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

| | | |
|---|---|---|
| **IN RE:** | § | |
| **SOUTH COAST SUPPLY COMPANY** | § | **CASE NO. 17-35898** |
| | § | |
| **DEBTOR.** | § | |

# SECOND AMENDED DISCLOSURE STATEMENT IN SUPPORT OF DEBTOR'S SECOND AMENDED PLAN OF REORGANIZATION

H. Miles Cohn
Texas Bar No. 04509600
Michelle V. Friery
Texas Bar No. 24040934
CRAIN, CATON & JAMES, P.C.
1401 McKinney Street, 17th Floor
Five Houston Center
Houston, Texas 77010-4035
Telephone (713) 752-8668
Facsimile (713) 658-1921
mcohn@craincaton.com
mfriery@craincaton.com
ATTORNEYS FOR DEBTOR
SOUTH COAST SUPPLY COMPANY

**TABLE OF CONTENTS**

**<u>EXHIBITS</u>**

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

| | | |
|---|---|---|
| **IN RE:** | § | |
| **SOUTH COAST SUPPLY COMPANY** | § | **CASE NO. 17-35898** |
| | § | |
| **DEBTOR.** | § | |

**SECOND AMENDED DISCLOSURE STATEMENT IN SUPPORT OF DEBTOR'S SECOND AMENDED PLAN OF REORGANIZATION**

South Coast Supply Company, Debtor in this bankruptcy case, submits this Second Amended Disclosure Statement ("Disclosure Statement") in Support of Debtor's Second Amended Plan of Reorganization ("Plan") pursuant to Bankruptcy Code § 1121.

## I. INTRODUCTION

South Coast Supply Company ("South Coast" or the "Debtor") is a wholesale distributor of quality industrial products. Founded in 1972, South Coast is a family-owned business that has built a reputation of being a dependable supply source for a variety of industries, domestically and internationally. South Coast is located in Houston, Texas and currently has 17 employees.

South Coast faced financial pressures in 2017, including the downturn in the industry. While taking steps to address its financial issues, including expenditure reductions and accounting process improvements, South Coast maintained the support of its vendors and customers. However, the company was unable to comply with its obligations to or to reach an agreement with its primary lender, Briar Capital, LP. This Chapter 11 case was filed to formally reorganize and assure the future success of the company.

On October 20, 2017 (the "Petition Date"), South Coast filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District or Texas, Houston Division (the "Bankruptcy Court"). Pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, South Coast continued to operate its business and managing its property as a debtor-in-possession. No trustee or examiner has been appointed, and no official committee of unsecured creditors was formed. On November 16, 2017, the Bankruptcy Court approved the employment of J. Patrick Magill and Magill P.C. as Chief Restructuring Officer ("CRO") for South Coast.

While in bankruptcy, South Coast has evaluated several options for reorganizing. South Coast has had discussions with its primary lender, potential investors and potential purchasers. After due consideration, South Coast has determined that the sale of its business is in the best interest of the creditors. The sale of the business will facilitate the return of the secured lender's collateral, the payment of administrative and priority claims in full, a significant distribution to the unsecured creditors and the continued operation of South Coast under new ownership.

Together with this Disclosure Statement, South Coast filed the Plan, which contains South Coast's proposal for the payment of claims and the sale of its business in order to maximize recovery for its creditors and shareholders.

This Disclosure Statement has been prepared to disclose the information that, in the opinion of South Coast's management and legal counsel, is material and important to an evaluation of the Plan. Pursuant to Bankruptcy Code §1121, this Disclosure Statement has been approved by the Bankruptcy Court. However, such approval does not constitute a judgment or recommendation as to the desirability of the Plan, nor has the Bankruptcy Court independently verified and confirmed the information contained in the Disclosure Statement.

The information in this Disclosure Statement, along with the data in the schedules on file in this bankruptcy case, was provided or compiled by J. Patrick Magill, the Chief Restructuring Officer of South Coast, and Steven Mark Gray, the Chief Executive Officer of South Coast, with the assistance of South Coast's attorneys. Every effort has been made to verify the information contained in this Disclosure Statement and to insure that factual statements are correct. However, neither South Coast nor its counsel can warrant or guaranty the accuracy of information contained herein.

South Coast and the Bankruptcy Court have not authorized any representations concerning South Coast or the Plan other than those made in this Disclosure Statement. In evaluating the Plan, creditors and other parties in interest should not rely on any statements or representations of South Coast other than those set forth in this approved Disclosure Statement.

## II. PROCEDURE FOR CONFIRMATION OF THE PLAN

In order for the Plan to be confirmed, and thus become effective, a number of requirements must be met under Bankruptcy Code §1129. The Bankruptcy Court will schedule a hearing on confirmation, to consider whether these requirements have been met. In connection with the hearing, the Court will set a deadline for filing objections to the Plan.

In considering the statutory requirements for confirmation, the Bankruptcy Court will consider whether the various classes of creditors and interest holders have voted in favor of the Plan. In order to vote, a creditor or interest holder must complete and submit the ballot that will be delivered together with this Disclosure Statement. The ballot should be completed and mailed to South Coast's counsel, Mr. H. Miles Cohn of Crain, Caton & James, P.C., 1401 McKinney, Suite 1700, Houston, Texas 77010. In order to be counted, the ballot must be returned on or before the deadline set by the Bankruptcy Court, which will be reflected in the Court's order accompanying this Disclosure Statement.

For a class of creditors or interest holders to approve the Plan, the members of the class must vote in favor of the Plan by a majority vote of those voting and by a vote of two-thirds of the dollar amount of the claims in the class. If it is confirmed, however, the Plan will be binding on each creditor and other party in interest, whether or not such person has filed a ballot. If a party does not file a ballot, its vote for or against the Plan will not be counted. South Coast therefore urges all creditors and interest holders to file a ballot within the time allowed.

## III. SOUTH COAST'S BUSINESS

### A. South Coast

South Coast is a wholesale distributor of quality industrial products including flanges, weld fittings, pressure fittings, pipe and piping accessories, and valves. A Texas corporation formed in 1972, South Coast was founded by Martin Gray, and his son, Steven Mark Gray, has been the Chief Executive Officer of South Coast since 2006. South Coast has built a reputation of being a dependable supply source for a variety of industries, domestically and internationally, including engineering and construction, vessel fabrication, gas transmission, mechanical contractors, oil and gas exploration and processing, and the petrochemical, power and cryogenic industries. South Coast's diverse and rooted customer base has allowed the company to have consistent growth through many different market cycles. South Coast's inventory consists of high quality products that are purchased from leading domestic manufacturers and that meet industry standards.

Located in Houston, South Coast has averaged 35 employees over the past 5 years. Currently, South Coast has a highly experienced team of 17 employees, including a sales staff that has an average of 32 years of experience in the industrial distribution sector. South Coast maintained average monthly sales revenues of more than $1.2 million in the most recent fiscal year.

### B. South Coast's Assets and Liquidation Analysis

South Coast does not own any real property. However, as listed in amended Schedule A/B filed on May 16, 2018, South Coast does own certain personal property scheduled in the amount of $3,708,641.14 as of the Petition Date. In addition to the scheduled personal property, South Coast has additional cash, accounts receivable and inventory. After obtaining post-petition, debtor-in-possession financing with Solstice Capital, LLC ("Solstice Capital") on April 6, 2018, South Coast generated additional cash, accounts receivable and inventory. These assets, which secure the post-petition financing, are segregated from the pre-petition assets, which are Briar Capital's collateral.

South Coast's personal property is listed in the chart below. In addition to the scheduled value of South Coast's assets as of the Petition Date, the CRO has also provided for each asset (i) the market value of the asset as of June 19, 2018, assuming a liquidation in the ordinary course of business and pursuant to the Plan, and (ii) the value of the asset if South Coast's bankruptcy case is converted to a case under chapter 7 and a trustee liquidates the asset. The CRO's estimates are based on his own experience managing debtors in bankruptcy and on his discussions with personnel at South Coast with knowledge of South Coast's assets.

| Personal Property Description | Scheduled Value as of Petition Date | Market Value as of June 19, 2018 | Est. Value if Liquidated in Chapter 7 |
|---|---|---|---|
| Cash | | | |
| Briar Capital collateral | $63,523.00 | $961,779.20 | $961,779.20 |
| Solstice Capital collateral | n/a | $224,429.83 | $224,429.83 |
| Accounts Receivable | | | |
| Briar Capital collateral | $1,983,275.60 | $691,983.95[1] | $200,000.00 |
| Solstice Capital collateral | n/a | $250,131.53 | $250,131.53 |
| Inventory | | | |
| Briar Capital collateral | $1,247,099.24 | $498,157.48 | $225,000.00 |
| Solstice Capital collateral | n/a | $76,633.30 | $76,633.30 |
| Scrap (stored at Blaschke Trucking & South Coast) | unknown | $0[2] | $0 |
| Investments | | | |
| LyondellBasell | $33,594.86 | $0[3] | $0 |

[1] This is the face amount of the accounts receivable. The amount includes accounts receivable owed by Dodson Global, Inc., Texas Pipe & Supply Company, Ltd., and Forged Components, Inc., which total $464,831.67. Briar Capital has stated that these accounts are disputed. However, South Coast has not made that determination and the CRO believes that these accounts are valid and collectible.

