

B25B (Official Form 25B) (12/08)

**United States Bankruptcy Court  
Southern District of Texas**

In re: R.E.S. Nation, LLC,  
Debtor

Case No. 16-34744

Small Business Case under Chapter 11

**DEBTOR R.E.S. NATION, LLC'S DISCLOSURE STATEMENT,  
DATED FEBRUARY 24, 2017**

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- Exhibit A: Copy of Proposed Plan
- Exhibit B: Identity and Value of Debtors' Assets
- Exhibit C: Prepetition Financial Statements
- Exhibit D: Summary of Post-petition Operating Reports
- Exhibit E: Liquidation Analysis
- Exhibit F: Cash On Hand on the Effective Date of the Plan
- Exhibit G: Projections of Cash Flow and Earnings Post-Confirmation

## I. INTRODUCTION

This is the disclosure statement (the "Disclosure Statement") in the small business chapter 11 case of R.E.S. Nation, LLC (the "Debtor"). This Disclosure Statement contains information about the Debtor and describes the Plan of Reorganization (the "Plan") filed by the Debtor on February 24, 2017. 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.

The proposed distributions under the Plan are discussed at pages 10 through 12 of this Disclosure Statement. Unsecured trade creditors are classified in Class 3, and will receive a distribution of 100% of their allowed claims, to be distributed as follows: After satisfaction of all priority and administrative expense claims (other than priority tax claims), the Debtor make payments monthly into a reserve account. An independent disbursing agent will make payments quarterly from the reserve account to unsecured creditors pro rata until their claims are paid in full. In any event, the claims will be satisfied in full on or before the tenth anniversary of the Effective Date.

The largest claims against the Debtor are the claims of retail energy providers ("REPs"), all of which the Debtor disputes. However, to resolve all of the ongoing litigation against the Debtor and to provide the Debtor a path forward, the Plan will settle and compromise the claims of REPs by allowing them at 40% of the amount alleged, and paying them 100% of this allowed amount, to be paid under the same distribution plan as Class 3 creditors. The REP Claims are classified in Class 4.

### A. Purpose of This Document

This Disclosure Statement describes:

- The Debtor 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 Debtor believes 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.

This Disclosure Statement includes the following exhibits, which are a material part of

this Disclosure Statement:

- Exhibit A: Proposed Plan
- Exhibit B: Fair Market Value of Debtor's Assets
- Exhibit C: Debtor's and UFS Financial Statements
- Exhibit D: Summary of Monthly Operating Reports
- Exhibit E: Liquidation Analysis
- Exhibit F: Cash on Hand
- Exhibit G: Financial Projections

Be sure to read the Plan as well as the Disclosure Statement and its exhibits. 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 Finally Approve This Disclosure Statement and Confirm the Plan*

The hearing at which the Court will determine whether to finally approve this Disclosure Statement and confirm the Plan will take place on [insert date] at [insert time], in Courtroom 403, at the United States Courthouse, 515 Rusk Avenue, 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 Susan C. Mathews, Baker Donelson, 1301 McKinney Street, Suite 3700, Houston, Texas 77010. See section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by [insert date] or it will not be counted.

3. *Deadline For Objecting to the Adequacy of Disclosure and Confirmation of the Plan*

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court and served upon the Debtor and the United States Trustee for the Southern District of Texas by [insert date].

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

If you want additional information about the Plan, you should contact Susan C. Mathews, Baker Donelson, 1301 McKinney Street, Suite 3700, Houston, Texas 77010; Telephone: (713) 286-7165; Email: [smathews@bakerdonelson.com](mailto:smathews@bakerdonelson.com).

### C. **Disclaimer**

**The Court has conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted. The Court's approval of this Disclosure Statement is subject to final approval at the hearing on confirmation of the Plan. Objections to the adequacy of this Disclosure Statement may be filed until [insert date].**

## II. **BACKGROUND**

### A. **Description and History of the Debtor's Business**

The Debtor has been in business since 2007 and has operated as a limited liability company since 2010. The members of the Debtor are Jeffrey S. Nowling and Michael B. White, each of whom hold a fifty percent interest in the Debtor.

The Debtor is a limited liability company organized under Texas law and operates under the assumed name "Real Energy Solutions." The Debtor is in the business of representing commercial and industrial businesses that buy electricity in deregulated service territories. The Debtor procures customers for retail energy providers ("REPs") pursuant to written brokerage agreements with the REPs. If the customer enters into a customer agreement with the REP, the Debtor is typically paid an upfront commission of approximately 80 percent by the REP and a residual commission of approximately 20 percent during the term of the customer agreement. An average customer agreement is for a term of twenty four to forty eight months. If the customer defaults under the customer agreement or the agreement is otherwise terminated, the REP has the right to recover fees previously paid under the particular customer agreement. More often, the fees are set-off against commission or broker fees due to the Debtor under other customer agreements which have been procured by the Debtor for the RFP.

