notice and hearing, overrules the objection and fixes the validity and amount of the claim in US Dollars.

***The deadline for filing a proof of claim for Non Governmental Entities in this case was July 5, 2016 and August 26, 2016 for governmental creditors.***

***The deadline for filing objections to claims is sixty (60) days after the Effective Date of the Plan.***

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class in any way.

3. *Who is Not Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;
- holders of other claims or equity interests that are not "allowed claims" or "allowed equity interests" (as discussed above), unless they have been "allowed" by estimation for voting purposes.
- holders of claims or equity interests in unimpaired classes;
- holders of claims entitled to priority pursuant to § 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interest in classes that do not receive or retain any value under the Plan;
- administrative expenses.

**Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan.**

4. **Who Can Vote in More Than One Class**

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

**B. Votes Necessary to Confirm the Plan**

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cram down" on non-accepting classes, as discussed later in Section B.2.

## 1. Votes Necessary for a Class to Accept the Plan

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan. Only those numbers of claim holders, and amounts of claims that are actually voted are counted in making this determination. Claim holders who do not vote at all do not affect this determination. If no holder of a claim in a class votes in the class then that class is deemed to have accepted the Plan. But, the Debtors must obtain the vote of at least one impaired class of claims in order to confirm a Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

## 2. Treatment of Non-accepting Classes

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds non-accepting classes is commonly referred to as a "cram down" plan. The Code allows the Plan to bind non-accepting classes of claims or equity interests if:

- (a) The Plan meets all the requirements for confirmation except the voting requirements of § 1129(a)(8), and
- (b) The Plan does not "discriminate unfairly," and,
- (c) The Plan is "fair and equitable" toward each impaired class that has not voted to accept the Plan.

***You should consult your own attorney if a "cramdown" confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.***

## C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. A liquidation analysis is attached to this Disclosure Statement as **Exhibit E**. Under the Liquidation Analysis funds will be available for unsecured classes of claims. But, the amounts which could be distributed would be significantly less than the return proffered by the Debtor in the Plan. In addition, the costs associated with liquidation, the fees and commissions due, and the possibility of an unfavorable outcome all favor this Plan of Reorganization over liquidation. There is, therefore, no class of creditors or individual claimants that would benefit from liquidation in Chapter 7, as opposed to confirmation of this Plan.

## D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to

the Debtors, unless such liquidation or reorganization is proposed in the Plan.

**1. Ability to Initially Fund Plan**

The Plan Proponent believes that the Debtors will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date. Tables showing the amount of cash on hand on the effective date of the Plan, and the sources of that cash are attached to this disclosure statement as **Exhibit F**.

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

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments.

The Plan Proponent has provided projected financial information for the term of the 72 months during which Notes issued under the Plan will be unpaid. Those projections are listed in **Exhibit G**. These projections are reasonable based upon the Debtor's experience in the industry and performance post petition during administration of the case.

*You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections.*

**V. EFFECT OF CONFIRMATION OF PLAN**

**A. DISCHARGE OF DEBTOR**

Discharge. Confirmation of the Plan in a Chapter 11 case acts as a discharge of any debt provided for in the Plan. The Terms of a Confirmed Plan will bind all creditors of the Debtor under the Code. No creditor will be permitted to collect any amount or take any action against the Debtor or its property, except as specifically permitted under the Plan, documents issued pursuant to the Plan or by further court order.

**B. Modification of Plan**

The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or re-voting on the Plan if modifications are prejudicial to any party in interest.

**C. Final Decree**

From and after the Effective Date of the Plan, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Plan Proponent, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain an order to



close the case. Prior to obtaining such an order, the Debtors remain fully responsible for filing Monthly Financial Reports and paying fees to the United States Trustee under 28 USC § 1930. A case closure order shall terminate the obligation of the Debtors to make payments to the United States Trustee under 28 USC § 1930. Alternatively, the Court may enter such a final decree on its own motion.

**D. Default or Breach of Plan**

On the Effective Date, all property of the Debtor shall vest in Reorganized Debtor free and clear of all liens, claims interests, and charges arising on or before the confirmation of the Plan, except as provided in this Plan or in the confirmation order, on the condition that the Reorganized Debtor comply with the terms of this Plan, including the performance of all terms of the Plan. If the Reorganized Debtors default in performing under the provisions of this Plan and these cases are converted to cases under chapter 7 prior to substantial consummation of this Plan, all property vested in the Reorganized Debtor and all subsequently acquired property owned as of, or after the conversion date, shall re-vest and constitute property of the bankruptcy estate in the converted case. Instruments issued pursuant to the provisions of the Plan are enforceable in any court of competent jurisdiction.

Dated: \_\_\_\_\_.

American National Carbide, Co.

\_\_\_\_\_  
by: Gregory Stroud

LAW OFFICES OF DONALD L WYATT JR, PC

/s/ Don Wyatt\_\_\_\_\_

By: Donald L. Wyatt, Jr.

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