[2] The scrap inventory has been liquidated and the proceeds of $15,730.85 are included in the line item for Cash above.

[3] The LyondellBasell shares have been liquidated pursuant to the Order Granting Debtor's Motion to Sell LyondellBasell Shares entered on March 28, 2018. The proceeds totaled $36,685.14, and are included in the line item for Cash above.

| Personal Property Description | Scheduled Value as of Petition Date | Market Value as of June 19, 2018 | Est. Value if Liquidated in Chapter 7 |
|---|---|---|---|
| Loomis Sayles Bond[4] | $139,096.50 | unknown | unknown |
| Generic Utility Trailer | $6,700.00 | $6,700.00 | $6,700.00 |
| Office Furniture, Fixtures & Equipment | $26,940.00 | $12,500.00 | $2,500.00 |
| Machinery, Fixtures & Equipment | | | |
| Clark Forklift | $2,500.00 | $2,000.00 | $2,000.00 |
| Mitsubishi 25 (SN AF82B-05168) | $3,000.00 | $2,500.00 | $2,500.00 |
| Mitsubishi 25 (SN AF82D-0669) | $3,000.00 | $2,500.00 | $2,500.00 |
| Mitsubishi 25 (SN AF82B-06838) | $3,000.00 | $2,500.00 | $500.00 |
| Mitsubishi 25 (SN AF82B-04785) | $3,000.00 | $2,500.00 | $500.00 |
| Komatso 25 | $3,000.00 | $2,500.00 | $2,500.00 |
| Hyster | $15,000.00 | $15,000.00 | $10,000.00 |
| Warehouse Racks (162 units) | $24,000.00 | $53,000.00 | $15,900.00 |
| Intangibles & Intellectual Property | unknown | unknown | $0 |
| Other Assets | | | |
| Gray Family Obligation | $151,911.94 | $151,911.94[5] | unknown |
| ERISA Bond/Insurance[6] | $0 | $0 | $0 |

[4] The CRO is unable to determine if the Loomis Sayles Bond has any liquidation value. The Debtor has received a proxy statement indicating shares owned, and the CRO believes the shares are held by a third party as security for a bond issued relating to the Debtor's 401(k) plan. However, the CRO has not been able to confirm who holds the shares to date. If recovered, South Coast believes the current value of the Loomis Sayles Bond is approximately $133,213.75.

[5] This value represents the face amount of debts owed by Mr. Gray and related parties.

[6] This relates to a commercial crime policy and has no liquidation value.

| Personal Property Description | Scheduled Value as of Petition Date | Market Value as of June 19, 2018 | Est. Value if Liquidated in Chapter 7 |
|---|---|---|---|
| Preference Claims Against Bobby Remmert | unknown | $316,624.10[7] | $200,000.00 |
| **TOTAL** | **$3,708,641.14** | **$3,322,490.87** | **$2,183,573.90** |

Since the Petition Date and through the Texas Pipe Lawsuit, South Coast has learned that Briar Capital has additional collateral. Shortly before the Petition Date, South Coast sold to Dodson Global, Inc. and/or Texas Pipe and Supply Company, Ltd. (together, "Texas Pipe") certain inventory (the "Texas Pipe Inventory"). At the time of the transaction, the book value of the Texas Pipe Inventory was $1,823,429.27. Indeed, in the Texas Pipe Lawsuit, Briar Capital has asserted the Texas Pipe Inventory is worth $1,823,429.27 and was transferred to Texas Pipe for less than 20 percent of its value. The Texas Pipe Inventory is not owned by South Coast, remains in the possession of Texas Pipe, and is the subject of the Texas Pipe Lawsuit. However, Texas Pipe has acknowledged in its pleadings and arguments[8] to the Bankruptcy Court in the Texas Pipe Lawsuit that because the transaction was a bulk sale or out of the ordinary course of business, as Briar Capital asserts, Briar Capital's lien remains attached to the Texas Pipe Inventory.

---

[7] This value represents the face amount of the preference payments made to Bobby Remmert within one year of the Petition Date.

[8] *See* First Amended Motion of Dodson Global, Inc. And Texas Pipe & Supply Company, Ltd. To Dismiss All Claims Under Rule 12(b)(6), with Brief in Support, Adv. No. 18-03026, Doc. 26, at ¶41; Reply to Plaintiff Briar Capital Working Capital Fund, LLC's Response to First Amended Motion to Dismiss All Claims under Rule 12(b)(6), Adv. No. 18-03026, Doc. 29, at ¶7; Hrg. Tr. on Motion to Dismiss, Adv. No. 18-03026, May 8, 2018, at p. 61.

In June 2018, South Coast inspected the Texas Pipe Inventory, and based on that inspection, the CRO believes the Texas Pipe Inventory has a market value of at least $1.3 million if sold in the normal course of business. The total value of the Texas Pipe Inventory is diminished, because about $600,000 of the Texas Pipe Inventory has deteriorated or become obsolete and can only be sold for approximately $100,000.

Since the Petition Date, South Coast has made efforts to liquidate certain assets described above. Assets that have been liquidated include certain accounts receivable, the LyondellBasell shares, certain inventory, and the scrap inventory. The cash proceeds of the liquidation of these assets have been deposited and are reflected as cash.

As of June 19, 2018, the Briar Capital Collateral Account has a balance of $961,779.20. On June 13, 2018, the Bankruptcy Court entered an order authorizing the disbursement of the funds on deposit in the Briar Capital Collateral Account first to the taxing authorities and the balance to Briar Capital. The Debtor intends to pay the Class 4 property tax claims, which total $71,861.76, in full in June 2018, which will reduce the balance in the Briar Capital Collateral Account to $889,917.44. The Debtor does not intend to disburse the remaining balance to Briar Capital until the earlier of (i) the Debtor's final determination that a claim to surcharge the Briar Capital Collateral will not be asserted or (ii) the entry of an order of the Bankruptcy Court on the claim to surcharge the Briar Capital Collateral that has become a Final Order.

The CRO has estimated the value of the assets if the bankruptcy case were converted to a case under chapter 7 of the Bankruptcy Code and the assets were liquidated by a chapter 7 trustee. In that scenario, many of the accounts would likely be uncollectible and the inventory and other assets would be sold at a reduced price to facilitate a speedy liquidation. It is also possible that the preference claims against Bobby Remmert could be settled by a chapter 7 trustee at a discount. Finally, the intangibles and intellectual property would have no liquidation value in a chapter 7 liquidation. South Coast therefore estimates that the liquidation value of the above-mentioned personal property in chapter 7 bankruptcy would at best be $2,183,573.90, inclusive of Solstice Capital's collateral, whereas South Coast anticipates roughly $987,000 in additional value (not including the value of the Texas Pipe Inventory) if the Plan is confirmed.

To date, Solstice Capital has advanced $900,000 to South Coast as the DIP Lender. Pursuant to the Plan, the Purchaser must assume this debt owed by South Coast at Closing. If, however, the bankruptcy case is converted to a case under chapter 7 of the Bankruptcy Code, Solstice Capital will be entitled to a superpriority administrative claim pursuant to Section 364(c)(1) of the Bankruptcy Code, subject only to the DIP Liens in the DIP Financing Collateral. The value of the DIP Financing Collateral as of June 19, 2018, is $551,194.66, and South Coast estimates that the value would remain the same in a chapter 7 liquidation. The remaining amount owed to Solstice Capital after the liquidation of the DIP Financing Collateral for Solstice Capital's benefit, roughly $350,000, would be a superpriority administrative claim,[9] and would further reduce the amount available to other creditors. Thus, in a chapter 7 liquidation, while the liquidation value of the above-mentioned personal property would at best be $2,183,573.90, roughly $900,000 of that amount would be paid first to Solstice Capital, leaving a maximum chapter 7 liquidation value of $1,283,573.90 available for other creditors.

[9] Briar Capital and Solstice Capital have entered an inter-creditor agreement, which would also determine their respective rights.