The Debtor is also a subcontractor for Utility Financial Services, LLC ("UFS") whereby it provides similar services providing electricity contracts for another REP and is paid commissions for providing these services. The commissions from these contracts are paid directly from the contractor for whom the Debtor is acting as a subcontractor. The revenue from these subcontracts are of equal quality with the revenue derived from the Debtor's contracts with its REPs.

The Debtor's principal place of business is located at 438 Heights Boulevard, Houston, Texas. The Debtor has one full-time employee, an accounting assistant, and its sales staff are

employed as independent contractors. The company is operated pursuant to a management agreement with UFS. Mr. Nowling and Mr. White are also members of UFS, each holding a fifty percent interest in the company.

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

The members of the Debtor are Jeffrey S. Nowling and Michael B. White, each of whom holds a fifty percent interest in the Debtor. The company is operated pursuant to a management agreement with UFS. Mr. Nowling and Mr. White are also members of UFS.

During the two years prior to the commencement of the Debtor's bankruptcy case, Mr. Nowling received compensation in the amount of \$868,200.00 from the Debtor and Mr. White received cash compensation in the amount of \$1,131,970.89, and vehicle expense payments of \$52,983.93, for total compensation of \$1,184,954.82. Mr. Nowling and Mr. White have not received any compensation from the Debtor during the pendency of this chapter 11 case except for \$2,500.00 which was inadvertently paid to Mr. White on October 7, 2016. These funds were repaid to the Debtor the same day. Mr. Nowling and Mr. White have received compensation from UFS during the pendency of this chapter 11 case.

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

During the two years prior to the date on which the bankruptcy petition was filed, the officers, directors, managers or other persons in control of the Debtor (collectively the "Managers") were Jeffrey Nowling and Michael White. Mr. Nowling and Mr. White have been the Managers of the Debtor during the Debtor's chapter 11 case.

After the Effective Date of the order confirming the Plan, UFS, an affiliate of the Debtor, will be the sole member of the Debtor. Mr. Nowling and Mr. White are the owners of UFS and will be the effective managers of the Debtor (collectively the "Post Confirmation Managers"). The responsibilities and compensation of these Post Confirmation Managers are described in section III.D.2. of this Disclosure Statement.

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

As a result of the nature of the Debtor's business, the Debtor's cash flow previously fluctuated due to a number of factors, but predominantly changes in energy prices. When the energy prices crashed in 2014, the Debtor began utilizing a secured line of credit provided by Bank of America, N.A. ("Bank of America") in the principal amount of \$500,000. In 2016, the Debtor began experiencing cash flow issues as a result of constriction in the marketplace as well as payment changes in its REP contracts. Although the Debtor was current under both its line of credit and credit card issued by a Bank of America affiliate, Bank of America informed the Debtor it would not renew its line of credit in the late spring of 2016.

In addition, two former REPs which had ceased paying commissions due to the Debtor on closed contracts began demanding payment of refunds. Both REPs commenced litigation against the Debtor.

On January 28, 2015, Term Power & Gas, LLC d/b/a ENCOA ("ENCOA") filed suit in the Harris County District Court alleging breach of contract by the Debtor and seeking damages in the amount of \$562,409.44, plus attorney's fees and expenses, costs of court, and pre- and post-judgment interest ("ENCOA Suit").

On April 29, 2016, AP Gas & Electric (MD), LLC dba APG&E, commenced an arbitration proceeding against the Debtor, its principals, and UFS. APG&E alleged breach of contract claims against the Debtor and fraud claims against the non-debtor parties, and sought damages in an amount no less than of \$1,590,179.49 plus attorney's fees and expenses, costs and interest ("APG&E Suit").

The Debtor disputes the claims in both suits, filed counterclaims against the respective plaintiffs, and vigorously defended the suits. The litigation and arbitration costs associated with these suits caused further financial strain on the company, however, which was exacerbated by Bank of America's refusal to renew the line of credit.

The Debtor's litigation expenses soared as it prepared for the September 27, 2016 trial in the ENCOA Suit. The week before the trial, the state court judge heard pretrial motions and entered partial summary judgment against the Debtor on the majority of its affirmative defenses and dismissed its counterclaim. At that juncture, the Debtor was faced with an expensive trial and an outcome that was unlikely to be in its favor and that would require a costly and perhaps, lengthy appeal. Bank of America also had given notice that the approximately \$500,000 secured debt would mature by its terms in January 2017. As a result, the Debtor filed for protection under Chapter 11 of the United States Bankruptcy Code to reduce its litigation expenses and reorganize its financial obligations in an orderly fashion.