### C. The Financing of South Coast

The Debtor has an outstanding revolving loan with Briar Capital, L.P., evidenced by (i) the Loan and Security Agreement dated March 15, 2011, with a minimum outstanding principal balance of $1,000,000.00, (ii) the Third Amendment to Loan Agreement dated February 14, 2017, and (iii) the Blocked Account Agreement dated May 8, 2015. Briar Capital Working Capital Fund, LLC ("Briar Capital") has filed a proof of claim in the amount of $2,563,191.07 as a secured creditor and asserts that it has a first lien in and against all of the Debtor's assets including, but not limited to, inventory, accounts receivable, and equipment and the proceeds thereof. Briar Capital asserts and South Coast agrees that Briar Capital is fully secured.

After the Petition Date, South Coast sought and obtained authority to use Briar Capital's cash collateral on an interim basis through March 28, 2018. On April 6, 2018, South Coast obtained interim authority to enter a post-petition financing arrangement with Solstice Capital, pursuant to which it made an initial advance of $300,000 to South Coast, less fees of $26,500. On April 20, 2018, the Bankruptcy Court entered the Final Order Approving Post-Petition Financing, approving post-petition debtor-in-possession financing to South Coast up to and including principal advances totaling $1 million. To date, Solstice Capital has advanced $900,000 to South Coast.

Pursuant to that order, Briar Capital was granted a junior lien in the DIP Financing Collateral (defined in Section V.) and Solstice Capital, LLC was granted a junior lien in the Briar Capital Collateral (defined in Section V.). Briar Capital and Solstice Capital, LLC have entered an inter-creditor agreement. The Plan does not impair the rights of Briar Capital and Solstice Capital, LLC in their respective collateral.

### D. Events Leading To This Bankruptcy

South Coast has been in business since its inception in 1972. However, the downturn in the oil and gas industry and other factors left South Coast in financial distress in 2017. South Coast took steps to remedy its financial problems, including reducing expenses and improving its accounting processes. South Coast maintained the support of its vendors and customers; however, South Coast was unable to comply with its obligations to or to reach an agreement with Briar Capital. Therefore, South Coast filed this Chapter 11 case to formally reorganize and assure the company's future success.

### E. Significant Events During This Bankruptcy

South Coast filed a voluntary petition under Chapter 11 on October 20, 2017. From that date to the filing of the Plan, the following significant events have occurred in this bankruptcy case:

1. South Coast filed its schedules and statement of financial affairs, and the meeting of creditors under Bankruptcy Code §341 was conducted on December 21, 2017;
2. The Bankruptcy Court approved the retention of the Houston law firm of Crain, Caton & James, P.C., as general counsel for South Coast;
3. The Bankruptcy Court ordered that a Chief Restructuring Officer be appointed and approved the retention of J. Patrick Magill and Magill P.C., as Chief Restructuring Officer for South Coast;
4. South Coast sought and obtained authority to pay employee wages and benefits;
5. South Coast sought and obtained authority to use cash collateral on an interim basis through March 28, 2018;

6. The Bankruptcy Court approved the rejection of an unexpired sublease with National Oilwell Varco, L.P., for space used for its storage facility and offices in Houston;

7. The Bankruptcy Court approved: (i) the assumption of an equipment lease with Advantage Financial Services, LLC; (ii) the assumption and assignment of vehicle leases with Ron Carter Cadillac Hyundai SA to Steven Mark Gray; and (iii) the rejection of the Managed Service Agreement with Unicom Technologies, Inc., the Master Lease Agreement with Crown Credit Company, the Service Agreement with Aramark Uniform Services, the Annual Rental Point of Use Water Centre with City Water International, Ltd., the equipment lease with Tennant Sales and Service Company, and the equipment leases with Pitney Bowes;

8. The Bankruptcy Court approved the sale of South Coast's LyondellBasell shares;

9. The Bankruptcy Court approved South Coast's compromise with Weldbend Corporation;

10. South Coast sought and obtained an extension of the exclusivity period for filing a plan of reorganization and disclosure statement;

11. Briar Capital initiated an adversary proceeding styled *Briar Capital Working Capital Fund LLC v. Dodson Global, Inc., Texas Pipe and Supply Company, Ltd., Steven Mark Gray, and Giancarlo Ortega,* Adversary No. 18-03026 (the "Texas Pipe Lawsuit"), in the Bankruptcy Court;

12. The Bankruptcy Court approved post-petition financing with Solstice Capital, LLC;

13. South Coast filed a complaint, initiating the lawsuit styled *South Coast Supply Company v. Robert W. Remmert*, Adversary No. 18-03084 (the "Remmert Lawsuit"), in the Bankruptcy Court;

14. South Coast filed objections to the proofs of claim filed by BGR Corp. and CMW Group, Inc.;

15. South Coast filed its amended Schedules and Statement of Financial Affairs;

16. South Coast filed Debtor's Motion to Abandon and Disburse Funds Deposited in Briar Capital Collateral Account (the "Motion to Disburse");

17. South Coast filed Debtor's Plan of Reorganization and this Disclosure Statement; and

18. South Coast filed its amended Plan and Disclosure Statement.

**F. The Marketing of South Coast**

During this bankruptcy case, the CRO has evaluated a number of options for South Coast, including restructuring of the secured debt to Briar Capital, obtaining outside financing and/or investors, and selling the business. After due consideration, the CRO determined that the sale of South Coast's assets was in the best interests of the creditors and parties in interest. For more than 6 months, the CRO actively sought and negotiated with five potential purchasers. To date, the Proposed Sales Contract, with Solstice Capital, is the only offer received by South Coast.

## IV. MEANS FOR EXECUTION OF THE PLAN

### A. The Proposed Sale of Certain Assets of the Debtor

Subject to the Bankruptcy Court's approval and to higher and better offers, the Debtor has reached an agreement to sell certain assets to Solstice Capital, LLC or its assignee ("Solstice Capital" or the "Purchaser"). Specifically, the Purchaser will acquire:

(i) all inventory purchased and accounts generated on or after April 6, 2018;

(ii) all intangible assets, including the right to the name "South Coast Supply Company" and all intellectual property such as customer data and vendor data; and

(iii) all contract rights including pending purchase orders (together, the "Purchased Assets").

The Purchase Price will be:

(i) the Purchaser will assume South Coast's debt to Solstice Capital, for the post-petition debtor-in-possession financing advanced to the Debtor;

(ii) the Purchaser will pay $500,000.00 to South Coast; and

(iii) the Purchaser will pay up to $200.000.00 to South Coast for Administrative and Priority Claims, to the extent such funds are needed after application of South Coast's available cash at Closing.

If Briar Capital, by written notice to the Debtor, the Purchaser and their respective counsel on or before the Effective Date, elects to have the inventory that is Briar Capital Collateral liquidated by the Purchaser after the Closing Date, the Purchaser will remit to Briar Capital on the sale of that inventory the recorded cost on the Debtor's books. The Purchaser may charge for this service (i) five percent (5%) of the amounts paid to Briar Capital, and (ii) storage, insurance, transportation and other reasonable and customary out-of-pocket costs. The Purchaser will also retain the entire price above the recorded cost. The Purchaser may sell for less than the recorded cost, but only after first giving Briar Capital ten days' notice of the sale. If Briar Capital objects to the sale of inventory for less than the recorded cost, Briar Capital may pick up such inventory, and the proposed sale amount will be credited to the Class 2 Claim. If Briar Capital does not make this election, the Purchaser will have no responsibility with respect to the inventory that is Briar Capital Collateral, and Briar Capital may take possession of such inventory.

The Purchaser will have an option to purchase for an additional $70,000.00 all other physical property of the Debtor, including the utility trailer, office furniture, machinery, fixtures and equipment listed above in Section III.B., but not including the inventory purchased and accounts generated before April 6, 2018. This option must be exercised in writing on or prior to the Closing Date. The additional $70,000.00, if paid, shall be deposited into the Briar Capital Collateral Account and operate as a credit to the Class 2 Claim.

The Purchaser will not acquire the trucks currently used by South Coast, but owned by BGR Corp. As of the Effective Date, the Reorganized Debtor will make the trucks available, and BGR Corp. may make arrangements to pick up the trucks. The Purchaser will not assume any debts of South Coast except for the debtor-in-possession loan by Solstice Capital to South Coast pursuant to the Final Order Approving Post-Petition Financing entered on April 20, 2018.

Solstice Capital is a Houston-based private lending company. The members are Harold "Hap" May, Erich Mundinger and Karl Winter. Solstice Capital has $17,000,000 in assets, consisting primarily of loans secured by real estate and business assets. The company has been in business for five years. Solstice Capital currently finances a valve company, which is owned by

Mr. Winter and was acquired in a chapter 11 proceeding several years ago. Solstice Capital and, prior to its formation, Mr. Winter have provided DIP loans and exit financing arrangements in chapter 11 cases. Mr. Mundinger has served as a chief restructuring officer in several chapter 11 cases. Mr. May is an attorney and CPA with substantial bankruptcy-related experience.

The Proposed Sales Contract will be provided prior to the confirmation hearing to be approved by the Bankruptcy Court.

At Closing, the proceeds of the sale of the Purchased Assets pursuant to the Proposed Sales Contract will be distributed as follows. The Purchaser will assume South Coast's debt to Solstice Capital. The Purchaser will pay South Coast $500,000, which will be deposited into the Unsecured Creditors Account. Distributions from the Unsecured Creditors Account will be made pursuant to the Plan.

The Purchaser will pay South Coast an additional $200,000, which will be deposited into South Coast's Operating Account together with all South Coast's available cash on the Closing Date. Pursuant to the Plan, South Coast will pay all Allowed Administrative and Priority Claims from the Operating Account. Any remaining balance in the Operating Account after all Allowed Administrative and Priority Claims are paid in full shall be remitted to the Purchaser. South Coast anticipates that the additional $200,000 deposited in the Operating Account, will be more than sufficient to pay all Allowed Administrative and Priority Claims and expects that funds will be paid back to the Purchaser from the Operating Account.

## B. Invitation for Higher and Better Offers

The Proposed Sales Contract is subject to higher and better offers that comply with the requirements stated below. If the Debtor receives any such offer prior to the Confirmation of the Plan, the Debtor may terminate the Proposed Sales Contract, enter into such alternative contract, and sell the Purchased Assets pursuant to such alternative contract, which shall be the Sales Contract.

However, the Debtor may only consider alternative offers that comply with the following requirements:

(i) the proposed contract shall be executed by the Purchaser and shall be presented on substantially the same form of contract and shall included the same material terms as the Proposed Sales Contract, except for a higher price;

(ii) the proposed purchase price must be materially higher than the Proposed Sales Contract, as determined by the CRO in his business judgment; and

(iii) the proposed contract shall be delivered to Debtor's counsel on or before ten (10) calendar days before the date of the Confirmation Hearing, or if an alternative proposed contract has previously been presented, within two (2) business days after presentation of such contract.

If such an alternative contract, in compliance with these requirements, is received by Debtor's counsel, same will immediately be provided to the Purchaser under the Proposed Sales Contract, who shall be entitled to amend its offer in compliance with the above requirements.

The Debtor hereby invites conforming bids by serving this Plan on all Creditors and parties in interest. At the Confirmation Hearing, the Debtor shall submit the Proposed Sales Contract or the Sales Contract with the highest and best offer.

**C. Sale of Assets Free and Clear of All Liens, Claims, Encumbrances and Interests**

The Plan is offered and shall be considered a motion pursuant to sections 363(b), 363(f) and 1123(a)(5)(D) of the Bankruptcy Code to sell the Purchased Assets to the Purchaser pursuant to the Sales Contract. Pursuant to 11 U.S.C. § 363, the Debtor moves for authority to sell the Purchased Assets to the Purchaser or to any qualified purchaser that submits a higher and better offer in compliance with the requirements set forth above, free and clear of all liens, claims and encumbrances. The Debtor seeks: (a) approval of the terms and provisions of the Sales Contract, subject to non-material modifications and revisions approved by the Debtor, (b) authority to pay the Debtor's closing costs, together with any pro-rations, and (c) authority to distribute the proceeds of the Sales Contract pursuant to the Plan.

The Purchased Assets conveyed to the Purchaser pursuant to this Plan and the Sales Contract shall be free and clear of all liens, claims, encumbrances, and interests. The Sales Contract shall be approved and the terms of the Sales Contract shall be incorporated as part of this Plan and binding on the Reorganized Debtor and its successors and assignees. Any objections to such a sale must be made as an objection to Confirmation of this Plan. The Plan shall be conclusively deemed to be adequate notice that any lien, claim, encumbrance or interest is being extinguished, and no further notice, other than by this Plan, shall be given. Any party having a lien, claim, encumbrance or interest against any property of the Debtor (including the Purchased Assets) shall be conclusively deemed to have consented to the transfer of such property to the Purchaser free and clear of such lien, claim, encumbrance or interest by failing to object to confirmation of this Plan.

Briar Capital has alleged a security interest in the general intangibles of South Coast and has argued that the lien would attach to the $500,000 to be deposited into the Unsecured Creditors Account, which South Coast disputes. Regardless, South Coast asks that the sale be free and clear of any lien on general intangibles for several reasons.

First, South Coast's general intangibles have no independent value. Neither the Debtor in Chapter 11 nor a Chapter 7 trustee could sell the intangibles alone for any sum.

Second, the Purchaser requires that the $500,000 be paid to the unsecured creditors in order to preserve the relationships South Coast has maintained over the years with vendors. As a distributor, South Coast's relationships with its vendors is equally important as its relationships with customers. If South Coast's vendors do not believe that they received a fair distribution under the Plan, the vendors will cease doing business with South Coast, and the Purchaser will lose those relationships. For this reason, the Purchaser has made the $500,000 payment for the benefit of unsecured creditors a condition of the sale.

Third, Briar Capital's interests are adequately protected because the total value of its collateral other than such intangibles exceeds its secured claim. Including the Texas Pipe Collateral, the CRO estimates that the value of Briar Capital's collateral is well in excess of $3 million – more than sufficient to cover its secured claim of roughly $2.5 million.

Fourth, South Coast is entitled to assert a surcharge against Briar Capital Collateral under Section 506(c) of the Bankruptcy Code. South Coast has expended substantial sums to operate and maintain its business as a going concern in Chapter 11 – this includes administrative expenses such as legal fees and the CRO's fees. It is only by doing so that it has been possible to collect receivables and sell inventory in the ordinary course – otherwise, the Briar Capital Collateral would have been liquidated at a severe discount. Those expenses have thus served to maintain and maximize the value of the Briar Capital Collateral. South Coast has not brought a surcharge claim to date and will not bring it, provided that the Plan is confirmed and Briar Capital does not seek an administrative claim under Section 507(b) of the Bankruptcy Code. South Coast believes that its claim to surcharge the Briar Capital Collateral exceeds and would offset any administrative claim under Section 507(b) and any purported value attributed to intangible assets.

## D. The Reorganized Debtor

As soon as feasible after the Effective Date, the provisions of the Plan providing for distribution shall become the responsibility of the Reorganized Debtor, and it shall make such disbursements as required by the Plan, except that disbursements of sale proceeds from the Closing of the Sales Contract shall be made at Closing of the sale of the Purchased Assets to the Purchaser, by the title company acting as escrow agent with respect to such sale. The Reorganized Debtor shall keep such records of such disbursements as required under generally accepted accounting procedures and make such records available to creditors from time to time upon reasonable notice until the Plan is fully consummated.

On the Effective Date of the Plan, all property of the Debtor and of the Estate shall vest in the Reorganized Debtor free and clear of liens, claims and encumbrances, except as otherwise provided in the Plan.

Until the Closing Date, the Reorganized Debtor shall be authorized, from and after the Effective Date of the Plan, to continue its normal business operations and enter into such transactions as it deems advisable, free of any restriction or limitation imposed under any provision of the Bankruptcy Code, except to the extent otherwise provided in the Plan. Until the Closing Date, the Reorganized Debtor will retain its current management and continue to pay salaries to the employees and principals of the Debtor, including the CRO, in the same or similar amounts as have been paid prior to and throughout the Debtor's bankruptcy.

After the Closing Date and in order to complete the liquidation and other requirements of the Plan, the CRO shall, depending on the amount of work to be done, either (i) continue to serve and manage the Reorganized Debtor or (ii) recommend a replacement CRO or liquidating trustee that shall be named prior to the Confirmation Date (the "Replacement CRO").. In addition, the CRO or Replacement CRO may prosecute claims and causes of action, retain legal counsel, accountants and other professionals, pay in the ordinary course and without court approval such professionals fees as may accrue after the Confirmation Date, and take all other necessary or appropriate action to carry out the duties of the Reorganized Debtor under the Plan. After the Closing Date, the CRO shall be compensated based on an hourly fee of $325 for J. Patrick Magill and $175 for Paul Cherry, to be paid from the Unsecured Creditors Account. If a Replacement CRO is named, that person's compensation shall be disclosed on or before the Confirmation Date.