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

Significant events during the Debtor's bankruptcy case have included the following:

- entry of five interim orders approving the Debtor's use of cash collateral with the agreement of the Debtor's secured creditor, Bank of America;
- the retention of Baker Donelson Bearman Caldwell & Berkowitz, PC as the debtor's bankruptcy counsel;
- court approval of Champion's motion to approve setoff to ensure continued performance by both parties in the ordinary course of business;
- lease termination and/or rejection by operation of law of the Debtor's six former offices located throughout Texas and in New Jersey;
- a contested hearing on ENCOA's motion for relief from stay followed by ENCOA's removal of the ENCOA suit to the bankruptcy court on December 22, 2016;
- 2004 examinations of the principals and members of the Debtor and the



controller; and

- the filing of financial reports by the Debtor's management company, UFS, per ENCOA's request.

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

The Debtor may hold preference, fraudulent conveyance, or other avoidance actions against its affiliate UFS. One possible claim is based upon its transfer of certain personal property to UFS in early January 2016 which occurred shortly after the Debtor separated the "backroom" operations from its brokerage operations. In addition, a creditor has alleged that UFS is the alter ego of the Debtor and/or usurped a corporate opportunity with respect to a contract that UFS has with a REP. Unlike the Debtor, UFS factors the customer contracts it submits through this REP to a third party. UFS has denied these claims. The Debtor has evaluated the cost of litigation of claims, the likely outcome of such litigation and the possible relief or damages that might be granted. It has concluded that a settlement with UFS whereby UFS has agreed to guaranty distributions under the Plan in exchange for a release of UFS from these claims is more practical and cost-effective and affords the affected creditors (namely Bank of America who would claim a security interest in the accounts receivable and personal property of UFS) the equivalent relief.

The Debtor has not yet completed its investigation with regard to other prepetition transactions involving the principals or other creditors; however, approximately \$266,000 of transfers were made during the 90 days prior to the bankruptcy. If you received a payment or other transfer within 90 days of the bankruptcy, or other transfer avoidable under the Code, the Debtor may seek to avoid such transfer.

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

Except to the extent that a claim is already allowed pursuant to a final non-appealable order or is settled and allowed under the Plan, 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 V 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. The valuation is based on the value of the assets on the Debtor's books and records, as reasonably adjusted by the Debtor to take into account factors such as collectability.

The Debtor's most recent financial statements issued before bankruptcy, each of which was filed with the Court, are set forth in Exhibit C. Additionally, the most recent financial statements of UFS, which were also filed with the Court, are set forth in Exhibit C.

A summary of the Debtor's periodic operating reports filed since the commencement of



the Debtor's bankruptcy case is set forth in Exhibit D. The Debtor is preparing supplements to these reports to correct a perceived ambiguity identified by some creditors. A portion of the expenses the Debtor paid included commissions to salespeople on behalf of UFS. To pay these amounts, the Debtor would use revenue received on intercompany receivables from UFS, and/or set off the commission payments against the fees due to UFS under the management services agreement between the Debtor and UFS (the "MSA"). These payments were necessary for the operation of both companies' businesses because UFS lacks any contracted salespeople of its own.

### 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.

#### 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 Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

Type	Estimated Amount Owed	Proposed Treatment
Expenses Arising in the Ordinary Course of Business After the Petition Date	\$0	Paid in full on the effective date of the Plan, or according to terms of obligation if later. The Debtor believes the amount due in this category will be \$0.
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	\$0	Paid in full on the effective date of the Plan, or according to terms of obligation if later. The Debtor believes the amount due in this category will be \$0.