On the Effective Date and pursuant to 11 U.S.C. § 1123 (b)(3)(A), the Reorganized Debtor and, to the maximum extent provided by law, its agents release and forever discharge the Debtor, the CRO, J. Patrick Magill and Magill PC, of any and all claims and causes of action, whether known or unknown, arising on or before the Confirmation Date that may be asserted on behalf of the Debtor or the Debtor's bankruptcy estate, including but not limited to all claims for any acts or omissions in connection with or related to the Plan, the Disclosure Statement, the Debtor's bankruptcy case, the related adversary proceedings, and the Debtor and/or the CRO's formulation, preparation, dissemination, implementation, confirmation or consummation of the Plan, Disclosure Statement, any amendments thereto, or any contract, instrument, release, agreement or other document created or entered.

In the event that a settlement agreement is reached regarding (i) a Claim or an objection to a Claim, (ii) a claim or cause of action asserted by the Debtor that existed as of the Filing Date, or (iii) an avoidance action pursuant to Bankruptcy Code §§544 through 550, the Debtor will provide notice of the proposed settlement to Briar Capital (if its Claims have not yet been paid) and to the Holders of the three (3) largest Allowed Unsecured Claims. In the event that any of these Creditors object to the proposed settlement, by written notice to the Debtor's counsel within ten (10) days after mailing of the notice, the settlement shall not be consummated unless and until the Bankruptcy Court approves the settlement after notice and an opportunity to be heard in accordance with the Bankruptcy Rule 9019(a). If none of these Creditors objects, the proposed settlement shall be deemed approved and the Debtor shall be authorized to take all necessary actions to close the settlement.

**E. Financial Analysis and Projections for South Coast**

South Coast intends to fund the Plan with available cash on the Closing Date and with the sale proceeds from the Sales Contract. Because the Plan provides that the Reorganized Debtor will not continue in business after the Closing Date, no business projections are attached. However, the CRO believes that the Plan is feasible. Within five (5) business days of the Effective Date, the Closing Date will occur, and the Reorganized Debtor will commence making distributions as required by the Plan. The Reorganized Debtor will keep records of these disbursements and make such records available to creditors from time to time upon reasonable notice until the Plan is fully consummated.

Since the Petition Date, South Coast has continued its usual business operations. A summary of South Coast's revenues and expenses during this bankruptcy case can be found in an excerpt from South Coast's operating reports filed for March and April 2018 at MOR-6, which is attached hereto as Exhibit A. South Coast is current within 30-day terms on its post-petition accounts payable and estimates $0 in unpaid accounts payable for inventory purchases since the Petition Date.

## V. THE CLAIMS OF CREDITORS AND THEIR TREATMENT UNDER THE PLAN

The following is a description of the classes of creditors and interest holders and a description of the manner in which those parties will be paid under the Plan.

**Class 1 (Administrative Claims)** consists of Administrative Claims, which include (a) the statutory fees owed to the United States Trustee,(b) the Administrative Claims of the professionals retained by the Debtor whose employment has been approved by the Bankruptcy Court, and (c) Administrative Claims that have not been paid in the ordinary course of business and that have filed a proof of claim or an application for allowance of their Administrative Claims. Administrative Claims will be paid as follows:

(a) United States Trustee fees incurred prior to the Confirmation Date shall be paid, in full, within ten (10) days of the Confirmation Date if not previously paid. United States Trustee fees incurred after the Confirmation Date, if any, shall be paid by the Reorganized Debtor, in full, as they come due, from the Operating Account, or if the Operating Account is closed, from the Unsecured Creditors Account.

(b) The Allowed Class 1 Administrative Claim of each professional retained by the Debtor shall be paid in full from the Operating Account within ten (10) days of (i) the Effective Date or (ii) the day the Administrative Claim is Allowed, whichever is later, or at such later time or times to which the Claimant may agree.

(c) Except for the CRO, all Holders of Class 1 Administrative Claims that have not been paid in the ordinary course of business must file a proof of claim or an application for allowance of their Administrative Claims within thirty (30) days of the Effective Date, or such Administrative Claims shall be disallowed pursuant the Plan. South Coast retains the right to object to such Claims. The Allowed Class 1 Administrative Claim of each such Claimant shall be paid in full within ten (10) days of (i) the Effective Date or (ii) the day the Administrative Claim is Allowed, whichever is later, or at such later time or times to which the Claimant may agree. Nothing in this paragraph shall require the CRO to file a proof of claim or an application for allowance of an administrative claim, as the CRO's monthly fee was approved upon retention by the Bankruptcy Court.

(d) If Briar Capital asserts an Administrative Claim under 11 U.S.C. § 507(b), the Debtor reserves the right to surcharge the collateral pursuant to 11 U.S.C. § 506(c). If Briar Capital does not assert an Administrative Claim under 11 U.S.C. § 507(b), the Debtor shall, until the Closing Date, continue to sell inventory and collect accounts that are Briar Capital Collateral without surcharging the collateral pursuant to 11 U.S.C. § 506(c).

(e) All other Administrative Claims, including the CRO's fee, will be paid in the ordinary course of business or on such terms as may be agreed with the Claimant.

As of the filing of the Plan, South Coast's general counsel is the only professional it has retained. Attorney's fees and expenses accrued through April 2018 total $137,610.82, and South Coast's attorneys estimate that $165,000.00 in fees and expenses will be accrued through confirmation of the Plan. South Coast's attorneys are holding a retainer in the amount of $14,263.00, which will be applied to any attorney's fees approved by the Bankruptcy Court.

South Coast does anticipate filing an application to retain an accountant in connection with the preparation of South Coast's tax return and franchise tax return, and South Coast estimates that the accountant will accrue fees and expenses of no more than $15,000.

In addition, the Texas Workforce Commission has filed a proof of claim asserting an administrative claim for $220.27.

Briar Capital may be entitled to assert an Administrative Claim under 11 U.S.C. § 507(b) to the extent of any diminishment in the value of the Briar Capital Collateral, which Briar Capital has estimated to be $446,000. The Debtor disputes that the value of the Briar Capital Collateral diminished. If Briar Capital asserts an Administrative Claim under 11 U.S.C. § 507(b), the Debtor will dispute the Administrative Claim and seek to surcharge the Briar Capital Collateral pursuant to 11 U.S.C. § 506(c). However, if Briar Capital does not assert an Administrative Claim, the Debtor will not seek to surcharge the Briar Capital Collateral pursuant to 11 U.S.C. § 506(c).

All other post-petition expenses will be paid in the ordinary course of business and in accordance with agreed terms.

Class 1 is not impaired.

**Class 2 (Briar Capital Secured Claim)** consists of the Allowed Secured Claim of Briar Capital, which is secured by a first lien, subject only to the Allowed Class 4 Claims, in and against all of the Debtor's assets including, but not limited to, inventory, accounts receivable, and equipment and the proceeds thereof, accrued or acquired before April 6, 2018 (the "Briar Capital Collateral"), but not the Purchased Assets.[10]

The Allowed Class 2 Claim shall be paid as follows. Briar Capital shall retain its liens in the Briar Capital Collateral, and there shall be no injunction against Briar Capital enforcing its rights with respect to the Briar Capital Collateral. Provided that Briar Capital does not assert an Administrative Claim under 11 U.S.C. § 507(b), the Reorganized Debtor shall continue to sell inventory and collect accounts that are Briar Capital Collateral without surcharging the collateral pursuant to 11 U.S.C. §506(c) until the Closing Date, and the Reorganized Debtor shall remit the balance of the Briar Capital Collateral Account,[11] except for amounts securing Allowed Class 4 Claims, if any, within five (5) business days after the expiration of the deadline for filing Administrative Claims pursuant to the Plan. If Briar Capital does assert an Administrative Claim under 11 U.S.C. § 507(b), the Debtor reserves the right to surcharge the collateral pursuant to 11 U.S.C. § 506(c) and may retain the balance of the Briar Capital Collateral Account until five (5) business days after the entry of an order of the Bankruptcy Court on the right to surcharge the collateral that has become a Final Order. Upon the sale of inventory purchased prior to April 6, 2018, the Reorganized Debtor will continue to deposit into the Briar Capital Collateral Account, an amount equal to the cost of such inventory as recorded in Debtor's inventory records in the

[10] The Debtor's authority to use Briar Capital's cash collateral ceased on March 28, 2018. Between March 29 and April 5, 2018, the Debtor remained open but did not generate any new business. On April 6, 2018, the Debtor began generating accounts and purchasing inventory with the proceeds of the DIP financing provided by Solstice Capital.

[11] The Briar Capital Collateral Account was established pursuant to the Final Order Approving Post-Petition Financing.

ordinary course of business. Likewise, until the Closing Date, the Reorganized Debtor will deposit into the Briar Capital Collateral Account all proceeds received on accounts existing prior to April 6, 2018. Briar Capital's security interest shall attach to all cash deposited to the Briar Capital Collateral Account. As and when additional funds are deposited into the Briar Capital Collateral Account, the Reorganized Debtor shall promptly remit the balance of the Briar Capital Collateral Account, except for amounts securing Allowed Class 4 Claims, if any.

By written notice to the Debtor, the Purchaser and their respective counsel on or before the Effective Date, Briar Capital may elect to have the inventory that is Briar Capital Collateral liquidated by the Purchaser after the Closing Date. If Briar Capital so elects, the Purchaser will remit to Briar Capital on the sale of that inventory the recorded cost on the Debtor's books. The Purchaser may charge for this service (i) five percent (5%) of the amounts paid to Briar Capital, and (ii) storage, insurance, transportation and other reasonable and customary out-of-pocket costs. The Purchaser will also retain the entire price above the recorded cost. The Purchaser may sell for less than the recorded cost, but only after first giving Briar Capital ten days' notice of the sale. If Briar Capital objects to the sale of inventory for less than the recorded cost, Briar Capital may pick up such inventory, and the proposed sale amount will be credited to the Class 2 Claim. If Briar Capital does not make this election, the Purchaser will have no responsibility with respect to the inventory that is Briar Capital Collateral, and Briar Capital may take possession of such inventory.

As of the Effective Date, the Debtor shall abandon to Briar Capital the accounts that are Briar Capital Collateral. To the extent that Briar Capital collects any amounts on account of such accounts, those amounts shall be credited to the Class 2 Claim.

As of the Effective Date, the Debtor shall abandon to Briar Capital the Debtor's interest in the Gray family obligation, whether or not reduced to a note receivable, for which there is an outstanding balance owed of $151,911.94. To the extent that Briar Capital collects any amounts on account of the Gray family obligation, such amounts shall be credited to the Class 2 Claim.

To the extent that the Purchaser exercises its option to purchase the physical assets of the Debtor, including the utility trailer, office furniture, machinery, fixtures and equipment, the consideration for the purchase shall be deposited into the Briar Capital Collateral Account.

The Debtor abandons the inventory purchased by Texas Pipe and Supply Company, Ltd. and/or Dodson Global, Inc., which is described particularly in the Texas Pipe Lawsuit, recognizing that Briar Capital claims a security interest in such inventory. However, the Debtor retains the right to bring an avoidance action against Texas Pipe and Supply Company, Ltd., Dodson Global, Inc., and their affiliates.

The Debtor abandons its interest in the Loomis Sayles Bond, recognizing that Briar Capital has a security interest in the Loomis Sayles Bond. Upon request, the Debtor will execute a collateral assignment, assigning such interest to Briar Capital. To the extent that Briar Capital collects any amounts on account of the Loomis Sayles Bond, such amounts shall be credited to the Class 2 Claim.

All amounts received by Briar Capital pursuant to the Plan shall be credited to the Class 2 Claim, whether collected by Briar Capital, the Debtor, the Purchaser or any other party. To the extent that Briar Capital collects more than its Class 2 Claim, Briar Capital can apply funds collected to post-petition interest, which is 18 percent per annum pursuant to its loan documents, and to its reasonable attorney's fees. To the extent that Briar Capital collects more than its Class

2 Claim, post-petition interest and reasonable attorney's fees, the excess amounts shall be the property of the Reorganized Debtor and, upon recovery, the Reorganized Debtor shall deposit the excess amounts into the Unsecured Creditors Account.

Class 2 is not impaired.

**Class 3 (Solstice Capital Secured Claim)** consists of the Allowed Secured Claim of the DIP Lender pursuant to the Final Order Approving Post-Petition Financing, Solstice Capital, which is secured by a first lien, in and against (a) all inventory and equipment purchased by the Debtor on or after April 6, 2018, (b) all accounts accrued on or after April 6, 2018, and (c) all proceeds of the foregoing (together, the "DIP Financing Collateral").

The Allowed Class 3 Claim shall retain all liens, security interests and other rights provided under the DIP Credit Agreement, the Promissory Note, the DIP Security Agreement and the Final Order Approving Post-Petition Financing. As part of the consideration for the sale of the Debtor's Purchased Assets, the Purchaser shall assume all debts owed by South Coast to Solstice Capital at Closing.

Class 3 is not impaired.

**Class 4 (Property Tax Claims)** consists of all Allowed Secured Claims, of taxing authorities secured by a tax lien on the Debtor's personal property. Allowed Class 4 Claims shall be paid, in full from the Briar Capital Collateral Account, within ten (10) business days of (i) the Effective Date, unless previously paid pursuant to an order on the Motion to Disburse, or (ii) the day the Class 4 Claim becomes an Allowed Claim, whichever is later. Until the Allowed Class 4 Claims are paid in full, the holders of the Class 4 Claims shall retain their liens in the sale proceeds deposited into the Briar Capital Collateral Account to the same extent and with the same priority as the liens held by the Class 4 Claimants against the Debtor's personal property. The Debtor shall maintain a balance of at least the amount of the Class 4 Claims in the Briar Capital Collateral Account until the Class 4 Claim is paid in full.

Two Class 4 Claims have been filed totaling $68,439.80, and with interest through June 2018, those Class 4 Claims total $71,861.76. The Debtor intends to pay the Class 4 Claims in June 2018, pursuant to the Bankruptcy Court's order authorizing the disbursement of the funds on deposit in the Briar Capital Collateral Account.

Class 4 is not impaired.

**Class 5 (Priority Claims)** consists of all Allowed Priority Claims. Allowed Class 2 Claims shall be paid, in full, within ten (10) business days of (i) the Effective Date or (ii) the day the Priority Claim becomes an Allowed Claim, whichever is later.

South Coast scheduled 22 Priority Claims, totaling $9,011.31, for wages withheld for insurance premiums not remitted to insurance companies. In addition, proofs of claim have been filed by the Internal Revenue Service in the amount of $1,265.47, the Texas Workforce Commission in the amount of $60.22, and the Texas Comptroller of Public Accounts in the amounts of $22,027.22 (for estimated 2017 franchise taxes)[12] and $2,510.95 (for sales and use taxes).

Class 5 is not impaired.

**Class 6 (Equipment Secured Claims)** consists of any Secured Claims related to equipment leases or loans that have been rejected. Pursuant to the Plan, South Coast surrenders the equipment

[12] South Coast has recently filed its 2017 franchise tax return and estimates the liability for the 2017 franchise taxes to be reduced to $12,091.12.

securing Class 6 Claims. South Coast shall make the equipment available for pick up at the expense of the Holder of the Allowed Class 6 Claim.

Crown Credit Company has filed a proof of claim asserting a partially Secured Claim and partially Unsecured Claim. South Coast has already surrendered the two forklifts securing the Class 6 Claim, in satisfaction of the Secured Claim. Any remaining Unsecured Claim will be treated as a Class 8 Claim.

Class 6 is not impaired.

**Class 7 (Forged Components Claim)** consists of the Claim of Forged Components, Inc., which has filed a proof of claim for a secured claim in the amount of $58,708.01. The Debtor disputes that the Class 7 Claim is a Secured Claim and intends to file an objection to the Class 7 Claim. Until such objection to the Class 7 Claim is resolved by agreement or by a Final Order, the holder of the Class 7 Claim shall retain its liens, if any, with the same priority, in the Debtor's inventory that has not been sold and that is Briar Capital Collateral. If the objection to the Class 7 Claim is sustained, then any remaining Unsecured Claim held by the Class 7 Claimant will be treated as a Class 8 Claim. If the objection is overruled, the Class 7 Claim shall be paid to the extent Allowed from the post-confirmation proceeds of the sale of the Debtor's inventory that is Briar Capital Collateral, after the Class 2 and Class 4 Claims have been paid in full.

The CRO believes that the transaction that is the basis of the Class 7 Claim does not give rise to a security interest, and, to the extent a security interest is found, it would be junior to Briar Capital's lien.

Class 7 is impaired.

**Class 8 (General Unsecured Claims)** consists of all Allowed Unsecured Claims, including Claims for damages resulting from the rejection of executory contracts and leases. The Debtor will make a single distribution, unless the CRO determines in his business judgment to make any interim distributions, on account of Allowed Class 8 Claims. All payments on Class 8 Claims shall be distributed Pro Rata to the Holders of Allowed Unsecured Claims. The Allowed Class 8 Claims shall be paid as follows:

(a) At the closing of the Sales Contract, $500,000.00 will be deposited into the Unsecured Creditors Account. In addition, as and when received, the Reorganized Debtor shall deposit into the Unsecured Creditors Account: (i) any amounts collected in excess of Briar Capital's Class 2 Claim, post-petition interest and reasonable attorney's fees, (ii) any amounts recovered by the Reorganized Debtor on account of avoidance claims, and (iii) any other amounts received by the Reorganized Debtor that are not encumbered by a lien or security interest.