Professional Fees, as approved by the Court.	\$300,000.00	The Debtor's counsel is currently holding a \$25,000 retainer. On the Effective Date, the Debtor will pay an additional \$50,000 to its counsel as an additional retainer, bringing the total retainer to \$75,000. Then, beginning on the 21st day of the month after the Effective Date and continuing on the same day of each month thereafter through and including the 21st day of the sixth month after the Effective Date, the Debtor will make monthly payments to Debtor's counsel of \$8,709, which will be held as additional retainer until approval of counsel's compensation and expenses by the Court. After approval by the Court, which is expected to take place approximately 75 days after confirmation of the Plan, the Debtor's counsel will set off the retainer against the approved fees and expenses. After payment of secured claims, the Debtor will make monthly payments of \$33,000 until the approved fees and expenses are fully paid. However, counsel will deduct from any payment and remit to the Disbursing Agent such amounts as are necessary to satisfy any quarterly Disbursing Agent fees, U.S. Trustee fees, and priority tax payments. The Debtor's counsel has agreed to this arrangement.
Clerk's Office Fees	\$0	Paid in full on the effective date of the Plan. The Debtor believes that it is current on all such fees.
Other administrative expenses	\$0	Paid in full on the effective date of the Plan or according to separate written agreement. The Debtor believes the amount due in this category will be \$0.
Office of the U.S. Trustee Fees	\$4,875	Paid in full on the effective date of the Plan. The Debtor believes that it is current on all such fees but expects fees of \$4,875 to be due near the Effective Date of the Plan.

## 2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, 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 Debtor's estimated § 507(a)(8) priority tax claims and their proposed treatment under the Plan:

Description (name and type of tax)	Estimated Amount Owed	Date of Assessment	Treatment
Texas Comptroller of Public Accounts  Franchise Tax	\$34,000.00	12/31/2016	Paid in full in quarterly installments in the amount of 1/16 of the Allowed amount of such claim as of the Effective Date, commencing on the first Payment Date after the Effective Date and continuing thereafter until fully paid. In any event, the balance of all such claims shall be due and payable on September 20, 2021.

### C. Classes of Claims and Equity Interests

#### 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 Class 3 unsecured claim.

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

Class #	Description	Insider? (Yes or No)	Impairment	Treatment
2	<p><i>Secured claim of.</i></p> <p>Bank of America, N.A.</p> <p>Collateral description = all accounts, chattel paper, instruments, deposit accounts, letter of credit rights, general intangibles, inventory, equipment and fixtures.</p> <p>Priority of lien = First</p> <p>Principal owed \$354,819.26 as of March 1, 2017</p> <p>Pre-pet. arrearage = \$0.00</p> <p>Total claim \$354,819.26 (estimated as of 3/1/ 2016)</p>	No.	Impaired.	<p>Monthly Pmt = \$56,341.00</p> <p>Pmts Begin = 21st day of the month after the Effective Date.</p> <p>Pmts End = The 21st day of the sixth month following the Effective Date.</p> <p>Estimated balloon pmt = \$0.00</p> <p>Interest rate = variable rate equal to Bank's Prime + 1%, currently 4.50%</p> <p>Treatment of Lien = Retained</p> <p>The Debtor will make an adequate protection payment of \$22,500 per month until the Effective Date.</p>

#### 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 to accept different treatment. The Debtor does not believe that it owes any priority unsecured claims. However, to the extent the Debtor does owe any priority unsecured claims, the same will be paid in full on the Effective Date of the Plan. Class 1 is considered unimpaired under the Bankruptcy Code and is presumed to accept the Plan. As a result, these creditors are not entitled to vote to accept or reject the Plan.

### 3. *Classes of General Unsecured Creditors*

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code.

The following chart identifies the Plan's proposed treatment of Classes 3 through 5, which contain general unsecured claims against the Debtor:

<b>Class #</b>	<b>Description</b>	<b>Insider? (Yes or No)</b>	<b>Impairment</b>	<b>Treatment</b>
3	Non-insider Unsecured Trade Class	No.	Impaired. Entitled to Vote	Quarterly pro rata payment, calculated with Class 4 Allowed REP Claims, beginning on the first day of the quarter following payment of all administrative expense claims. If not paid sooner, all unsecured claims will be paid on or before the tenth anniversary of the Effective Date of the Plan. Payments will not commence unless all administrative expense and priority claims (other than unclassified priority tax claims) have been paid in full.  Claims will not accrue interest.  Estimated percent of claim paid = 100%

4	REP Claims	No.	Impaired. Entitled to Vote	<p>The Debtor disputes all REP Claims. However, the Plan compromises and settles all disputes related to the REP Claims by allowing the claims at 40% of their amount as provided in their filed proofs of claim.</p> <p>Quarterly pro rata payment, calculated with Class 3 Allowed Claims, beginning on the first day of the quarter following payment of all administrative expense claims. If not paid sooner, all unsecured claims will be paid on or before the tenth anniversary of the Effective Date of the Plan. Payments will not commence unless all administrative expense and priority claims (other than unclassified priority tax claims) have been paid in full.</p> <p>Claims will not accrue interest.</p> <p>Estimated percent of claim paid = 100% of settled amount</p>
5	Unsecured claims of UFS	Yes.	Impaired. Entitled to Vote	<p>UFS's claims will be cancelled and in exchange the Debtor will issue to UFS 100% of the membership interest in the Debtor.</p>

The Debtor disputes the amount of certain claims and intends to object to their validity. Specifically, and without limitation, the Debtor disputes that it owes any debt to holders of REP Claims. However, for ease of reference, the total filed claim amount is used herein for purposes of financial projections. To the extent the Debtor is successful in objecting to any claims, the amount of unsecured claims (and the timeframe for payment under the Plan) will be reduced.