(b) To the extent that the Reorganized Debtor has insufficient funds to pay all Class 1, 4, 5 and 7 Allowed Claims in full, the remainder of those Claims shall be paid first from the Unsecured Creditors Account. The CRO may also retain and pay a reasonable amount, as determined by the CRO in his business judgment, from the Unsecured Creditors Account for any costs or expenses incurred by the Reorganized Debtor after the Confirmation Date, including but not limited to U.S. Trustee's fees, costs associated with any avoidance actions, and the fees and expenses of the CRO and South Coast's attorneys.

(c) If the CRO determines that there are no avoidance actions that should be pursued for the benefit of Unsecured Creditors, the balance of the Unsecured Creditors Account shall be distributed Pro Rata to the Holders of Allowed Unsecured Claims promptly after the later of (i) the date that all Class 1, 4, 5 and 7 Allowed Claims have been paid in full or (ii) the date that all Disputed Claims have been resolved by agreement or by a Final Order.

(d) If the CRO determines that there are avoidance actions that should be pursued for the benefit of Unsecured Creditors, any additional recoveries net of expenses will be deposited into the Unsecured Creditors Account for distribution pursuant to the Plan. If avoidance actions are pursued, the balance of the Unsecured Creditors Account shall be distributed Pro Rata to the Holders of Allowed Unsecured Claims promptly after the later of (i) the date that all Class 1, 4, 5 and 7 Allowed Claims have been paid in full, (ii) the date that all Disputed Claims have been resolved by agreement or by a Final Order, or (iii) the date all avoidance actions have been resolved by agreement or by a Final Order.

Unsecured Claims that are listed in the Debtor's Schedules as disputed, contingent, or unliquidated and for which no proof of claim has been filed on or before the Bar Date are Disallowed as of the Confirmation Date.

Industrial Valco, Inc. filed a proof of claim, totaling $2,013.89, after the Bar Date and such claim will be Disallowed pursuant to the Plan.

South Coast has scheduled 136 Class 8 Claims in the total amount of $2,749,580.77. Of these Claims, 10 were marked as contingent, unliquidated or disputed, in the total amount of $402,732.34. No proof of claim was filed on behalf of 7 of these claims, making them Disallowed Claims pursuant to the Plan and reducing the total scheduled amount of Class 8 Claims by $336,862.92, to $2,412,717.85.

Thirty-one proofs of claim have been filed timely for Class 8 Claims in the total amount of $2,365,723.81. Unsecured amounts asserted in the proofs of claim that have not been previously scheduled total $1,196,822.73. Based on the Debtor's schedules and proofs of claim on file, the Debtor calculates the maximum amount of Class 8 Claims will be $3,609,540.58, subject to objections that may reduce certain Unsecured Claims.

Significantly, the Debtor has objected to the Unsecured Claims filed by BGR Corp. in the amount of $624,838.40 and CMW Group, Inc. in the amount of $392,422.86. The Debtor has scheduled CMW Group, Inc. as having an Unsecured Claim in the amount of $20,065.83, and contends that all amounts in excess of the scheduled amount have no basis and should be disallowed. Likewise, the Debtor contends that the claim of BGR Corp. has no basis and should be disallowed in full. If these two objections are sustained, the maximum amount of Class 8 Claims will be reduced to $2,612,345.15. The Debtor is also considering objections to other Class 8 Claims, none of which exceed $25,000 individually.

South Coast estimates that the total dollar amount of Class 8 Claims will be approximately $2.6 million. As a result, South Coast anticipates that the distributions to Class 8 Claimants provided in the Plan will result in a payment of dividends to the holders of Class 8 Claims of approximately nineteen percent (19%). The dividend could be less or could be closer to thirty percent (30%) in the event that the Reorganized Debtor is successful in recovering the preferences sought in the Remmert Lawsuit and the Texas Pipe Lawsuit.

Class 8 is impaired.

**Class 9 (Equity Interests)** consists of the Interests of all Holders who hold either equitable or legal title to the Debtor as of the Filing Date. Holders of Class 9 Interests shall retain their Interests. If all Claims in Classes 1 through 8 are paid in full, the balance of the sale proceeds shall be paid to Holders of Class 9 Interests.

The Holders of Class 9 Interests, as of the Filing Date, consist of the following: Steven Mark Gray (51%); Mildred Ann Gray (5%); Martin Gray Exempt Marital Trust (4.1%); Martin Gray Non Exempt Marital Trust (11.7%); and the Martin Gray Residuary Trust (28.2%).

Because the total amount of Claims in Classes 1 through 8 far exceeds the sale proceeds, the Debtor does not expect that Class 9 Interests will receive any distribution under the Plan. The sale of the Purchased Assets to the Purchaser shall be free and clear of any interest of the Holders of Class 9 Interests.

Class 9 is impaired.

## VI. ADMINISTRATION OF CLAIMS UNDER THE PLAN

**Allowance of Claims.** With the exception of Administrative Claims and except as otherwise provided in the Plan, all Claims will be Allowed if and when either:

(a) a proof of claim has been filed on or before the Bar Date, and either (i) no objection has been filed within the time allowed pursuant to the Plan, or (ii) an objection has been filed but the Claim has been Allowed pursuant to an order of the Bankruptcy Court that has become a Final Order; or

(b) the Claim has been scheduled in South Coast's schedules prepared and filed with the Bankruptcy Court pursuant to Bankruptcy Rule 1007(b), has not been listed therein as disputed, contingent, or unliquidated as to amount, and either (i) no objection has been filed within the time allowed pursuant to the Plan, or (ii) an objection has been filed but the Claim has been Allowed pursuant to an order of the Bankruptcy Court that has become a Final Order.

**Disallowance of Claims.** Except as otherwise provided in the Plan, a Claim will be disallowed if (a) it has not been scheduled in South Coast's schedules prepared and filed with the

Bankruptcy Court pursuant to Bankruptcy Rule 1007(b) or has been listed therein as disputed, contingent, or unliquidated as to amount, and (b) a proof of claim with respect to the Claim has not been filed on or before the Bar Date. A Claim will likewise be disallowed if an objection has been filed with respect to the Claim and the objection has been upheld by a Final Order of the Bankruptcy Court. If a Claim is disallowed, it shall not be entitled to any distribution under the Plan and any claim, lien, encumbrance or interest claimed by the Holder of any such disallowed Claim shall be extinguished.

**Objection Deadline.** Unless a different date is set by order of the Court, objections to Claims shall be served and filed within thirty (30) days after the Effective Date or thirty (30) days after a proof of claim is filed, whichever is later. Any proof of claim, except proofs of claim for Administrative Claims or for damages caused by the rejection of an executory contract or unexpired lease, that are filed after the Bar Date shall be of no force and effect and no objection need be filed with respect thereto. Proofs of claim for Administrative Claims or for damages caused by the rejection of an executory contract or unexpired lease that are filed more than thirty (30) days after the Effective Date shall be of no force and effect and no objection need be filed with respect thereto.

**Responsibility for Objecting to Claims.** South Coast shall file objections to Claims where it deems that such objections are justified. However, any Creditor may also object to any Claim.

**No Distributions Pending Allowance.** Notwithstanding any other provision of the Plan, no distribution shall be made with respect to any Class 8 Claim unless and until (i) the time allowed for filing objections to Disputed Claims has passed and (ii) all objections to Disputed Claims have been determined by a Final Order of the Bankruptcy Court.

**Unclaimed Checks.** If a check for a distribution under the Plan is mailed to the last known address of the Holder of a Claim and such check is returned and not claimed for a period of six months, the check may be cancelled and the Holder to which it was issued shall not be entitled to such distribution under the Plan. For this purpose, the "last known address" means (i) the address, if any, provided by the Holder to South Coast's counsel for notice purposes, or (ii) if no such address was given, the address in the proof of claim filed by the Holder of the Claim, or (iii) if no proof of claim was filed, the address in South Coast's schedules prepared and filed with the Bankruptcy Court pursuant to Bankruptcy Rule 1007(b).

## VII. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

The Bankruptcy Code allows South Coast to assume or reject any executory contract or unexpired lease to which it is a party on the date that the bankruptcy case is filed. All contracts with customers from whom South Coast has accepted orders shall be assumed and fully honored. This includes all purchase orders, all of which South Coast is proceeding to fulfill on schedule. All contracts with vendors to which South Coast has outstanding purchase orders as of the Petition Date shall be assumed and fully honored.