#### 4. *Classes of Equity Interest Holders.*

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a limited liability company ("LLC"), the equity interest holders are the members. The equity interest holders of the Debtor are Jeffrey S. Nowling and Michael B. White, each of whom owns 50% of the existing membership interest in the Debtor as of the filing of this Plan. In the Plan, equity interests are classified in Class 6. On the Effective Date of the Plan, the equity interests of Jeffrey S. Nowling and Michael B. White will be cancelled without any distribution. Class 6 is impaired. Because Class 6 will receive nothing under the Plan in exchange for their interests, Class 6 is deemed to reject the Plan and is not entitled to vote to accept or reject the Plan.

**D. Means of Implementing the Plan**1. *Source of Payments*

The Debtor's post-confirmation revenue will consist of revenue from its REP contracts and subcontracts. The Plan contemplates that on the Effective Date, the Debtor will pay \$50,000 to its counsel as an additional retainer, and will pay \$4,875 to the U.S. Trustee to cover first quarter 2017 fees. Furthermore, it is anticipated that an adequate protection payment in the amount of \$22,500.00 will be due to Bank of America either on or some time prior to the Effective Date. After satisfying the Class 2 claims and administrative expense claims, which is expected to take one year, the Debtor will commence making \$16,083 monthly payments to the Reserve Account for the remainder of the Plan term. The Reserve Account is meant both to provide an operating reserve for the Debtor, and to fund payments to the unsecured creditors. Funds are not allowed to be withdrawn from the Reserve Account except for (a) operating expenses that the Debtor has insufficient cash flow to cover, or (b) distributions under the Plan.

The funds in the Reserve Account will be controlled by an independent Disbursing Agent for a fixed quarterly fee of \$2,500. Hill, Schwartz, Spilker, Keller, LLC ("HSSK") has agreed to act as the initial Disbursing Agent. HSSK is a financial services company that provides financial consulting and support services, forensic services, and litigation support for clients. Marc Schwartz, a principal of HSSK, has served as a chapter 11 trustee, court-appointed examiner and disbursing agent in several chapter 11 cases in this District. Mr. Schwartz will oversee the project with the assistance of his staff who will provide clerical support.

First, any payments that are to be made on the Effective Date of the Plan will be paid out of the Debtor's cash on hand as of the Effective Date. The Debtor estimates that it will have \$101,222.00 of cash on hand as of the Effective Date, including the retainer held by its counsel.

Second, payments to the secured creditor will be made directly by the Debtor out of cash flow from the Debtor's business operations. The Debtor believes that if it makes timely payments in the amounts provided in the Plan, all secured claims will be paid in full within one year from the Effective Date.

Third, payments for unclassified priority tax claims will be made quarterly from the Debtor's cash flow deposited in the Reserve Account.

Fourth, payments for the professional fees of the Debtor's counsel will be made monthly from the Debtor's cash flow deposited in the Reserve Account, after application of any retainer.

Fifth, after all priority and administrative expense claims are paid in full (other than priority tax claims, which are paid over an approximately 4 1/2-year period), the distributions to unsecured creditors will begin. Payments to Class 3 Allowed Claims and Allowed REP Claims will be made quarterly from the Debtor's cash flow deposited in the Reserve Account.

With the required payments to the Class 2 secured claims and unclassified priority and administrative expense claims mostly coming in the first year of the Plan, the Debtor does not anticipate a significant recovery for unsecured creditors during the first year of the Plan.

However, the Debtor should be able to make meaningful contributions to the Reserve Account during the second year of the Plan. Please see Section IV.D. below, and Exhibits F and G, for a more complete discussion of the Debtor's projected cash flow.

Finally, for those creditors who vote in favor of the Plan, UFS has agreed to guarantee their distributions, as more particularly described in Article VI below. In exchange for this guaranty of payment, the Debtor and these consenting creditors will release UFS and its owners, managers, employees, agents, representatives, and professionals from any claims or causes of action that the Debtor or the Debtor's bankruptcy estate can assert, or any creditors can derivatively assert, against UFS. Such claims would include, for example, fraudulent transfer claims, preferential transfer claims, claims for usurpation of corporate opportunities, and veil-piercing claims.

## 2. *Post-confirmation Management*

After confirmation of the Plan, UFS will own 100% of the membership interest in the Debtor. UFS will therefore manage the Debtor as the Debtor's sole member. To comply with securities laws, the membership interest issued to UFS will include transfer restrictions preventing UFS from transferring the interest if such a transfer would violate any security laws. The Debtor will not be allowed to make any distributions to UFS until the Debtor has completed payments under the Plan. However, as noted below, the Debtor intends to assume the MSA with UFS. The MSA requires UFS to provide, at its own expense, management and facilities services and billing, payroll, and record management services to the Debtor in exchange for a management fee equal to \$0.005 per kilowatt hour submitted by the Debtor to and accepted by a retail electric provider (the "Management Fee").

UFS is owned by Jeffrey S. Nowling and Michael B. White. Accordingly, Mr. Nowling and Mr. White will in effect be making the managerial decisions on behalf of the Debtor; however, the Debtor will not compensate Mr. Nowling and Mr. White for any services they provide. Instead, they will receive a salary from UFS.

## **E. Risk Factors**

The proposed Plan has the following risks:

### 1. *The Debtor May Not Generate Sufficient Cash Flow*

The Debtor's Plan depends on the Debtor maintaining its existing good relationship with REPs and its salespersons, who are independent contractors. Bank of America traditionally provided the Debtor's revolving line of credit, which allowed the Debtor flexibility during unexpected revenue shortfalls; however, the option of having a line of credit is not available to the Debtor post-confirmation. Accordingly, if either of the REPs or the Debtor's sales force abandons the Debtor, the Debtor would be crippled and would not have sufficient cash flow to pay the Class 2 secured claims, much less the Class 3 unsecured claims or REP Claims. This situation would result in the Debtor's assets being foreclosed upon by the secured creditor, which would essentially shut the Debtor down. In such case, the only recourse for creditors would be to the UFS guaranty.



2. *Risk that REPs Will Pursue UFS*

The Debtor thinks it is likely that ENCOA will vote against the Plan, opt out of the release of UFS, and may file suit against UFS to try to collect its claim against the Debtor from UFS, asserting fraudulent transfer, veil-piercing, single enterprise, or similar theories. APG&E asserted similar claims against the Debtor and UFS in a pre-bankruptcy arbitration proceeding. The Debtor and UFS do not believe that ENCOA or APG&E will be able to recover on these hypothetical claims. Regardless of whether they are successful, defending such litigation would drain the assets of UFS and may result in the guaranty of payment being worthless.

3. *Risk of Additional Litigation Against UFS' Owners*

Similarly, ENCOA and APG&E may also continue to pursue litigation against Mr. White and Mr. Nowling. Ongoing litigation might prevent Mr. White and Mr. Nowling from focusing on marketing the Debtor and growing the Debtor's revenue, and may even cause them to lose their interest in UFS as a result of a forced sale by creditors. As a result, if these creditors do continue to pursue this litigation, the Debtor's revenue may suffer, and the Debtor may be faced with a leadership change that would result in uncertainty over the direction of the company. A bankruptcy filing by UFS would result in its guaranty under the Plan being treated as a prepetition debt, which could limit any recovery under such guaranty.

**F. Executory Contracts and Unexpired Leases**

The Plan, in Section 6.01(a), 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. Section 6.01(a) 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 Section 6.01(a) will be rejected under the Plan. Consult your adviser 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 Thirty Days after the Date of the Order Confirming the Plan.*** Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.

## G. 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 anticipated tax consequences of the Plan to the Debtor, creditors and equity interests are discussed below. This discussion of the federal income tax consequences of the Plan under U.S. federal income tax law, including the Internal Revenue Code of 1986, as amended (the "Tax Code"), is provided for informational purposes only. While this discussion addresses certain of the material tax consequences of the Plan, it is not a complete discussion of all such consequences and is subject to substantial uncertainties. Moreover, the consequences to a holder of claims or interests may be affected by matters not discussed below, including, without limitation, special rules applicable to certain types of persons, such as persons holding non-vested stock or otherwise subject to special rules, nonresident aliens, life insurance companies, and tax-exempt organizations, and by such holders' particular tax situations. In addition, this discussion does not address any state, local, or foreign tax considerations that may be applicable to particular holders. The Debtor has not requested and does not intend to request a ruling from the IRS nor has the Debtor obtained an opinion of counsel with respect to the tax consequences expected to result from the Plan.