All executory contracts and unexpired leases of the Debtor that are not expressly assumed in the Plan or by order of the Bankruptcy Court, prior to the Effective Date, shall be deemed rejected pursuant to Bankruptcy Code §365(a). Claims for damages caused by the rejection of an executory contract or unexpired lease must be filed, if at all, within thirty (30) days after the Effective Date.

Pursuant to a Final Order of the Bankruptcy Court, South Coast has assumed an equipment lease with Advantage Financial Services, LLC and has assumed and assigned vehicle leases with Ron Carter Cadillac Hyundai SA to Steven Mark Gray.

South Coast is current on all of its obligations under the assumed unexpired leases. In the event that South Coast is not current on its obligations, South Coast will bring all assumed leases current within thirty (30) days after the Effective Date or ten (10) days after receiving notice that the assumed lease is not current.

Pursuant to Final Orders of the Bankruptcy Court, South Coast has already rejected the following:

- The sublease of its storage facility and office space with National Oilwell Varco, L.P.;[13]
- The Managed Service Agreement with Unicom Technologies, Inc.;
- The Master Lease Agreement with Crown Credit Company;
- The Service Agreement with Aramark Uniform Services;
- The Annual Rental Point of Use Water Centre with City Water International, Ltd.;
- The equipment lease with Tennant Sales and Service Company; and
- The equipment leases with Pitney Bowes.

All other unexpired leases and executory contracts that are not expressly assumed will also be rejected. These include the following scheduled in the Debtor's amended Schedule G:

- The Consignment Agreement, dated August 22, 2016, with Forged Components, Inc.;
- The Blocked Account Agreement, dated May 8, 2015, with Briar Capital, L.P.; and

[13] South Coast has remained at the same location on a month-to-month basis.

- The month-to-month oral agreement to lease 4 Ford trucks from BGR Corp.

## VIII. POTENTIAL PREFERENCES AND OTHER AVOIDABLE TRANSFERS

After the Effective Date, the Reorganized Debtor is entitled but not required to prosecute and recover any avoidance or recovery actions under sections 544, 545, 547, 548, 549, 550, 551, and 553 of the Bankruptcy Code, including adversary proceedings to recover preferences, fraudulent transfers, and any other avoidable transfers. The CRO has, with the assistance of its legal counsel, carefully reviewed its financial records to determine whether it would be prudent to bring litigation to recover any avoidable transfers.

South Coast has already filed the Remmert Lawsuit to recover preferential payments made to Robert Remmert, an insider, within one year of the Petition Date. South Coast reserves the right to pursue other claims against Robert Remmert, including claims for breaches of fiduciary duty regarding self-dealing transactions, sales at below-market prices, and receipt of kick-backs demanded from South Coast customers. The Reorganized Debtor shall continue to prosecute the Remmert Lawsuit, and any other claims brought against Robert Remmert, until an agreement is reached or Final Order is entered.

Briar Capital has also filed the Texas Pipe Lawsuit, which includes claims related to certain preferential payments made to Dodson Global, Inc. and Texas Pipe and Supply Company, Ltd. The Texas Pipe Lawsuit also includes claims arising from a transaction in which Texas Pipe or Dodson received certain inventory in September and October 2017 with a book value of $1,823,429.27, in exchange for the Debtor's receipt of $190,594.32 plus an offset against Debtor's account payable of $130,485.16. To the extent that Briar Capital recovers in the Texas Pipe Lawsuit, the Class 2 Claim will be credited the gross amount recovered. The Debtor reserves the right to bring an avoidance action against Texas Pipe and Supply Company, Ltd., Dodson Global, Inc., and their affiliates, although the inventory described in the Texas Pipe Lawsuit is abandoned.

The CRO has also examined all payments made to Steven Mark Gray and Mildred Ann Gray, both insiders, within one year of the Petition Date. In the Debtor's amended Statement of Financial Affairs, the Debtor disclosed $48,629.22 in payments to Mr. Gray and $25,002.00 in payments to Ms. Gray. All but two payments to Mr. Gray totaling $21,000.00 consisted of reimbursements for legitimate expenses. The payments to Ms. Gray consisted of payments on a note. Therefore, the Debtor will pursue recovery of $21,000.00 from Mr. Gray and $25,002.00 from Ms. Gray. Having initiated discussions with Mr. and Ms. Gray, the CRO anticipates that recovery of these amounts can be accomplished by agreement and without necessity of filing an avoidance action. Any amounts recovered on account of Mr. and Ms. Gray's obligation to the Debtor for such amounts shall be deposited into the Unsecured Creditors Account and distributed pursuant to the Plan.

South Coast disclosed payments to 58 creditors, including Briar Capital, within 90 days of the Petition Date. Exclusive of payments made to Briar Capital on its Secured Claim, those payments totaled $1,905,662.73. Of that amount, the vast majority consists of COD purchases and expenses in the ordinary course of the Debtor's business. After careful review, the CRO has identified a small number of potential avoidance and recovery actions other than those being pursued; however, at this time the CRO is not aware of any other such avoidable transfers that would be prudent to seek to recover. However, except for the claims already being pursued by the CRO as of the Confirmation Date, the CRO has not made a final determination with respect to avoidance and recovery actions and continues to analyze those potential claims.

If the CRO determines at a later date that there are additional avoidance actions that should be pursued for the benefit of Unsecured Creditors, the CRO may retain and pay a reasonable amount, as determined by the CRO in his business judgment, from the Unsecured Creditors Account for any costs or expenses incurred by the Reorganized Debtor after the Confirmation Date, including but not limited to U.S. Trustee's fees, costs associated with any avoidance actions, and the fees and expenses of the CRO and South Coast's attorneys. Any additional recoveries on account of avoidance actions, net of expenses, will be deposited into the Unsecured Creditors Account for distribution pursuant to the Plan.

The CRO has also discovered several checks that were written by South Coast on or before the Petition Date but that cleared after the Petition Date. A chart detailing these checks is attached as Exhibit B. In addition, in October 2017 after the Petition Date, South Coast paid Decisive HR Associates $8,800 for consulting fees and Frierson, Sola, Simonton, & Kutac, PLLC $5,034 for accounting fees. The CRO has evaluated all of these payments and does not believe that it would be prudent to seek to recover these transfers.

## IX. COMPARISON OF THE PLAN TO THE ALTERNATIVE OF LIQUIDATION UNDER CHAPTER 7

South Coast believes that it is in the best interest of the creditors to reorganize in a Chapter 11 plan. South Coast will be able to preserve its business as a going concern under new ownership. Under the Plan, Administrative Claims, Secured Claims and Priority Claims will be paid in full, the collateral securing claims will be preserved, collected and liquidated, and Unsecured Creditors will receive a distribution of roughly nineteen percent of their claims.

South Coast believes that in a Chapter 7 liquidation, South Coast's business operations would cease and the Chapter 7 trustee would likely market and sell the company's assets on an expedited basis. As detailed in Section III.B., the liquidation value of South Coasts assets in a chapter 7, after deducting for the roughly $900,000 superpriority Administrative Claim of Solstice Capital, is probably not greater than $1,435,485.80. . Claims against South Coast total more than $6.4 million. If South Coast ceases business and its assets are liquidated, there likely would not be sufficient funds to pay Briar Capital's Class 2 Claim and Solstice Capital's Class 3 Claim. If this case were converted to Chapter 7, Holders of Administrative Claims, Priority Claims and Unsecured Claims would not receive any distribution.

## X. CONCLUSION

South Coast submits the Plan because it is the best alternative for creditors and other parties in interest in this bankruptcy case. Through the Plan, South Coast will be able to make distributions to all Holders of Allowed Claims and preserve its distribution business as a going concern under new ownership. The alternative to the Plan is a liquidation that would likely generate insufficient funds to pay Administrative, Secured and Priority Claims, leave nothing to pay general Unsecured Claims. South Coast therefore urges creditors to vote in favor of the Plan.

DATED: June 25, 2018

Respectfully submitted,

By: /s/Michelle V. Friery

H. Miles Cohn
Texas Bar No. 04509600
Michelle V. Friery
Texas Bar No. 24040934
CRAIN, CATON & JAMES, P.C.
1401 McKinney Street, 17th Floor
Five Houston Center
Houston, Texas 77010-4035
Telephone (713) 752-8668
Facsimile (713) 658-1921
mcohn@craincaton.com
mfriery@craincaton.com
ATTORNEYS FOR DEBTOR
SOUTH COAST SUPPLY COMPANY