**THE DEBTOR AND ITS COUNSEL CANNOT GIVE YOU LEGAL ADVICE AS TO YOUR SPECIFIC TAX SITUATION. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO YOU OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING STATE, LOCAL AND FOREIGN TAX CONSEQUENCES. SOME OF THE ISSUES DISCUSSED BELOW ARE COMPLEX, AND THERE CAN BE NO ASSURANCE OF THE ACCURACY OF THIS INFORMATION.**

**IRS CIRCULAR 230 DISCLOSURE: IN COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, HOLDERS OF CLAIMS AND ALL OTHER INTERESTED PARTIES ARE HEREBY NOTIFIED THAT ANY DISCUSSION OF TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE TAX CODE AND WAS WRITTEN IN CONNECTION WITH AND FOR THE SOLE PURPOSE OF PROMOTION OF THE PLAN.**

### 1. *Tax Consequences to the Debtor of the Plan*

Generally, cancellation of indebtedness triggers ordinary income to a debtor equal to the adjusted issue price (as determined for federal income tax purposes) of the indebtedness cancelled. If debt is discharged in a Chapter 11 case, however, a debtor does not recognize cancellation of indebtedness income. Instead, certain tax attributes otherwise available to the debtor are reduced by the amount of the indebtedness cancelled. Tax attributes subject to reduction include: (i) net operating losses (NOL) and NOL carryforwards; (ii) most credit carryforwards; (iii) capital losses and carryforwards; (iv) the tax basis of the debtor's depreciable and non-depreciable assets; (v) passive activity loss and credit carryovers; and (vi) foreign tax

credit carryforwards.

Under §§ 108(b) and 1017 of the Tax Code, attributes are reduced in the following order: first, net operating loss carryover; second, general business credit carryovers; third, capital loss carryovers; and fourth, tax basis. In lieu of reducing net operating loss and carryovers, the taxpayer can elect to reduce tax basis first. Such an election shall not apply to an amount greater than the aggregate adjusted bases of depreciable property held by the taxpayer as of the beginning of the taxable year following the taxable year in which the discharge occurs.

Therefore, any cancellation of indebtedness income realized by the Debtor would require a reduction in the Debtor's NOLs or other tax attributes. Because attribute reduction is calculated only after the tax for the year of discharge has been determined, however, the realization of substantial amounts of cancellation of indebtedness income as a result of implementation of the Plan should not diminish the NOLs and NOL carryforwards otherwise available to offset other income recognized in the year in which the Plan is consummated.

Additionally, any sale of assets pursuant to the Plan may result in taxable income to the Debtor if the tax basis in the asset is less than the sales price.

The Debtor does not believe that a principal purpose of the Plan is the avoidance of federal income tax within the meaning of § 269 of the Tax Code.

## 2. *General Tax Consequences for Creditors and Equity Holders*

Holders of claims against and equity interests in the Debtors are urged to consult with their tax advisors as to the consequences of the Plan to them. Among the issues these holders and their advisors may wish to consider are the following:

- (a) The extent to which such holder is entitled to a bad debt deduction or a worthless securities loss.
- (b) The extent to which such holder recognizes gain or loss on the exchange of its claim or equity interest for property, debt, and shares of stock or a membership interest in the Debtor and the character of that gain or loss.
- (c) The basis and the holding period for any property, debt, and shares or interests received by such holder.
- (d) Whether the original issue discount rules, market discount rule, and amortizable bond premium rules apply to any debt received by such holder.
- (e) The treatment of property, shares or interests, or debt, if any, received by such holder in satisfaction of accrued interest.
- (f) The effect of such holder receiving a deferred distribution or distribution that is contingent in amount.

#### 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 Debtor believes that classes 2 through 4 are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan. The Debtor believes that class 1 is unimpaired and that holders of claims in each of this class, therefore, do not have the right to vote to accept or reject the Plan. Finally, the Debtor believes that while classes 5 and 6 are impaired, because holders in these classes will receive no distribution on account of their claims or interests, these holders are deemed to reject the Plan and 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, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. 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 allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

***The deadline for filing a proof of claim in this case was January 25, 2017.***

***Under the Plan, the deadline for filing objections to claims is ninety (90) 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.

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" 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 (including administrative expenses); and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan.

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

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 holds 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.

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

As noted above, however, the Plan is structured such that even if the Plan is crammed down on non-accepting classes, the third party release provisions in the Plan, and the guaranty of payment from UFS, will only apply to holders who 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.

## 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 Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

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

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

The Debtor has provided projected financial information. Those projections are listed in Exhibit G.



The Plan Proponent's financial projections show that the Debtor will have an aggregate annual average cash flow, after paying operating expenses and post-confirmation taxes, of approximately \$36,682.00. Based on these projections, the Debtor expects to satisfy secured claims in full in September 2017 and administrative claims (to the extent such claimants have agreed to such treatment) in April 2018. At that point, payments to unsecured creditors will commence. The final Plan payment is expected to be paid on April 1, 2027.

The financial projections make the following assumptions: first, the Debtor assumes that REPs will pay deferred commissions on a reasonably stable schedule, based on the amount of outstanding deferred commissions payable over time. Second, the Debtor has conservatively estimated future earned residuals at 25% of historical average. Third, the Debtor has used the historical average for direct or up front commissions from REPs, and has then assumed 2% growth over the life of the Plan. The Debtor has also assumed 2% growth in expenses. Finally, it is expected that UFS will pay most of the "hard" operating expenses of the Debtor, such as rental space, equipment leases, and other "back office" expenses under the MSA.

***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. On the effective date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the effective date, to the extent specified in § 1141(d)(1)(A) of the Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in § 1141(d)(6)(B). After the effective date of the Plan your claims against the Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

### **B. Modification of the Plan**

The Debtor may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or resolicitation of votes on the Plan. The Debtor may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Court authorizes the proposed modifications after notice and a hearing.

### **C. Final Decree**

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



Plan and completion of all pending proceedings, notwithstanding the fact that payments required by the Plan have not been completed. To save costs, the Debtor expects to move for a final decree prior to the completion of payments under the Plan.

## **VI. UFS SETTLEMENT**

### **A. Description of Settlement with UFS**

As noted above, UFS, which is an affiliate of the Debtor due to common ownership by Mr. Nowling and Mr. White, has agreed to guaranty payment of the distributions under the Plan in exchange for a release of claims that the Debtor or its bankruptcy estate may have against UFS and its owners, employees and representatives. These include claims that a creditor or interest holder may assert derivatively against the released parties. Creditors who vote in favor of the Plan will have voted to accept this release. Creditors who are presumed to accept the Plan will be presumed to accept this release unless they object to the plan. Creditors who abstain from voting will be deemed to accept the release unless they return a ballot opting out of the release. Creditors who vote to reject the Plan will be presumed to reject the release. UFS's payment guaranty for distributions will not apply to any creditors who reject the Plan or opt out of the release. The guaranty is unlimited as to all Allowed unclassified claims under Article III, Allowed Class 1 claims, and Allowed Class 2 claims, but is limited to a maximum of \$1,500,000.00 in the aggregate for Allowed Class 3 claims and REP Claims.

### **B. Description of Releases**

In addition to the discharge of the Debtor described in Section V.A. above, the Plan contains two third-party release provisions, as well as an injunction that allows the Bankruptcy Court to enforce the discharge, release, and exculpation provisions in the Plan.

Section 9.02 of the Plan releases UFS and certain related parties, including UFS's owners, employees and representatives, from any and all claims or causes of action owned by the Debtor, the Debtor's bankruptcy estate, or that may be asserted derivatively on their behalf. This release applies to all parties except those who vote to reject the Plan or who abstain from voting but affirmatively opt out of the release.

Section 9.03 exculpates, or holds harmless, the Debtor and its representatives or professionals from any acts or omissions done in connection with preparing and pursuing confirmation of the Plan or administering the Debtor's bankruptcy estate except for fraud, willful misconduct or gross negligence. Like the release in Section 9.02, Section 9.03's exculpation provisions apply to all parties except those who vote to reject the Plan or who abstain from voting but affirmatively opt out of the release.

Finally, Section 9.04 includes an injunction that allows the Bankruptcy Court to enforce these release provisions against any person who violates them.

### **C. Severability**

Section 8.03 of the Plan provides that while the Bankruptcy Court can modify the Plan

prior to confirmation, the terms of the settlement with UFS are nonseverable, meaning that a court cannot sever, or take out, a provision and keep the remainder. This provision is meant to preserve the benefit of the bargain as between UFS and the Debtor, so that a court cannot, for instance, strike the release provisions but still enforce UFS' payment guaranty.

## VII. CONCLUSION AND RECOMMENDATION

In the opinion of the debtor, the Plan is preferable to all other available alternatives and provides for a larger distribution to the Debtor's creditors than would otherwise result in any other scenario. Accordingly, the Debtor recommends that holders of claims entitled to vote on the Plan vote to accept the Plan and support confirmation of the Plan.

Respectfully submitted,

**R.E.S. NATION, LLC**

By: \_\_\_\_\_  
Name: Jeffrey Nowling  
Title: Managing Member  
The Plan Proponent

